

GUD Holdings Limited

1H provides dividend boost



Wilson HTM
INVESTMENT GROUP

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\$8.05

Hold

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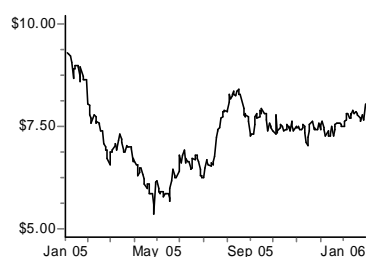
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Price Performance



Security/Capital Details

ASX Code	GUD
Market Cap	\$482 M
Issued Shares	59.9 M
Avg Mth T'over	6.69 M
12 Mth High – Low	\$8.63 - \$5.36

Key Data/Ratios – FY 2006

EBITDA / Sales	15.7%
EBIT / Sales	14.0%
Net Debt / Equity	52.0%
Interest Cover	10.7 x
ROE	29.5%
EPS Growth	5.4%
PEG Ratio	2.21 x
NTA / Share	\$ 1.26
DCF valuation	\$ 8.13
12 Mth Price Target	\$ 8.20

BUY: Total return +10% or more over a 12 month period

HOLD: Total return expected to be between +10% to -10% over a 12-month period

SELL: Total return expected to be -10% or more over a 12 month period

TOTAL RETURN OR TSR = capital growth in share price + expected dividend yield in that period

Recommendation

We have moderated our recommendation to Hold (previously BUY), with yesterday's 5% share price rally placing the shares close to our price target of \$8.20 p/share.

GUD's 1H06 NPAT of \$20.2M was in-line with expectations. Underlying earnings growth (+5%) was principally driven by an initial contribution from Oates and partial profit recovery by Victa. The highlight of the result was a positive surprise on dividends. GUD offers an investment outlook of stable growth, profit upside from recent acquisitions, and the capacity to reward shareholders with material increases to dividends.

June year-end		1H06a	1H05a	% Chg
Sales revenue	\$M	241.1	210.7	14%
EBIT (trading)	\$M	32.4	30.8	5%
NPAT (reported)	\$M	20.2	11.1	82%
EPS	cps	33.7	32.7	3%
DPS	cps	27.0	23.0	17%

Key Points

- GUD has reported a sound start to the year with 1H06 reported NPAT of \$20.2M, essentially in-line with our forecast of \$20.4M. This compares with normalised NPAT of \$19.9M last year.
- The interim DPS of 27 cents (pcp: 23 cents) was a positive surprise compared with our forecast of 25 cents. More importantly, GUD confirmed that the FY06 DPS is expected to increase by 15% to 20%.
- Improved trading EBIT of \$32.4M (+5%) reflects relatively steady earnings growth from the existing GUD business, with the main earnings driver being an initial 6 month earnings contribution from Oates (NPAT \$1.5M), assisted by a partial profit recovery by Victa.
- Sunbeam's performance was slightly weaker given a difficult retail trading environment. Modest earnings improvements were made by the Automotive and Water products divisions, while Security products delivered a weaker result.
- The outlook for FY06 remains unchanged, with growth in underlying profit to be driven by the initial benefits from restructuring the Automotive division, a modest recovery by Victa, and an initial 12 month contribution from Oates (EBIT of \$6M).
- Our FY06 trading EBIT forecast is retained at \$65.3M (+11%), providing reported NPAT of \$40.9M (+35%).
- GUD's balance sheet remains strong, and GUD will continue to generate a high level of free cash flow. This supports our forecast of sustained increases in dividends, and also provides the capacity to fund further add-on acquisitions.
- We have increased our DPS forecast for FY06 to 60 cents (previously 55 cents), a 20% increase on FY05. This represents a FY06 yield of 7.5%.

