

UBS Investment Research

GUD Holdings Limited

FY 05 result: It could have been worse

■ Event: 6% decline in trading EBIT was anticipated

GUD Holdings (GUD) reported FY 05 earnings in line with expectations. Trading EBIT (ie excluding one-off items) was \$58.7m, down 6% on FY 04 and close to our forecast of \$58.8m. NPAT excluding one-off items was \$37.8m, down 9% and 4% below our forecast of \$39.2m. The final dividend was 27cps ff (UBSe: \$26cps ff).

■ Impact: Victa was the main drag on earnings

The main drag on earnings was Victa, which has been hurt by competitive pressures from low-cost imports. GUD will address Victa's supply chain during FY 06 with the intention of improving cost efficiency. Sunbeam had a steady year, which we view as a satisfactory outcome in current market conditions. Water Products was the one division to report strong growth.

■ Action: No material changes to earnings, Neutral 2 retained

We have made no material changes to our earnings estimates. We believe that the addition of Oates Clean to the group is likely to have underpinned management's guidance that FY 06 trading profit will "comfortably exceed" FY 05. Our forecast for FY 06 trading profit is \$66.9m, implying 14% growth.

■ Valuation: Price target unchanged

The use of higher net debt in our DCF calculation reduces our valuation by 2% to \$9.04 per share. Our price target is the average of our DCF and 8.0x FY 07E (rather than FY 06E) EPS and is unchanged at \$7.68 per share.

Highlights (A\$m)	06/04	06/05	06/06E	06/07E	06/08E
Revenues	396.7	395.6	469.8	487.5	502.0
EBIT	62.6	58.7	66.9	69.4	71.5
Net income (UBS)	41.7	37.8	42.2	44.4	46.1
EPS (UBS, A\$)	0.71	0.65	0.75	0.79	0.82
Net DPS (UBS, A\$)	0.40	0.50	0.56	0.59	0.61

Profitability & Valuation	5-yr hist. av.	06/05	06/06E	06/07E	06/08E
EBIT margin %	10.6	14.9	14.2	14.2	14.2
ROIC (EBIT) %	-	32.9	33.4	31.4	32.7
EV/EBITDA x	-	7.6	6.8	6.5	6.4
PE (UBS) x	8.5	13.2	10.5	10.0	9.6
Net dividend yield %	7.4	5.9	7.1	7.5	7.8

Source: Company accounts, Thomson Financial, UBS estimates. UBS EPS is stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E): based on a share price of A\$7.87 on 27 Jul 2005 17:40 AEST

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Global Equity Research

Australia

Auto Parts

Rating **Neutral 2**
Unchanged

Price target **A\$7.68/US\$5.83**
Unchanged

Price **A\$7.87/US\$5.93**

RIC: GUD.AX BBG: GUD AU

27 July 2005

Trading data (local/US\$)

52-wk. range	A\$11.30-5.36/US\$8.88-4.16
Market cap.	A\$0.48bn/US\$0.36bn
Shares o/s	60.4m (ORD)
Free float	100%
Avg. daily volume ('000)	304
Avg. daily value (A\$m)	2.0

Balance sheet data 06/06E

Shareholders' equity	A\$0.15bn
P/BV (UBS)	3.2x
Net cash (debt)	(A\$0.07bn)

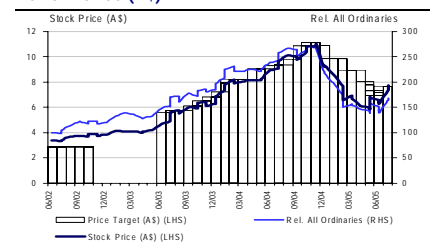
Forecast returns

Forecast price appreciation	-2.4%
Forecast dividend yield	8.8%
Forecast stock return	+6.4%
Market return assumption	10.2%
Forecast excess return	-3.8%

EPS (UBS, A\$)

	06/06E			06/05
	From	To	Cons.	Actual
H1E	0.40	0.40	-	0.18
H2E	0.37	0.35	-	0.47
06/06E	0.77	0.75	0.73	
06/07E	0.85	0.79	0.78	

Performance (A\$)



Source: UBS

www.ubs.com/investmentresearch

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ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 4

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The result

GUD Holdings (GUD) reported FY 05 earnings in line with expectations. Trading EBIT (ie excluding one-off items) was \$58.7m, down 6% on FY 04 and close to our forecast of \$58.8m. NPAT excluding one-off items was \$37.8m, down 9% and 4% below our forecast of \$39.2m. The final dividend was 27cps fully franked, taking FY 05 DPS to 50cps, up 25% and slightly above our forecast of 49cps. Given the various challenges faced by GUD this year, this result could have been worse (Table 1).

