UBS

Global Equity Research

Australia

Auto Parts

# UBS Investment Research

# GUD Holdings Limited

## Result flat but for acquisitions. Dividend yield increased.

### ■ Event: 1H06 NPAT of $20.2m (34 cps EPS), DPS of 27 cps

GUD reported 1H06 NPAT of $20.2m vs 1H05's $11.1m (A-IFRS) and our forecast of $21.9m. On a pre-abnormal basis operating EBIT was $32.4m vs $30.8m in 1H05 and our $35.1m forecast. More positively DPS was 27c, vs our 26c forecast and 1H05's 23c. GUD reiterated guidance of c$65-$66m at the EBIT line and guided to DPS up 15-20% on FY05 (57-60c) vs UBSe at 53c.

### ■ Impact: Minimal changes to FY06 earnings forecasts

Our forecasts are largely unchanged. Given a challenging retail environment we feel the result is a reasonable one. Although below our 1H06 forecast, we are sticking to our FY06 forecast given the reduced seasonality of the consumer products division following the Oates acquisition and the benefits of restructuring in Oates, Victa and Security products that should appear in 2H06.

### ■ Action: Retain Neutral 2 Rating

At a 7.5% FY06E yield and on 10.6x FY07E PE, we consider GUD's valuation is not stretched. Despite this, GUD is not without risk in our view, with our 2H06E EBIT estimate of $32.5m ($28m 2H05) dependant on no repeat of FY05's unseasonably warm winter (impacted electric blankets). Although GUD has significant debt capacity, the payout ratio increase also suggests to us that accretive acquisitions may be hard to find.

### ■ Valuation: Rises marginally to $8.05

Our PT is an average of a $7.61 PER (FY07E PE of 10x) and an $8.48 DCF.

| Highlights (A$m) | 06/04 | 06/05 | 06/06E | 06/07E | 06/08E |
|---|---|---|---|---|---|
| Revenues | 396.2 | 395.2 | 468.6 | 482.5 | 496.8 |
| EBIT | 64.9 | 60.9 | 66.5 | 69.5 | 72.2 |
| Net income (UBS) | 44.0 | 39.9 | 42.6 | 45.6 | 48.5 |
| EPS (UBS, A$) | 0.72 | 0.66 | 0.71 | 0.76 | 0.81 |
| Net DPS (UBS, A$) | 0.40 | 0.50 | 0.60 | 0.64 | 0.68 |

| Profitability & Valuation | 5-yr hist. av. | 06/05 | 06/06E | 06/07E | 06/08E |
|---|---|---|---|---|---|
| EBIT margin % | 10.9 | 15.4 | 14.2 | 14.4 | 14.5 |
| ROIC (EBIT) % | - | 36.7 | 35.0 | 33.4 | 34.8 |
| EV/EBITDA x | - | 8.0 | 7.1 | 7.0 | 6.7 |
| PE (UBS) x | 8.4 | 12.9 | 11.3 | 10.6 | 10.0 |
| Net dividend yield % | 7.4 | 5.9 | 7.5 | 8.0 | 8.4 |

*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$8.05 on 30 Jan 2006 18:10 AEDT*


**Olivier Coulon**
Analyst
olivier.coulon@ubs.com
+61-2-9324 2328

**Ben McGarry**
Analyst
ben.mcgarry@ubs.com
+61-2-9324 2192

**Michael Peet**
Analyst
michael.peet@ubs.com
+61-2-9324 3803


| | |
|---|---|
| Rating | Neutral 2 *Unchanged* |
| Price target | A$8.00/US$6.03 *Unchanged* |
| Price | A$8.05/US$6.04 |

RIC: GUD.AX BBG: GUD AU

30 January 2006

**Trading data (local/US$)**

| | |
|---|---|
| 52-wk. range | A$8.63-5.36/US$6.67-4.16 |
| Market cap. | A$0.48bn/US$0.36bn |
| Shares o/s | 59.9m (ORD) |
| Free float | 100% |
| Avg. daily volume ('000) | 121 |
| Avg. daily value (A$m) | 0.9 |

**Balance sheet data 06/06E**

| | |
|---|---|
| Shareholders' equity | A$0.14bn |
| P/BV (UBS) | 3.3x |
| Net cash (debt) | (A$0.06bn) |