June	NPAT (Rep)	EPS (Norm)	PER	P/CF	P/BV	EV/EBITDA	DPS	Div Yld	Franking
	\$M	c	x	x	x	x	c	%	%
2005a	30.4	64.8	12.4	14.0	3.6	7.6	50.0	6.2	100
2006e	40.9	68.3	11.8	13.1	3.4	7.6	60.0	7.5	100
2007e	44.1	73.7	10.9	10.0	3.2	7.1	64.0	8.0	100
2008e	46.7	78.0	10.3	9.6	3.1	0.8	67.0	8.3	100

Result overview

Financial summary

Y/e: 30 June		1h'05	FY 2005	1h'06	% Chg	FY 2006e	FY 2007e	FY 2008e
Sales revenue	(\$M)	210.7	394.4	241.1	14%	467.5	484.7	505.5
- growth	(%)	-1%	0%	14%	n/a	19%	4%	4%
Trading EBIT	(\$M)	30.8	58.7	32.4	5%	65.3	69.2	72.3
- growth	(%)	-15%	-6%	5%	n/a	11%	6%	4%
NPAT (normalised)	(\$M)	19.9	39.2	20.2	1%	40.9	44.1	46.7
- growth	(%)	-19%	-6%	1%	n/a	4%	8%	6%
NPAT (reported)		11.1	30.4	20.2	82%	40.9	44.1	46.7
EPS (normalised)	(cents)	32.7	64.8	33.7	3%	68.3	73.7	78.0
- growth	(%)	-21%	-9%	3%	n/a	5%	8%	6%
DPS	(cents)	23.0	50.0	27.0	17%	60.0	64.0	67.0
OCF	(\$M)	-11.3	34.7	7.0	n/a	36.8	48.0	50.4
Net debt	(\$M)	53.1	37.6	87.8	65%	74.3	70.9	67.0
- net debt/equity	(%)	40%	28%	63%	n/a	52%	47%	42%

Source: GUD & WHTM.

GUD has reported 1H06 NPAT of \$20.2M compared to last year's normalised NPAT of \$19.9M. Reported 1H NPAT last year of \$11.1M was post \$8.8M of restructuring charges for the Automotive products (ie. Filtration) division. The result was essentially in-line with our forecast NPAT of \$20.4M.

The key features of the 1H result were:

- **Trading EBIT** of \$32.4M (pcp: \$30.8M) reflects relatively steady trading by the existing business in a tough trading environment for most of GUD's operating divisions. Growth was largely driven by an initial 6 month EBIT contribution from the Oates acquisition made in July 2005.
- A slightly weaker result from Sunbeam was partially offset by a profit recovery from Victa and an initial contribution from Oates.
- Oates contributed revenue of \$30.6M and NPAT of \$1.5M, slightly lower than expected due to one-off integration costs, and delays in new product introductions.
- The Automotive and Water products divisions both delivered modest earnings improvements. Security products posted a slightly weaker result. Detailed divisional comments are provided on page 4.
- **OCF** of \$7.0M (pcp: -\$11.4M) was held back by a \$34M increase in working capital, of which \$10M relates to Oates. A \$36M increase in receivables largely relates to Oates, as well as extended payment terms provided to customers over the Christmas trading period. Collections from these debtors should be received in January, providing for improved cash flow in the 2H.
- **Net debt** at period-end was \$88M (pcp: \$53M) after funding the Oates acquisition of \$35M. Period-end gearing (net debt/equity: 64%) remains conservative and GUD retains capacity to fund further add-on acquisitions and increased dividends.
- The interim **DPS** of 27 cents (pcp: 23 cents) was a positive surprise compared with our forecast of 25 cents.