Trading EBIT of \$59m down 6%, in line with forecasts

Table 1: GUD FY 05 result vs. FY 04 and UBS estimates (A\$m)

	FY 04A	FY 05A	Move	UBS FY 05E	Variance	Comment
Earnings						
Revenue	396.7	395.6	0%	401.3	-1%	
- Consumer Products	223.2	215.1	-4%	219.5	-2%	Competitive pressures in Victa, Sunbeam flat
- Automotive	86.0	78.7	-9%	80.3	-2%	Restructuring, subdued demand
- Water Products	72.8	88.2	21%	85.9	3%	Spa-Quip acquisition, new products in Davey
- Security Products	13.4	13.3	-1%	13.8	-3%	
Trading EBITDA	77.3	71.7	-7%	73.2	-2%	
Depreciation	-10.2	-8.2	-19%	-9.6	-15%	Lower capex than expected = lower fixed assets
Trading EBITA	67.1	63.5	-5%	63.6	0%	
- Consumer Products	37.2	30.9	-17%	32.4	-5%	Less FX benefit, competitive pressure on pricing
- Automotive	18.8	17.7	-6%	17.1	5%	Use of lower cost import supply chains
- Water Products	8.6	11.1	30%	10.8	3%	Higher margin new products, effect of Spa-Quip
- Security Products	2.8	2.7	-4%	2.8	-4%	
Trading EBITA margin	16.9%	16.1%	-5%	15.8%	1%	
Goodwill amortisation	-1.7	-1.5	-12%	-1.8	-18%	
Other amortisation	-2.8	-3.3	18%	-3.0	10%	
Trading EBIT	62.6	58.7	-6%	58.8	0%	
Net interest	-2.4	-3.9	63%	-2.8	38%	Higher debt levels following Spa-Quip acquisition
NPAT before one-off items	41.7	37.8	-9%	39.2	-4%	
One-off items after tax	-6.2	-8.8	42%	-8.8	0%	Relates to the restructuring of Automotive
Reported NPAT	35.5	28.9	-19%	30.3	-5%	
Per share						
Normalised EPS (cps)	71.5	64.9	-9%	67.8	-4%	
DPS (cps)	40.0	50.0	25%	49.0	2%	Payout of normalised EPS rises to 77%
Dividend franking	100	100	0%	100	0%	
Balance sheet and cash flow						
Net debt	17.6	37.6	114%	27.5	37%	
Gearing	12%	28%	125%	20%	41%	Spa-Quip and Contamination Control acquisitions
Operating free cash flow	57.1	51.1	-11%	48.0	7%	
Capital expenditure	-9.2	-6.6	-29%	-7.6	-14%	