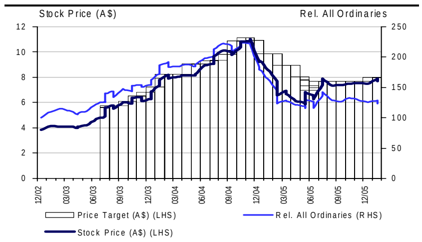
**Forecast returns**

| | |
|---|---|
| Forecast price appreciation | -0.6% |
| Forecast dividend yield | 11.4% |
| Forecast stock return | +10.8% |
| Market return assumption | 10.4% |
| Forecast excess return | +0.4% |

**EPS (UBS, A$)**

| | 06/06E | | | 06/05 |
|---|---|---|---|---|
| | From | To | Cons. | Actual |
| H1E | 0.37 | 0.34 | - | 0.18 |
| H2E | 0.33 | 0.38 | - | 0.23 |
| 06/06E | 0.71 | 0.71 | *0.72* | |
| 06/07E | 0.76 | 0.76 | *0.72* | |

**Performance (A$)**




*Source: UBS*

www.ubs.com/investmentresearch

This report has been prepared by UBS Securities Australia Ltd

ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 3

## Results Summary

### Figure 1: Results Summary (1H05 restated for A-IFRS)

| (A$m, except per share) | 1H05A | 1H06A | %ch. | UBS H1 06E | % Variance | Comment |
|---|---|---|---|---|---|---|
| Operating Revenue | 210.9 | 241.7 | *14.6* | 243.9 | *(0.9)* | |
| *Consumer Products* | 117.0 | 148.7 | *27.1* | 144.8 | *2.7* | Consumer Products sales boosted by $30m Oates contrbution |
| *Automotive* | 40.1 | 36.0 | *(10.3)* | 38.2 | *(5.8)* | Automotive sales lower as GUD gives up unprofitable OEM volume |
| *Water* | 46.4 | 49.7 | *7.0* | 53.6 | *(7.4)* | Water revenue boosted by purchase of contamination control in April 05 |
| *Security* | 7.2 | 6.8 | *(4.8)* | 6.8 | *0.2* | |
| *Unallocated* | 0.2 | 0.1 | *(49.7)* | 0.1 | *(39.4)* | |
| EBITDA | 35.4 | 38.1 | ***7.6*** | 40.6 | ***(6.2)*** | |
| Depreciation & Amortisation | (4.6) | (6.2) | *(34.3)* | (6.2) | *0.0* | |
| EBIT | 30.8 | 32.4 | ***5.3*** | 35.1 | ***(7.9)*** | |
| *Consumer Products* | 14.0 | 16.0 | *14.3* | 18.8 | *(14.9)* | Oates has reduced extent of seasonality in consumer products |
| *Automotive* | 8.7 | 8.9 | *nm* | 8.8 | *1.2* | Solid result considering tough aftermarket retail conditions |
| *Water* | 6.3 | 6.6 | *4.2* | 6.6 | *(0.5)* | |
| *Security* | 1.5 | 1.1 | *(24.9)* | 1.0 | *12.2* | Weak trading affected performance |
| *Unallocated* | 0.2 | (0.2) | *nm* | (0.0) | *343.2* | |
| Pre-abnormal pre-tax | (12.6) | 0.0 | *nm* | 0.0 | *nm* | The result fortunately contained no abnormals |
| Net Interest Expense | (1.7) | (3.3) | *(93.5)* | (3.8) | *(14.2)* | |
| Earnings Before Tax | 16.4 | 29.1 | ***77.3*** | 31.3 | ***(7.1)*** | |
| Tax Expense | (5.4) | (8.9) | *(66.5)* | (9.4) | *(5.0)* | |
| Net Profit | 11.1 | 20.2 | ***82.5*** | 21.9 | ***(8.0)*** | |
| DPS (cents) | 23.0 | 27.0 | *17.4* | 26.0 | *3.8* | |
| Dividend Franking (%) | 100 | 100 | *0.0* | 100 | *0.0* | |
| Normalised EPS (cents) | 17.9 | 34.1 | ***90.9*** | 36.6 | ***(6.9)*** | |

Source: UBS estimates

## Divisional Summary

### Consumer Products

Consumer Products saw a 27% increase in revenue to $148.7m, almost exclusively due to the $30.6m of revenue earned by Oates Cleaning in the half. Sunbeam had slightly negative comps due to tough conditions in the electrical appliance market. Victa’s sales were improved from the very tough 1H05.

