

GUD Holdings Limited

Sun beams on FY 2006 outlook



Wilson HTM
INVESTMENT GROUP

28 July 2005

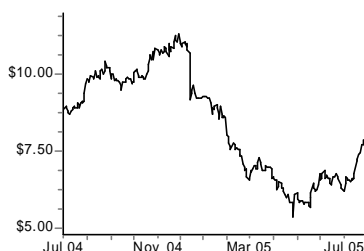
\$7.87

Short Term **Long Term**
Hold **BUY**

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Price Performance



Security/Capital Details

ASX Code	GUD
Market Cap	\$472 M
Issued Shares	59.9 M
Avg Mth T'over	5.97 M
12 Mth High – Low	\$11.30 - \$5.36

Key Data/Ratios – FY 2006

EBITDA / Sales	15.9%
EBIT / Sales	13.8%
Net Debt / Equity	49.6%
Interest Cover	10.6 x
ROE	29.1%
EPS Growth	42.5%
PEG Ratio	0.27 x
NTA / Share	\$ 1.37
DCF valuation	\$ 8.52
12 Mth Price Target	\$ 8.35

Recommendation

We have moderated our recommendation to Hold/BUY, and have a revised 12 month share price target of \$8.35 p/share (previously \$7.90 p/share).

GUD's FY 2005 result was broadly in line with expectations, with the highlights of the result being a solid trading performance from Sunbeam despite a patchy retail trading environment, and a material increase in dividends. FY 2005 trading EBIT of \$58.7M (-6%) was principally held back by a disappointing trading performance by Victa. An earnings recovery is expected in FY 2006, and we forecast trading EBIT growth of 11%.

Key Points

- GUD has reported FY 2005 trading EBIT of \$58.7M (-6%), slightly ahead of our forecast of \$57.7M, and within GUD's previously foreshadowed range of \$55.6M to \$59.9M. Overall, the result was broadly in-line with expectations.
- Group sales were flat, and reported NPAT declined 19% to \$28.9M. After adding back restructuring charges of \$8.8M (post-tax), normalised NPAT was \$37.7M (pcp: \$41.7M).
- A final DPS of 27 cents was declared, taking the FY payout to 50 cents (pcp: 40 cents), in line with our forecast.
- The 6% decline in trading EBIT reflects mixed trading performances by GUD's operating divisions. In particular, a solid performance by Sunbeam was offset by a weak result from Victa which was negatively impacted by low-cost import competition in the mass-merchant market.
- Davey produced a strong result (EBIT of \$10.4M, +25%), while Lock Focus remained steady. Filtration delivered a sound result in light of a difficult trading environment, with trading EBIT of \$17.6M (-4%).
- Cash flow remained healthy (OCF: \$34.7M) and year end net debt was \$37.6M (net debt/equity: 28%).
- Management guidance for FY 2006 is for trading profit to comfortably exceed FY 2005, with more specific earnings guidance expected to be provided at the AGM in October.
- We have revised our FY 2006 trading EBIT forecast down slightly to \$65.3M (+11%), previously \$68.4M. We prefer to take a more conservative view given the retail trading environment in general remains patchy. This provides EPS of 71.6 cents (+43%).
- Driving the recovery in earnings in FY 2006 will be the cessation of restructuring charges, the initial benefits from restructuring the Filtration division, a modest recovery by Victa, and an initial contribution from Oates (EBIT of \$6M).
- GUD's balance sheet and cash flow remain strong. This should support sustained increases in dividends, and capacity to fund further add-on acquisitions.
- We have increased our 12 month share price target to \$8.35 p/share (FY 2006 EV/EBITA 8.0x). In light of recent share price gains, we have moderated our recommendation to Hold/BUY (previously BUY/BUY).

June	NPAT (Rep) \$M	EPS (Norm) c	PER x	P/CF x	P/BV x	EV/EBITDA x	DPS c	Div Yld %	Franking %
2005a	28.9	50.2	15.7	13.7	3.5	9.2	50.0	6.3	100
2006e	40.9	71.6	11.0	12.5	3.2	7.2	55.0	7.0	100
2007e	44.1	76.7	10.3	9.5	3.0	6.7	58.0	7.4	100
2008e	46.8	81.0	9.7	9.0	2.8	0.7	61.0	7.8	100

Result overview

Financial summary

Y/e: 30 June		FY 2004	FY 2005	Chg (%)	FY 2006e	FY 2007e	FY 2008e
Sales revenue	(\$M)	393.8	394.4	0%	472.5	489.9	511.0
- growth		6%	0%		20%	4%	4%
Trading EBIT		62.6	58.7	-6%	65.3	69.2	72.3
- growth		41%	-6%		11%	6%	5%
NPAT (normalised)		41.7	37.7	-9%	40.9	44.1	46.8
NPAT (reported)		35.5	28.9	-19%	40.9	44.1	46.8
EPS (pre g'will)	(cents)	61.2	50.2	-18%	71.6	76.7	81.0
- growth (reported)	(%)	64%	-18%		43%	7%	6%
DPS	(cents)	40.0	50.0	25%	55.0	58.0	61.0
OCF	(\$M)	49.4	34.7		37.7	49.7	52.2
Net debt	(\$M)	17.6	37.6		72.1	63.4	55.3
- net debt/equity	(%)	12%	28%		50%	41%	33%

Source: GUD & WHTM.