Source: GUD Holdings, UBS estimates

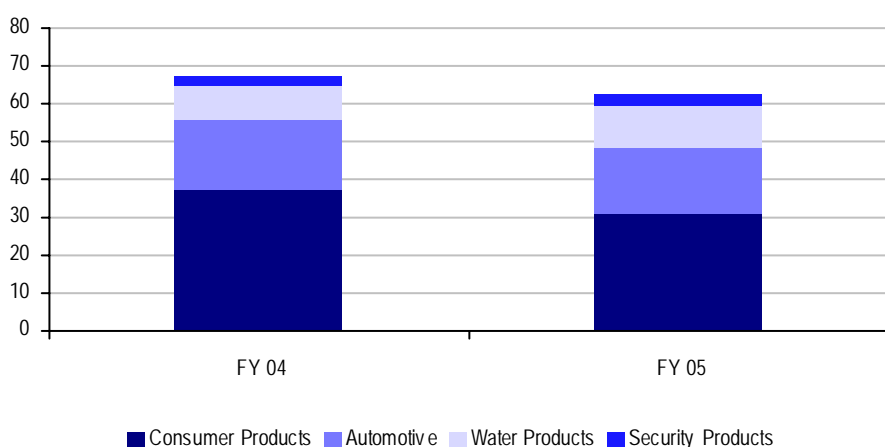
The key facts

The main drag on earnings was underperformance by Victa

We understand that Victa’s sales revenue and margins were impacted by competitive pressures from lower-priced imported lawn mowers sold in the major retail outlets. GUD has recognised the need to address its own supply chain by importing more components from overseas, probably China, and using its Moorebank facility for the assembly of mowers. Although the performance of Victa is not separately reported, the revenue of the Consumer Products division (formerly “Sunbeam Victa”) fell by 4%, while the margin of EBITA/revenue fell from 16.7% to 14.4%, pushing trading EBITA down 17%. Sunbeam experienced flat revenue and did not benefit from currency movements as much as it did in FY 04.

Competitive pressures have hurt Victa, prompting GUD to look more towards an import + assembly model

Chart 1: Trading EBITA by division (A\$m)



Source: GUD Holdings

Conditions are tough in Automotive

Even excluding the \$12.6m pre-tax (\$8.8m post-tax) one-off charge relating to its restructure, the Automotive division had a difficult year. Sales revenue declined 9% due to weaker demand and competitive pressures. We would be surprised to see these conditions improve in the near-term. Margins held up though, which we view as evidence of lower input costs (following the restructure to an import-only model) and improved sales mix.

The restructure has helped but demand is still off its highs in Automotive

Earnings estimates materially unchanged

We have made no material changes to our earnings estimates following today’s “in line” result. We expect GUD to find conditions difficult in the Automotive sector and we do not expect significant growth in Sunbeam, although these factors are likely to be offset by gradually improving margins in Victa and steady sales growth in the Water Products division. We believe that it is the addition of Oates Clean to the group (see our research note dated 20 July 2005), however, that is likely to have given management the confidence to indicate its expectation that FY 06 trading profit will “comfortably exceed” FY 05. Our forecast for FY 06 trading profit is materially unchanged at \$66.9m, implying 14% growth (Table 2).

Oates Clean expected to contribute to a better year in FY 06

Table 2: Changes to earnings estimates following the FY 05 result (A\$m)

	Current FY 06E	Previous FY 06E	Change	Current FY 07E	Previous FY 07E	Change	FY 08E
Revenue	469.8	480.0	-2%	487.5	498.0	-2%	502.0
EBITDA	78.3	79.5	-2%	80.7	85.8	-6%	82.8
EBITA	69.2	69.3	0%	71.7	75.6	-5%	73.8
EBITA margin	14.7%	14.4%	2%	14.7%	15.2%	-3%	14.7%
EBIT	66.9	67.1	0%	69.4	73.3	-5%	71.5
NPAT	42.2	42.3	0%	44.4	47.1	-6%	46.1
Normalised EPS (cps)	75.3	76.7	-2%	78.9	84.6	-7%	81.8
DPS (cps)	56.0	53.0	6%	59.0	59.0	0%	61.0

Source: UBS estimates

No impact on valuation

Although we have made no material changes to our forecasts, the use of a higher net debt balance in our DCF calculation reduces our valuation by 2% to \$9.04 per share. Our price target is derived as the average of our DCF valuation and 8.0x FY 07E (rather than FY 06E) EPS and is unchanged at \$7.68 per share.

Valuation remains \$7.68 per share

■ GUD Holdings Limited

GUD Holdings owns and manages a diverse group of businesses selling branded manufactured products in Australia and New Zealand. GUD operates several of Australia's most established and well-recognised consumer and industrial brands, including Sunbeam appliances, Victa lawnmowers, Ryco filters, Davey pumps and the recently acquired Oates Clean cleaning accessories. GUD was formed in 1940 and first listed in 1959.

■ Statement of Risk

Key risks include a downturn in spending on homewares in Australia, adverse currency movements and variations in the cost of raw materials.