The EBIT contribution from the division rose from $14m to $16m helped by a $1.53m NPAT contribution from Oates. This contribution was below our expectations, due mostly to one-off integration costs and delays in introducing a number of innovative floor cleaning products. This relatively disappointing number nevertheless suggests that Victa and Sunbeam as a whole were at best flat on 1H05. Although Victa is said to have been much improved and its performance was ahead of expectations, Sunbeam would appear to have been heavily impacted by the weak market conditions.

### Automotive Products

Automotive Products ended the half c2% ahead of its pre-abnormal 1H05 EBIT contribution. Sales fell 10% due to GUD ceasing to supply low margin OEM customers whose volumes were traditionally competed for to help cover manufacturing overheads.

### Water Products

Water Products saw moderate revenue growth of 7% due mostly to the acquisition in April 2005 of the small contamination control business which at the time was said to have sales of $8m p.a. Cost reductions and the contribution from acquisitions saw a smaller 4% increase in EBIT.

### Security

Security Products was the weakest performer with “patchy trading conditions” affecting sales (down 5%) and margins (EBIT down 25%).

## Impact on earnings forecasts

GUD reiterated guidance of a flat EBIT contribution from the existing businesses ($59m in FY05) plus a c$6m contribution from Oates Clean. Our earnings forecasts - which are in line with guidance at the EBIT line - are largely unchanged. Although the result was 8% below our expectations we acknowledge that the seasonality of the consumer products business has been reduced by the addition of the Oates Clean business. Despite this we would note that our forecast implies a 2H06E EBIT contribution of $32.5m or c20% above 2H05 and is thus not without risk. In particular it is dependent on the success of cost out programs in Victa, Oates and now Security Products and assumes a return to more normal winter weather conditions than experienced in 2H05.

## ■ 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

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

## Required Disclosures

This report has been prepared by UBS Securities Australia Ltd, an affiliate of UBS AG (UBS).

For information on the ways in which UBS manages conflicts and maintains independence of its research product; historical performance information; and certain additional disclosures concerning UBS research recommendations, please visit www.ubs.com/disclosures.

### 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% | 35% |
| **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** | 50% | 31% |
| **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% | 30% |

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 31 December 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.

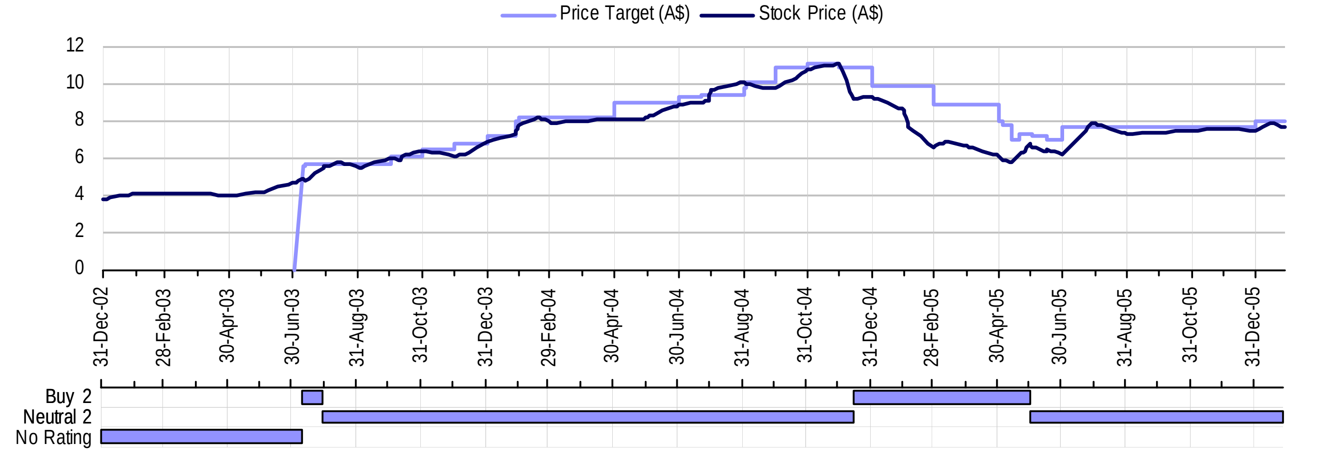
### Companies mentioned

| Company Name | Reuters | Rating | Price | Price date/time |
|---|---|---|---|---|
| **GUD Holdings Limited** | GUD.AX | Neutral 2 | A$7.67 | 27 Jan 2006 23:41 AEDT |

Source: UBS. AEDT: Australian eastern daylight 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 27 January 2006.