- GUD has reported FY 2005 NPAT of \$28.9M, broadly in-line with our forecast of \$28.6M. After adding back restructuring charges of \$8.8M (post-tax) relating to the Filtration division, normalised NPAT was \$37.7M (-9%).
- Trading EBIT of \$58.7M (pcp: \$62.6M) reflects mixed performances, with sound trading contributions from Filtration, Davey and Lock Focus accompanied by a weaker contribution from Sunbeam Victa of \$28.5M (pcp: \$34.4M).
- A solid performance by Sunbeam was offset by a disappointing result from Victa. Victa's sales and margins were squeezed by heightened import competition at the entry-level price point. Divisional analysis is provided overleaf.
- OCF of \$34.7M (pcp: \$49.4M) was healthy, but was restrained by the deliberate build-up of some Filtration inventory prior to the closure of the Ryco manufacturing plant, additional working capital relating to acquisitions (ie. Contamination Control and Emjoi), and cash restructuring costs for Filtration.
- Net debt at year end increased to \$37.6M (pcp: \$17.6M), after funding the acquisition of Contamination Control (\$6.3M), as well as increased dividends and off-market share buyback.
- A material increase in the final DPS to 27 cents (pcp: 23 cents) was declared, taking the FY payout to 50 cents (pcp: 40 cents).

Earnings outlook

- Management have not provided specific earnings guidance for FY 2006, but have stated that the trading result is expected to comfortably exceed FY 2005.
- We have revised our FY 2006 forecasts down slightly given that the retail trading environment appears to remain patchy, and a recovery by Victa is likely to be modest in the short-term.
- We forecast FY 2006 trading EBIT of \$65.3M (+11%), providing reported NPAT of \$40.9M (+42%) and EPS of 71.6 cents (+43%).
- The expected recovery in reported earnings should be driven by the cessation of restructuring charges, the initial benefits of restructuring the Filtration division, solid growth from Davey and an initial 12 month contribution from Oates.
- Oates is expected to contribute revenue of \$65M and EBIT of \$6M in FY 2006. Further smaller add-on acquisitions to the Oates business are likely.
- An expected partial earnings recovery by Victa in FY 2006 is underpinned by a shift to greater offshore sourcing for entry-level product to compete more effectively against low-cost imports.
- GUD's debt levels remain low, with forecast net debt of \$72.1M by the end of FY 2006 (net debt/equity: 50%) after funding the Oates acquisition (~\$35M). GUD retains capacity to fund further add-on acquisitions, and these are most likely to be in the form of bolt-on acquisitions to Oates.

Divisional overview

Divisional summary

Y/e: 30 June	FY 2004	FY 2005	Chg (%)	FY 2006e	FY 2007e	FY 2008e
Revenue (\$M):						
Sunbeam Victa	223.2	215.1	-4%	220.5	227.1	238.4
Filtration	86.0	78.7	-9%	74.7	77.0	79.7
Davey (pumps)	72.8	88.2	21%	98.8	105.2	112.0
Lock Focus (locks)	13.4	13.3	-1%	13.5	13.7	13.9
Oates (cleaning)	0.0	0.0	N/A	65.0	67.0	67.0
Unallocated	0.4	0.3	N/A	0.0	0.0	0.0
Total revenue	395.8	395.6	0%	472.5	489.9	511.0
EBIT (reported) (\$M):						
Sunbeam Victa	28.5	28.5	0%	30.0	31.1	32.7
Filtration	15.5	5.0	-68%	15.7	16.2	16.7
Davey (pumps)	8.3	10.4	26%	12.0	14.0	14.9
Lock Focus (locks)	2.1	2.1	1%	2.1	2.1	2.2
Oates (cleaning)	0.0	0.0	N/A	6.0	6.2	6.3
Unallocated	-0.6	0.2	N/A	-0.4	-0.4	-0.4
Reported EBIT	53.7	46.1	-14%	65.3	69.2	72.3
Trading EBIT (\$M)						
	62.6	58.7	-6%	65.3	69.2	72.3
- growth (%)	41%	-6%		11%	6%	5%
NPAT (reported) (\$M)						
	35.5	28.9	-19%	40.9	44.1	46.8
EPS (pre'g'will) (cents)						
	61.2	50.2	-18%	71.6	76.7	81.0
- growth (reported)	64%	-18%		43%	7%	6%

Source: GUD & WHTM

Sunbeam Victa produced a weaker result, with trading EBIT of \$28.5M (-17%), on sales of \$215.1M (-4%). Sunbeam traded well and managed to grow market share in segments such as juicers despite a patchy retail environment generally. Sunbeam sales were flat, but the sound trading performance was supported by a pick up in high-margin electric blanket sales in June following weak May sales associated with an unseasonably warm start to Winter.

