GUD Holdings Limited

AGM confirms 1Q on track

Wilson HTM INVESTMENT GROUP

20 October 2005

$7.53

Short Term	Long Term
BUY	BUY

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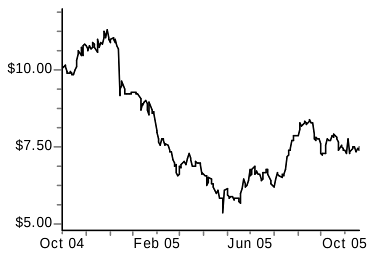
Price Performance



Security/Capital Details

ASX Code	GUD
Market Cap	$451 M
Issued Shares	59.9 M
Avg Mth T'over	6.81 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	10.5%
PEG Ratio	1.15 x
NTA / Share	$ 1.37
DCF valuation	$ 8.52
12 Mth Price Target	$ 8.35

Recommendation

We retain a BUY recommendation on GUD and a 12 month share price target of $8.35 p/share.

GUD held its AGM yesterday, confirming that 1Q trading is in-line with last year (excluding any contribution from Oates). Including Oates, 1Q trading is above last year. This is consistent with previous guidance, and we remain comfortable with our earnings forecasts which remain unchanged. Our 12 month share price target of $8.35 is retained, providing prospective capital upside of 11% and a fully franked yield of 7.3%. BUY.

Key Points

- GUD held its AGM in Melbourne yesterday and confirmed a sound start to the year, with trading in the 1Q tracking in line with last year for the existing business (ie. excluding any contribution from the recent Oates acquisition).
- Including Oates, GUD confirmed that 1Q trading is ahead of last year. The Oates cleaning products business was acquired by GUD in July 2005, and is forecast to generate FY06 revenue of $65M and EBIT of $6M.
- Management refrained from providing specific earnings guidance, but reaffirmed that a stronger financial performance is expected in FY06, enabling further dividend growth (WHTM est: 55 cents, +10%).
- The outlook for FY06 is for relatively stable earnings from GUD's existing businesses, with our 10% normalised EPS growth forecast primarily driven by recent acquisitions, namely a 12 month contribution from Oates.
- The Consumer Products division (ie. Sunbeam, Victa and Oates) should benefit from a partial recovery by Victa, the release of new products by Sunbeam, as well as an initial 12 month contribution from Oates.
- The Filtration division should benefit from recent restructuring and offshore sourcing of product, while continued product development by Davey and Lock Focus should deliver growth from both divisions. Davey will also benefit from a full 12 month contribution from last year's acquisition of Contamination Control (divisional forecasts are detailed overleaf).
- Retail trading conditions remain tough generally, and the main risk to GUD's earnings overall hinges on the 'health' of replenishment sales for Sunbeam in the critical months of October to December.
- Our earnings forecasts for FY06 remain unchanged, and assume trading EBIT of $65.3M (+11%). Our forecasts assume steady earnings for the existing business, with growth primarily driven by an initial 12 month contribution from Oates.
- GUD's cash flow and balance sheet remain strong (forecast FY06 net debt/equity: 50%). This supports our forecast of sustained increases in dividends, and also provides the capacity to fund further acquisitions.
- We retain a BUY recommendation and 12 month share price target of $8.35 p/share (FY06 EV/EBITA 8.0x).

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	64.8	11.6	13.1	3.3	7.2	50.0	6.6	100
2006e	40.9	71.6	10.5	12.0	3.1	7.0	55.0	7.3	100
2007e	44.1	76.7	9.8	9.1	2.9	6.5	58.0	7.7	100
2008e	46.8	81.0	9.3	8.6	2.7	0.7	61.0	8.1	100

Earnings summary

The following table summarises our earnings forecasts for GUD.

Divisional summary

Y/e: 30 June		FY 2004	FY 2005	FY 2006e	FY 2007e	FY 2008e
Revenue:	($M)					
Sunbeam Victa		223.2	215.1	220.5	227.1	238.4
Filtration		86.0	78.7	74.7	77.0	79.7
Davey (pumps)		72.8	88.2	98.8	105.2	112.0
Lock Focus (locks)		13.4	13.3	13.5	13.7	13.9
Oates (cleaning)		0.0	0.0	65.0	67.0	67.0
Unallocated		0.4	0.3	0.0	0.0	0.0
Total revenue		**395.8**	**395.6**	**472.5**	**489.9**	**511.0**
EBIT (trading):	($M)					
Sunbeam Victa		34.4	28.5	30.0	31.1	32.7
Filtration		18.5	17.6	15.7	16.2	16.7
Davey (pumps)		8.3	10.4	12.0	14.0	14.9
Lock Focus (locks)		2.1	2.1	2.1	2.1	2.2
Oates (cleaning)		0.0	0.0	6.0	6.2	6.3
Unallocated		-0.6	0.2	-0.4	-0.4	-0.4
Trading EBIT		**62.6**	**58.7**	**65.3**	**69.2**	**72.3**
Significant items (pre-tax)	($M)	8.9	12.6	0.0	0.0	0.0
Reported EBIT	($M)	**53.7**	**46.1**	**65.3**	**69.2**	**72.3**
- growth	(%)	*21%*	*-14%*	*42%*	*6%*	*5%*
NPAT (normalised)	($M)	**41.7**	**37.7**	**40.9**	**44.1**	**46.8**
- growth (normalised)	(%)	*52%*	*-10%*	*8%*	*8%*	*6%*
NPAT (reported)	($M)	**35.5**	**28.9**	**40.9**	**44.1**	**46.8**
EPS (normalised)	(cents)	71.5	64.8	71.6	76.7	81.0
- growth (normalised)	(%)	*53%*	*-9%*	*10%*	*7%*	*6%*
DPS	(cents)	40.0	50.0	55.0	58.0	61.0
Net debt	($M)	17.6	37.6	72.1	63.4	55.3
- Net debt/equity	(%)	*12.3%*	*27.7%*	*49.6%*	*40.7%*	*33.3%*