■ Analyst Certification

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UBS Investment Research: Global Equity Ratings Definitions and Allocations

UBS rating	Definition	UBS rating	Definition	Rating category	Coverage ¹	IB services ²
Buy 1	FSR is > 10% above the MRA, higher degree of predictability	Buy 2	FSR is > 10% above the MRA, lower degree of predictability	Buy	40%	41%
Neutral 1	FSR is between -10% and 10% of the MRA, higher degree of predictability	Neutral 2	FSR is between -10% and 10% of the MRA, lower degree of predictability	Hold/Neutral	49%	43%
Reduce 1	FSR is > 10% below the MRA, higher degree of predictability	Reduce 2	FSR is > 10% below the MRA, lower degree of predictability	Sell	11%	35%

1: Percentage of companies under coverage globally within this rating category.

2: Percentage of companies within this rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS; as of 30 June 2005.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (an approximation of the equity risk premium).

Predictability Level The predictability level indicates an analyst's conviction in the FSR. A predictability level of '1' means that the analyst's estimate of FSR is in the middle of a narrower, or smaller, range of possibilities. A predictability level of '2' means that the analyst's estimate of FSR is in the middle of a broader, or larger, range of possibilities.

Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

Rating/Return Divergence (RRD) This qualifier is automatically appended to the rating when stock price movement has caused the prevailing rating to differ from that which would be assigned according to the rating system and will be removed when there is no longer a divergence, either through market movement or analyst intervention.

EXCEPTIONS AND SPECIAL CASES

US Closed-End Fund ratings and definitions are: Buy: Higher stability of principal and higher stability of dividends; Neutral: Potential loss of principal, stability of dividend; Reduce: High potential for loss of principal and dividend risk.

UK and European Investment Fund ratings and definitions are: Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Reduce: Negative on factors such as structure, management, performance record, discount.

Core Banding Exceptions (CBE): Exceptions to the standard +/-10% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Companies Mentioned table in the relevant research piece.

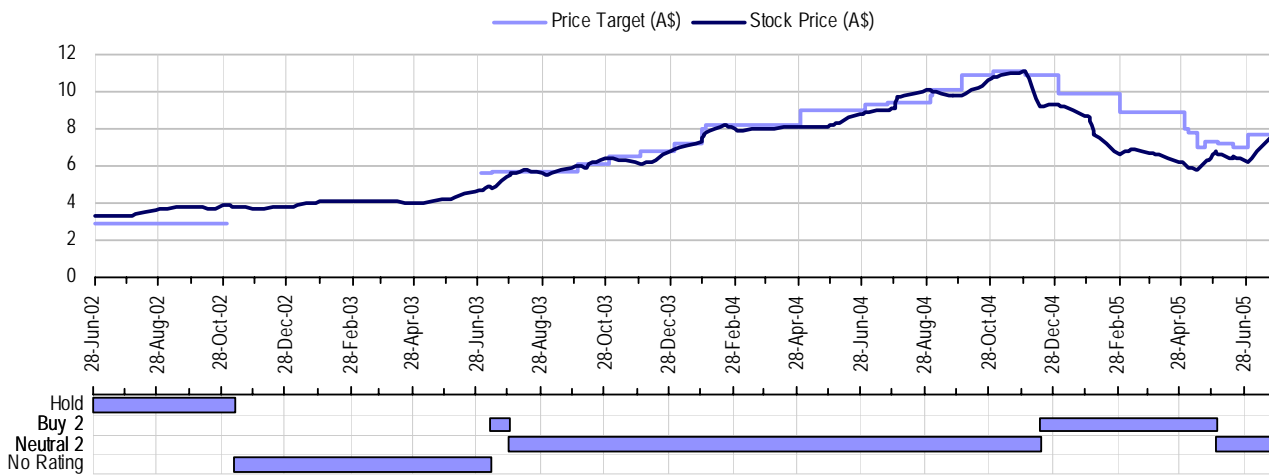
Companies mentioned

Company Name	Reuters	Rating	Price	Price date/time
GUD Holdings Limited	GUD.AX	Neutral 2	A\$7.74	26 Jul 2005 11:45 AEST

Source: UBS. AEST: Australian eastern standard time.

Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

GUD Holdings Limited (A\$)



Source: UBS; as of 26 July 2005.