Earnings outlook

Financial summary

Y/e: 30 June		FY 2004	1h'05	FY 2005	1h'06	FY 2006e	FY 2007e	FY 2008e
Sales revenue	(\$M)	393.8	210.7	394.4	241.1	467.5	484.7	505.5
- growth	(%)	6%	-1%	0%	14%	19%	4%	4%
Trading EBIT	(\$M)	62.6	30.8	58.7	32.4	65.3	69.2	72.3
- growth	(%)	41%	-15%	-6%	5%	11%	6%	4%
NPAT (normalised)	(\$M)	41.7	19.9	39.2	20.2	40.9	44.1	46.7
- growth	(%)	52%	-19%	-6%	1%	4%	8%	6%
NPAT (reported)		35.5	11.1	30.4	20.2	40.9	44.1	46.7
EPS (normalised)	(cents)	71.5	32.7	64.8	33.7	68.3	73.7	78.0
- growth	(%)	53%	-21%	-9%	3%	5%	8%	6%
DPS	(cents)	40.0	23.0	50.0	27.0	60.0	64.0	67.0
OCF	(\$M)	49.4	-11.3	34.7	7.0	36.8	48.0	50.4
Net debt	(\$M)	17.6	53.1	37.6	87.8	74.3	70.9	67.0
- net debt/equity	(%)	12%	40%	28%	63%	52%	47%	42%

Source: GUD & WHTM.

- Our forecasts remain unchanged and assume trading EBIT of \$65.3M (+11%) in FY06, providing reported NPAT of \$40.9M (+35%), and normalised EPS of 68.3 cents (+5%).
- 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.
- GUD management remain confident that Oates will contribute revenue of \$65M and EBIT of \$6M in FY06.
- 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 conservative, with forecast net debt of \$74M by the end of FY06 (net debt/equity: 52%) after funding the Oates acquisition (~\$35M). This should provide for sustained increases to dividends and capacity to fund further add-on acquisitions.
- We have increased our DPS forecasts, with our FY06 DPS forecast now at 60 cents (previously 55 cents). This is at the higher-end of GUD's expectation of a 15% to 20% increase in the FY06 DPS.
- The main risk to earnings performance is in the event of a prolonged poor retail trading environment. We believe our forecasts are soundly based.

Divisional overview

Divisional earnings are detailed in the table below, followed by commentary.

Divisional summary

Y/e: 30 June		1h'05	FY 2005	1h'06	% Chg	FY 2006e	FY 2007e	FY 2008e
Revenue:								
Consumer	(\$M)	117.0	215.1	148.7	27%	285.5	294.0	305.4
Automotive	(\$M)	40.1	78.7	36.0	-10%	72.4	74.5	77.1
Water	(\$M)	46.4	88.2	49.7	7%	96.1	102.4	109.0
Security	(\$M)	7.2	13.3	6.8	-5%	13.5	13.7	13.9
Unallocated	(\$M)	0.2	0.3	0.0	n/a	0.0	0.0	0.0
Total revenue	(\$M)	210.8	395.6	241.2	14%	467.5	484.7	505.5
EBIT (trading):								
Consumer	(\$M)	14.0	28.5	16.0	14%	33.8	36.1	37.8
Automotive	(\$M)	8.7	17.6	8.9	2%	17.7	18.3	18.9
Water	(\$M)	6.3	10.4	6.6	4%	12.2	13.1	13.7
Security	(\$M)	1.5	2.1	1.1	-25%	2.0	2.1	2.2
Unallocated	(\$M)	0.2	0.2	-0.2	n/a	-0.4	-0.4	-0.4
Trading EBIT	(\$M)	30.8	58.7	32.4	5%	65.3	69.2	72.3
-growth	(%)	-8%	-6%	5%		11%	6%	4%
NPAT (normalised)	(\$M)	19.9	39.2	20.2	1%	40.9	44.1	46.7
- growth (normalised)	(%)		-6%	1%	n/a	4%	8%	6%
NPAT (reported)	(\$M)	11.1	30.4	20.2	82%	40.9	44.1	46.7

Source: GUD & WHTM

Consumer products (ie. Sunbeam, Victa, Oates) contributed EBIT of \$16.0M (+14%) on sales of \$148.7M (+27%). The key driver of sales and earnings growth was an initial 6 month sales contribution of \$30.6M and NPAT contribution of \$1.5M from Oates. Victa also made an improved contribution assisted by offshore component sourcing. Sunbeam was slightly weaker in a tough trading environment that consisted of a warm winter (negatively impacting electric blanket sales), slower consumer discretionary spending and high petrol prices.