The key contributor to the weaker divisional trading result was a disappointing performance from Victa, with both sales and margins contracting. This is largely attributable to a challenging environment of low-cost import competition at the entry-level price point. A modest recovery by Victa is expected in FY 2006, following a shift to increased offshore sourcing of components for entry-level product. Product development and innovation, including the release of a new product range for Christmas, and recent small product acquisitions (eg. Emjoi, Foodsaver) should underpin growth from Sunbeam.

The **Filtration** division (Ryco, Wesfil) contributed trading EBIT of \$17.6M (-4%). After accounting for restructuring charges of \$12.6M (pre-tax), reported EBIT was \$5.0M. The trading performance was sound, given softening domestic demand for automotive products arising from slowing consumer discretionary spending and higher petrol prices. EBIT margins were maintained at 22% (pcp: 21%). The trading environment going forward is expected to remain competitive, however margins should be maintained, underpinned by the benefits of recent restructuring, offshore sourcing of product, and expansion of the product offering.

Davey (pumps) delivered a strong EBIT contribution of \$10.4M (+25%), assisted by a full 12-month contribution from Spa-Quip. In April 2005, Davey also acquired Contamination Control, a water purification business based in New Zealand, for \$6.3M. The organic growth outlook for Davey remains positive, and should be supplemented by growth from the Contamination Control acquisition.

Lock Focus produced a steady result, contributing EBIT of \$2.1M. Greater automation assisted margins to be maintained (EBIT margin 15.5%) despite mixed domestic demand. Lock Focus is expected to deliver a consistent result in FY 2006.

GUD Holdings Limited (GUD : \$7.87)

INVESTMENT FUNDAMENTALS

Yr Ending June	2004A	2005A	2006E	2007E	2008E
EPS Reported (c)	58.5	47.8	68.3	73.6	78.1
EPS Normalised (c)	61.2	50.2	71.6	76.7	81.0
EPS Growth (%)	N/A	-18.3%	43.0%	7.7%	6.1%
PER Normalised (x)	12.9	15.7	11.0	10.3	9.7
DPS (c)	40.0	50.0	55.0	58.0	61.0
Payout (%)	68.4%	104.6%	80.5%	78.8%	78.1%
Yield (%)	5.1%	6.3%	7.0%	7.4%	7.8%
Franking (%)	100%	100%	100%	100%	100%

VALUATION DATA

Yr Ending June	2004A	2005A	2006E	2007E	2008E
EV / EBITA (x)	8.9	10.6	8.1	7.5	6.6
EV / EBITDA (x)	7.6	9.2	7.2	6.7	5.9
CFPS (c)	81.3	57.4	63.0	83.0	87.1
Price / CF	9.7	13.7	12.5	9.5	9.0
Book Value / Share (\$)	2.3	2.3	2.4	2.6	2.8
Price / Book (x)	3.4	3.5	3.2	3.0	2.8

PROFIT & LOSS (\$m)

Yr Ending June	2004A	2005A	2006E	2007E	2008E
Sales Revenue	393.8	394.4	472.5	489.9	511.0
EBITDA	65.6	55.8	75.3	79.6	83.1
Depreciation	9.6	7.6	8.0	8.5	9.0
EBITA	56.0	48.2	67.3	71.1	74.2
Amortisation	2.3	2.1	2.0	1.9	1.8
EBIT	53.7	46.1	65.3	69.2	72.3
Net Interest Expense	2.4	3.9	5.5	5.4	4.8
Pre-tax Profit	51.3	42.2	59.8	63.8	67.6
Tax	15.8	13.3	18.8	19.7	20.8
Tax rate (%)	30.7%	31.5%	31.5%	30.9%	30.8%
Minorities / pref divs	0.0	0.0	0.0	0.0	0.0
Equity accounted NPAT	0.0	0.0	0.0	0.0	0.0
Net Profit	35.5	28.9	40.9	44.1	46.8
Abn's / Extraord's	0.0	0.0	0.0	0.0	0.0
Reported Net Profit	35.5	28.9	40.9	44.1	46.8
Revenue Growth (%)	N/A	0.2%	19.8%	3.7%	4.3%
EBIT Growth (%)	N/A	-14.2%	41.6%	5.9%	4.6%
NPAT Growth (%)	N/A	-18.6%	41.6%	7.7%	6.1%