Note: On October 13, 2003, UBS adopted new definition criteria for its rating system. (See 'UBS Investment Research: Global Equity Ratings Definitions and Allocations' table for details.) Between January 11 and October 12, 2003, the UBS ratings and their definitions were: Buy 1: Excess return potential > 15%, smaller range around price target; Buy 2: Excess return potential > 15%, larger range around price target; Neutral 1: Excess return potential between -15% and 15%, smaller range around price target; Neutral 2: Excess return potential between -15% and 15%, larger range around price target; Reduce 1: Excess return potential < -15%, smaller range around price target; Reduce 2: Excess return potential < -15%, larger range around price target. Prior to January 11, 2003, the UBS ratings and definitions were: Strong Buy: Greater than 20% excess return potential, high degree of confidence; Buy: Positive excess return potential; Hold: Low excess return potential, low degree of confidence; Reduce: Negative excess return potential; Sell: Greater than 20% negative excess return potential, high degree of confidence. Under both ratings systems, excess return is defined as the difference between the FSR and the one-year local market interest rate.

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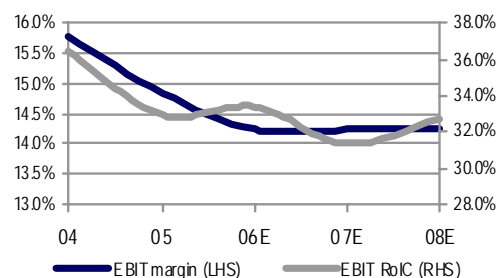


GUD Holdings Limited

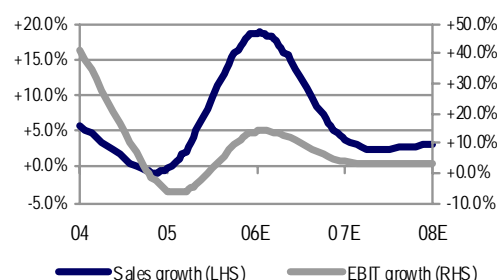
Per share (A\$)	6/04	6/05	6/06E	6/07E	6/08E
EPS (pre-abnormal)	0.71	0.65	0.75	0.79	0.82
CEPS	0.93	0.84	0.89	0.93	0.96
Net DPS	0.40	0.50	0.56	0.59	0.61
BVPS	2.34	2.25	2.42	2.60	2.78
Profit & loss (A\$ m)					
Sales	396.7	395.6	469.8	487.5	502.0
EBITDA	77.3	71.7	78.3	80.7	82.8
Operating income (EBIT)	62.6	58.7	66.9	69.4	71.5
Pre-tax profit	60.2	54.9	60.3	63.4	65.8
Net profit (pre-abnormal)	41.7	37.8	42.2	44.4	46.1
Cash flow (A\$ m)					
Operating income (EBIT)	62.6	58.7	66.9	69.4	71.5
Depreciation & amortisation	14.7	13.0	11.3	11.3	11.3
Net change in working capital	(8.8)	(4.5)	(19.4)	(4.0)	(4.0)
Other (operating)	(5.3)	(11.2)	5.0	(0.0)	(0.0)
Operational cash flow	63.1	56.1	63.8	76.8	78.8
Tax paid	(11.3)	(17.5)	(18.1)	(19.0)	(19.7)
Capital expenditure	(9.2)	(6.6)	(6.7)	(6.7)	(5.0)
Net interest	(2.4)	(3.9)	(6.7)	(6.1)	(5.7)
Dividends paid	(19.4)	(27.9)	(33.0)	(34.2)	(35.4)
Net (acquisitions) / disposals	(9.3)	(6.3)	(39.0)	0.0	0.0
Other items	(2.3)	(11.9)	1.2	2.0	1.2
(Increase) decrease in net debt	9.1	(17.9)	(38.4)	12.8	14.3
Operating free cash flow (OpFCF) (A\$ m)					
EBITDA (core)	77.3	71.7	78.3	80.7	82.8
Less maintenance capital expenditure	(6.0)	(5.0)	(6.0)	(6.0)	(5.0)
Less maintenance net working capital	(14.2)	(15.6)	(14.4)	(4.0)	(4.0)
OpFCF	57.1	51.1	57.8	70.8	73.8
Balance sheet (A\$ m)					
Net tangible fixed assets	36.8	27.2	46.8	42.0	39.0
Net intangible fixed assets	57.9	61.6	68.2	65.2	62.3
Net working capital	84.4	88.9	108.3	112.2	116.2
Total invested capital (IC)	179.1	177.6	223.3	219.4	217.6
Financial & other fixed assets	8.1	11.4	11.4	11.4	11.4
Net cash / (debt)	(17.6)	(37.6)	(73.7)	(59.5)	(46.9)
Provisions	(18.3)	(11.9)	(11.9)	(11.9)	(11.9)
Minority interests	0.0	0.0	0.0	0.0	0.0
Shareholders' funds	142.6	135.7	152.8	163.3	174.0
Profitability					
EBITDA margin	19.5%	18.1%	16.7%	16.6%	16.5%
EBIT margin	15.8%	14.9%	14.2%	14.2%	14.2%
EBIT RoIC	36.5%	32.9%	33.4%	31.4%	32.7%
Net RoE	31.0%	27.1%	29.2%	28.1%	27.3%
Interest cover (EBIT)	25.8x	15.2x	10.1x	11.5x	12.6x
Dividend cover (net)	1.3x	0.9x	0.9x	0.9x	0.9x
Productivity					
Labour % sales					
Depreciation % sales	3.7%	3.3%	2.4%	2.3%	2.3%
Capex % sales	2.3%	1.7%	1.4%	1.4%	1.0%
Invested capital turnover	2.3x	2.2x	2.3x	2.2x	2.3x
Tax rate	26.2%	24.3%	30.0%	30.0%	30.0%
Net debt / total equity	12.3%	27.7%	48.2%	36.4%	26.9%
Momentum					
Sales growth	+5.6%	-0.3%	+18.8%	+3.8%	+3.0%
EBIT growth	+41.3%	-6.1%	+14.0%	+3.7%	+3.0%
Net earnings growth	+53.1%	-9.5%	+11.7%	+5.1%	+3.9%
Dividend growth	+53.8%	+25.0%	+12.0%	+5.4%	+3.4%
Value*					
Market capitalisation (A\$m)	419.5	518.1	471.5	471.5	471.5
Plus: Core net debt / (cash)	19.2	27.6	55.7	48.5	53.2
Plus: Pension provisions	-	-	-	-	-
Plus: Buy out of minorities	-	-	-	-	-
Less: Non-core assets	-	-	-	-	-
Enterprise value (EV, avg)	438.8	545.7	527.2	520.1	524.7
EV/Sales (core)	1.11x	1.38x	1.12x	1.07x	1.05x
EV/EBITDA (core)	5.7x	7.6x	6.7x	6.4x	6.3x
EV/EBIT (core)	7.0x	9.3x	7.9x	7.5x	7.3x
EV/OpFCF	7.7x	10.7x	9.1x	7.3x	7.1x
EV/Invested capital	2.6x	3.1x	2.6x	2.3x	2.4x
P/CE	7.4x	10.2x	8.8x	8.5x	8.2x
P/E	9.7x	13.2x	10.5x	10.0x	9.6x
Dividend yield (net)	5.79%	5.86%	7.12%	7.50%	7.75%
P/BV (average)	3.0x	3.8x	3.2x	3.0x	2.8x