While Oates was a key driver of growth, its contribution in the 1H was slightly below expectations due to one-off transition and integration costs, and new product delays. 1H sales of \$30.6M compared to our forecast of \$35.8M. Overall, the Oates business is trading well, and remains on track to contribute FY06 revenue of \$65M and EBIT of \$6M (as per previous management guidance).

Victa is expected to continue its earnings recovery in the 2H, while we understand Sunbeam has had a sound start to the 2H with good replenishment sales in January.

Automotive products delivered a modest improvement in earnings, with trading EBIT of \$8.9M (+2%) reflecting the initial benefits of last year's restructure of the division. Sales declined 10% in a difficult trading environment for aftermarket automotive products. The sales decline was more than offset by the benefits of offshore sourcing of product, with EBIT margins expanding to 24.7% (pcp: 21.7%).

Water products posted an EBIT contribution of \$6.6M (+4%) on sales growth of 7%. EBIT margins contracted modestly in the 1H, however, the 2H and beyond should see an improvement in margins assisted by the benefits of progressively sourcing components and products offshore.

Security products had a more difficult 1H, contributing EBIT of \$1.1M (pcp: \$1.5M). While there was good demand from some markets, including export markets, the slow-down in the domestic housing market negatively impacted the division's result. Looking forward, an improved 2H performance is anticipated, underpinned by a greater focus on markets where demand remains robust (eg. marine-related and export markets).

GUD Holdings Limited (GUD : \$8.05)

INVESTMENT FUNDAMENTALS

Yr Ending June	2004A	2005A	2006E	2007E	2008E
EPS Reported (c)	58.5	50.3	68.3	73.7	78.0
EPS Normalised (c)	71.5	64.8	68.3	73.7	78.0
EPS Growth (%)	N/A	-5.7%	5.3%	7.9%	5.8%
PER Normalised (x)	11.3	12.4	11.8	10.9	10.3
DPS (c)	40.0	50.0	60.0	64.0	67.0
Payout (%)	68.4%	99.5%	87.9%	86.9%	85.9%
Yield (%)	5.0%	6.2%	7.5%	8.0%	8.3%
Franking (%)	100%	100%	100%	100%	100%

VALUATION DATA

Yr Ending June	2004A	2005A	2006E	2007E	2008E
EV / EBITA (x)	7.8	8.6	8.5	8.0	0.9
EV / EBITDA (x)	6.8	7.6	7.6	7.1	0.8
CFPS (c)	81.3	57.4	61.4	80.2	84.0
Price / CF	9.9	14.0	13.1	10.0	9.6
Book Value / Share (\$)	2.3	2.2	2.4	2.5	2.6
Price / Book (x)	3.4	3.6	3.4	3.2	3.1

PROFIT & LOSS (\$m)

Yr Ending June	2004A	2005A	2006E	2007E	2008E
Sales Revenue	393.8	394.4	467.5	484.7	505.5
EBITDA	74.4	68.4	73.6	77.8	81.3
Depreciation	9.6	7.6	8.0	8.5	9.0
EBITA	64.9	60.8	65.6	69.3	72.3
Amortisation	2.3	0.6	0.1	0.1	0.1
EBIT	62.6	60.2	65.5	69.2	72.3
Net Interest Expense	2.4	3.9	5.8	5.4	4.8
Pre-tax Profit	60.2	56.3	59.7	63.9	67.5
Tax	18.4	17.1	18.8	19.7	20.8
Tax rate (%)	30.6%	30.4%	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	39.2	40.9	44.1	46.7
Abn's / Extraord's	-6.2	-8.8	0.0	0.0	0.0
Reported Net Profit	35.6	30.4	40.9	44.1	46.7
Revenue Growth (%)	N/A	0.2%	18.5%	3.7%	4.3%
EBIT Growth (%)	N/A	-3.8%	8.9%	5.6%	4.4%
NPAT Growth (%)	N/A	-6.1%	4.3%	7.9%	5.8%