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.

## Global Disclaimer

This report has been prepared by UBS Securities Australia Ltd or an affiliate thereof ("UBS"). In certain countries UBS AG is referred to as UBS SA.

This report is for distribution only under such circumstances as may be permitted by applicable law. It has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. It is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. No representation or warranty, either express or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein, except with respect to information concerning UBS AG, its subsidiaries and affiliates, nor is it intended to be a complete statement or summary of the securities, markets or developments referred to in the report. The report should not be regarded by recipients as a substitute for the exercise of their own judgement. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas or groups of UBS as a result of using different assumptions and criteria. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information. UBS is under no obligation to update or keep current the information contained herein. UBS relies on information barriers to control the flow of information contained in one or more areas within UBS, into other areas, units, groups or affiliates of UBS. The compensation of the analyst who prepared this report is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking revenues, however, compensation may relate to the revenues of UBS Investment Bank as a whole, of which investment banking, sales and trading are a part.

The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. Options, derivative products and futures are not suitable for all investors, and trading in these instruments is considered risky. Mortgage and asset-backed securities may involve a high degree of risk and may be highly volatile in response to fluctuations in interest rates and other market conditions. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative. Neither UBS nor any of its affiliates, nor any of UBS' or any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. **Additional information will be made available upon request.**

**United Kingdom, Sweden and Netherlands:** Except as otherwise specified herein, this material is communicated by UBS Limited, a subsidiary of UBS AG, to persons who are market counterparties or intermediate customers (as detailed in the FSA Rules) and is only available to such persons. The information contained herein does not apply to, and should not be relied upon by, private customers. **France:** Prepared by UBS Limited and distributed by UBS Limited and UBS Securities France SA. **Germany:** Prepared by UBS Limited. Distributed by UBS Limited and UBS Investment Bank AG. UBS Limited is regulated by FSA. UBS Investment Bank AG is regulated by Bundesanstalt fur Finanzdienstleistungsaufsicht. **Spain:** Prepared by UBS Limited and distributed by UBS Securities Espana SV SA, a member of the Comision Nacional del Mercado de Valores. **Russia:** Prepared and distributed by the Moscow Representative Office of UBS Cyprus Moscow Limited. **Switzerland:** Distributed by UBS AG to persons who are institutional investors only. **Italy:** Should persons receiving this research in Italy require additional information or wish to effect transactions in the relevant securities, they should contact UBS Italia SIM S.p.A. **South Africa:** UBS South Africa (Pty) Limited is a member of the JSE Limited. UBS South Africa (Pty) Limited is an authorised Financial Services Provider. **United States:** Distributed to US persons by either UBS Securities LLC or by UBS Financial Services Inc., subsidiaries of UBS AG; or by a group, subsidiary or affiliate of UBS AG that is not registered as a US broker-dealer (a "non-US affiliate"), to major US institutional investors only. UBS Securities LLC or UBS Financial Services Inc. accepts responsibility for the content of a report prepared by another non-US affiliate when distributed to US persons by UBS Securities LLC or UBS Financial Services Inc. All transactions by a US person in the securities mentioned in this report must be effected through UBS Securities LLC or UBS Financial Services Inc., and not through a non-US affiliate. **Canada:** Distributed by UBS Securities Canada Inc., a subsidiary of UBS AG and a member of the principal Canadian stock exchanges & CIPF. A statement of its financial condition and a list of its directors and senior officers will be provided upon request. **Hong Kong:** Distributed by UBS Securities Asia Limited. **Singapore:** Distributed by UBS Securities Pte. Ltd or UBS AG, Singapore Branch. **Japan:** Distributed by UBS Securities Japan Ltd to institutional investors only. **Australia:** Distributed by UBS AG (Holder of Australian Financial Services Licence No. 231087) and UBS Securities Australia Ltd (Holder of Australian Financial Services Licence No. 231098) only to "Wholesale" clients as defined by s761G of the Corporations Act 2001. **New Zealand:** Distributed by UBS New Zealand Ltd.



UBS