GUD Holdings owns and manages a diverse group of businesses selling branded manufactured products in Australia and New Zealand. GUD operates several of Australia's most established and well-recognised consumer and industrial brands, including Sunbeam appliances, Victoria lawnmowers, Ryco filters, Davey pumps and the recently acquired Oates Clean cleaning accessories. GUD was formed in 1940 and first listed in 1959.

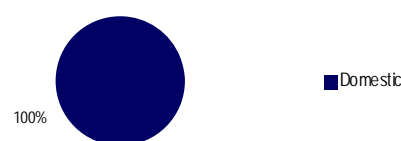
Profitability (EBIT margins & RoIC)



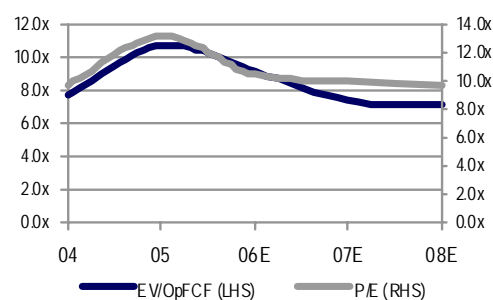
Momentum (Sales & EBIT growth)



Geographic exposure (Sales)



Value (EV/OpFCF & P/E)



Source: UBS estimates, * Historical valuations are based on an average for the year share price. Current & future valuations are based on a share price of A\$7.87 on 27/07/2005