PROFITABILITY RATIOS

Yr Ending June	2004A	2005A	2006E	2007E	2008E
EBIT / Sales (%)	15.9%	15.3%	14.0%	14.3%	14.3%
ROA (%)	N/A	26.8%	26.2%	24.8%	25.5%
ROE (%)	N/A	28.2%	29.5%	30.2%	30.4%
ROFE (%)	N/A	36.5%	33.7%	31.7%	32.5%

INTERIMS (\$m)

Half Yr	Dec 04	Jun 05	Dec 05	Jun 06	Dec 06
Yr Ending June	1H A	2H A	1H A	2H E	1H E
Sales Revenue	210.7	183.8	241.1	226.3	265.1
EBIT	30.8	29.4	32.4	33.2	34.4
Net Profit	11.1	19.3	20.2	20.7	21.8
EBIT / Sales (%)	14.6%	16.0%	13.4%	14.7%	13.0%

BALANCE SHEET (\$m)

Yr Ending June	2004A	2005A	2006E	2007E	2008E
Cash	29.7	23.3	11.6	5.0	-1.1
Receivables	51.1	50.0	59.3	61.5	64.1
Inventories	66.5	67.3	79.7	82.7	86.2
Other	4.7	4.3	5.9	5.9	5.9
Current Assets	152.0	144.9	156.6	155.1	155.2
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	63.0	63.0	62.9	62.9
Other	8.1	11.4	8.4	8.7	8.8
Non-current Assets	102.8	101.6	131.7	130.9	129.6
Total Assets	254.7	246.5	288.3	286.0	284.7
Current Payables	37.9	32.8	38.8	40.2	42.0
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	18.6	20.7	20.0	19.2
Total Liabilities	112.1	112.3	145.4	136.1	127.1
Equity	106.4	98.4	98.4	98.4	98.4
Reserves	1.4	0.0	0.1	0.1	0.1
Retained Profits	34.9	35.8	44.4	51.4	59.1
Minorities	0.0	0.0	0.0	0.0	0.0
Total Equity	142.6	134.3	142.9	149.9	157.6
Total Funds Employed	160.2	171.9	217.2	220.7	224.6

LIQUIDITY & LEVERAGE RATIOS

Yr Ending June	2004A	2005A	2006E	2007E	2008E
Net Debt (Cash) (\$m)	17.6	37.6	74.3	70.9	67.0
Net Debt / Equity (%)	12.3%	28.0%	52.0%	47.3%	42.5%
Interest Cover (x)	21.9	14.3	10.7	11.8	13.7
Debt / CashFlow (x)	1.0	1.8	2.3	1.6	1.3

CASHFLOW (\$m)

Yr Ending June	2004A	2005A	2006E	2007E	2008E
EBIT	62.6	60.2	65.5	69.2	72.3
Dep'n and Amort'n	11.9	8.2	8.0	8.5	9.0
Net Int Rec'd (Paid)	-2.4	-3.9	-5.8	-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	-15.7	-3.7	-4.5
Other	-1.5	-7.5	0.0	0.0	0.0
Operating Cash Flow	49.4	34.7	36.8	48.0	50.4
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	-32.4	-37.1	-38.9
Other Fin. Flows	0.0	0.0	0.0	0.0	0.0
Financing Cash Flow	-21.5	-27.7	-7.4	-47.1	-48.9
Net Cash Flow	7.8	-9.8	-11.7	-6.6	-6.1

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 1,300 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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