Note: FY05 reported EBIT is post a $12.6M restructure charge for the Filtration business

Source: GUD & WHTM

- Management has not provided specific earnings guidance for FY06, but have stated that the "trading profit is expected to comfortably exceed FY05 performance".
- We forecast FY06 trading EBIT of $65.3M (+11%), providing reported NPAT of $40.9M (+42%) and normalised EPS of 71.6 cents (+10%).
- The expected recovery in reported earnings should be driven by the cessation of restructuring charges, the initial benefits of restructuring the Filtration division, a partial recovery by Victa, 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 FY06. Further smaller add-on acquisitions to the Oates business are likely.
- An expected partial earnings recovery by Victa in FY06 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 FY06 (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.
- The main risk to earnings performance is in the event of a poor retail trading environment in the important replenishment sales months of Oct – Dec for Sunbeam. We believe our forecasts are soundly based.

GUD Holdings Limited (GUD : $7.53)

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)	**71.5**	**64.8**	**71.6**	**76.7**	**81.0**
EPS Growth (%)	N/A	-9.2%	9.6%	7.7%	6.1%
PER Normalised (x)	**10.5**	**11.6**	**10.5**	**9.8**	**9.3**
DPS (c)	40.0	50.0	55.0	58.0	61.0
Payout (%)	**68.4%**	**104.5%**	**80.5%**	**78.8%**	**78.1%**
Yield (%)	5.3%	6.6%	7.3%	7.7%	8.1%
Franking (%)	100%	100%	100%	100%	100%

VALUATION DATA

Yr Ending June	2004A	2005A	2006E	2007E	2008E
EV / EBITA (x)	7.3	8.1	7.8	7.2	0.8
EV / EBITDA (x)	6.4	7.2	7.0	6.5	0.7
CFPS (c)	81.3	57.4	62.9	83.0	87.1
Price / CF	**9.3**	**13.1**	**12.0**	**9.1**	**8.6**
Book Value / Share ($)	2.3	2.3	2.4	2.6	2.8
Price / Book (x)	**3.2**	**3.3**	**3.1**	**2.9**	**2.7**

PROFIT & LOSS ($m)

Yr Ending June	2004A	2005A	2006E	2007E	2008E
Sales Revenue	393.8	394.4	472.5	489.9	511.0
EBITDA	74.4	68.4	75.3	79.6	83.1
Depreciation	9.6	7.6	8.0	8.5	9.0
EBITA	**64.9**	**60.8**	**67.3**	**71.1**	**74.2**
Amortisation	2.3	2.1	2.0	1.9	1.8
EBIT	**62.6**	**58.7**	**65.3**	**69.2**	**72.3**
Net Interest Expense	2.4	3.9	5.5	5.4	4.8
Pre-tax Profit	**60.2**	**54.8**	**59.8**	**63.8**	**67.6**
Tax	18.4	17.1	18.8	19.7	20.8
Tax rate (%)	30.6%	31.2%	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	**41.8**	**37.7**	**40.9**	**44.1**	**46.8**
Abn's / Extraord's	-6.2	-8.8	0.0	0.0	0.0
Reported Net Profit	35.6	28.9	40.9	44.1	46.8
Revenue Growth (%)	N/A	0.2%	19.8%	3.7%	4.3%
EBIT Growth (%)	N/A	-6.2%	11.2%	5.9%	4.6%
NPAT Growth (%)	N/A	-9.6%	8.5%	7.7%	6.1%

PROFITABILITY RATIOS

Yr Ending June	2004A	2005A	2006E	2007E	2008E
EBIT / Sales (%)	**15.9%**	**14.9%**	**13.8%**	**14.1%**	**14.2%**
ROA (%)	N/A	26.2%	26.3%	25.1%	26.0%
ROE (%)	**N/A**	**27.0%**	**29.1%**	**29.2%**	**29.0%**
ROFE (%)	N/A	36.4%	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	8.5	8.7	8.9
Non-current Assets	**102.8**	**100.1**	**128.3**	**125.7**	**122.5**
Total Assets	**254.7**	**245.1**	**288.5**	**289.7**	**291.0**
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	17.9	17.1	16.4
Total Liabilities	**112.1**	**109.3**	**143.0**	**133.7**	**124.7**
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)	21.9	14.0	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	62.6	58.7	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	-1.5	-7.5	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 nil 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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