PROFITABILITY RATIOS

Yr Ending June	2004A	2005A	2006E	2007E	2008E
EBIT / Sales (%)	13.6%	11.7%	13.8%	14.1%	14.2%
ROA (%)	N/A	20.6%	26.3%	25.1%	26.0%
ROE (%)	N/A	20.7%	29.1%	29.2%	29.0%
ROFE (%)	N/A	28.8%	34.4%	32.5%	33.6%

BALANCE SHEET (\$m)

Yr Ending June	2004A	2005A	2006E	2007E	2008E
Cash	29.7	23.3	13.8	12.5	10.6
Receivables	51.1	50.0	59.9	62.1	64.8
Inventories	66.5	67.3	80.6	83.6	87.2
Other	4.7	4.3	5.9	5.9	5.9
Current Assets	152.0	144.9	160.2	164.1	168.5
Net PPE	36.8	27.2	25.3	24.3	22.9
Investments	0.0	0.0	35.0	35.0	35.0
Intangibles	57.9	61.6	59.6	57.6	55.8
Other	8.1	11.4	8.3	8.5	8.7
Non-current Assets	102.8	100.1	128.2	125.5	122.4
Total Assets	254.7	245.1	288.4	289.6	290.9
Current Payables	37.9	32.8	39.2	40.7	42.4
Current Debt	27.1	29.9	54.9	54.9	54.9
Non-Current Debt	20.2	31.0	31.0	21.0	11.0
Provisions	0.0	0.0	0.0	0.0	0.0
Other	26.9	15.7	17.7	16.9	16.3
Total Liabilities	112.1	109.3	142.8	133.5	124.6
Equity	106.4	98.4	98.4	98.4	98.4
Reserves	1.4	1.4	1.4	1.4	1.4
Retained Profits	34.9	35.9	45.7	56.2	66.5
Minorities	0.0	0.0	0.0	0.0	0.0
Total Equity	142.6	135.7	145.5	156.0	166.3
Total Funds Employed	160.2	173.3	217.6	219.5	221.6

LIQUIDITY & LEVERAGE RATIOS

Yr Ending June	2004A	2005A	2006E	2007E	2008E
Net Debt (Cash) (\$m)	17.6	37.6	72.1	63.4	55.3
Net Debt / Equity (%)	12.3%	27.7%	49.6%	40.7%	33.3%
Interest Cover (x)	18.8	11.0	10.6	11.8	13.7
Debt / CashFlow (x)	1.0	1.8	2.3	1.5	1.3

CASHFLOW (\$m)

Yr Ending June	2004A	2005A	2006E	2007E	2008E
EBIT	53.7	46.1	65.3	69.2	72.3
Dep'n and Amort'n	11.9	9.7	10.0	10.4	10.8
Net Int Rec'd (Paid)	-2.4	-3.9	-5.5	-5.4	-4.8
Tax Paid	-11.3	-17.5	-15.3	-20.7	-21.7
Dec / (Inc) W'kg Cap	-9.9	-4.8	-16.7	-3.7	-4.5
Other	7.4	5.1	0.0	0.0	0.0
Operating Cash Flow	49.4	34.7	37.7	49.7	52.2
Capital Expenditure	-8.3	-4.6	-6.1	-7.5	-7.5
Asset Sales	0.0	0.0	0.0	0.0	0.0
Investments	-11.8	-12.2	-35.0	0.0	0.0
Other Inv. Flows	0.0	0.0	0.0	0.0	0.0
Investing Cash Flow	-20.1	-16.8	-41.1	-7.5	-7.5
Equity Raised	-0.7	-7.9	0.0	0.0	0.0
Inc / (Dec) in Loans	-1.4	8.1	25.0	-10.0	-10.0
Dividends Paid	-19.4	-27.9	-31.2	-33.6	-36.5
Other Fin. Flows	0.0	0.0	0.0	0.0	0.0
Financing Cash Flow	-21.5	-27.7	-6.2	-43.6	-46.5
Net Cash Flow	7.8	-9.8	-9.5	-1.3	-1.9

Disclosure of Interest. The Directors of Wilson HTM Ltd advise that at the date of this report they and their associates have relevant interests in 2,000 securities in GUD Holdings Limited. They also advise that Wilson HTM Ltd and Wilson HTM Corporate Finance Ltd A.B.N. 65 057 547 323 and their associates have received and may receive commissions or fees from GUD Holdings Limited in relation to advice or dealings in securities. Some or all of Wilson HTM Ltd authorised representatives may be remunerated wholly or partly by way of commission.



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