

GUD Holdings Limited

Bolt-on acquisition to Water Products



29 June 2006

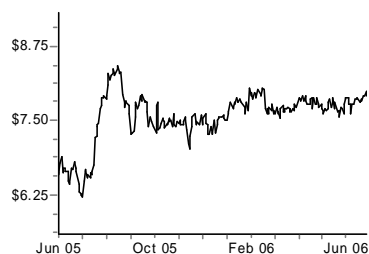
\$7.90

Hold

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Price Performance



Security/Capital Details

ASX Code	GUD
Market Cap	\$473 M
Issued Shares	59.9 M
Avg Mth T'over	6.69 M
12 Mth High – Low	\$8.41 - \$6.23

Key Data/Ratios – FY 2006

EBITDA / Sales	15.7%
EBIT / Sales	14.0%
Net Debt / Equity	50.1%
Interest Cover	11.4 x
ROE	29.4%
EPS Growth	4.9%
PEG Ratio	2.36 x
NTA / Share	\$ 1.26
DCF valuation	\$ 8.55
12 Mth Price Target	\$ 8.10

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 retain a HOLD recommendation based on our revised price target of \$8.10 p/share (previously \$8.00 p/share).

GUD has announced the acquisition of Monarch Pool Systems, a supplier of swimming pool products. The acquisition appears to be a complementary fit for GUD's Water Products business. Monarch has forecast FY07 revenue of \$30M and estimated EBIT of \$4.6M. The acquisition increases our FY07 EPS forecast by 5%. The acquisition is relatively small, and GUD retains capacity to fund further acquisitions.

Key Points

- GUD has acquired Monarch Pool Systems ("Monarch"), a supplier to the swimming pool industry. The effective acquisition date is 3 July 2006.
- Monarch is a supplier of a broad range of products to pool builders and pool shops, with a strong position in Australia. Its product range is centred on its proprietary technology in salt water chlorinators (Choloromatic®).
- Monarch is forecast to generate annualised FY07 revenue of \$30M and on our estimates, forecast EBIT of \$4.6M (assumes an acquisition EV/EBIT multiple of 6.5x). The estimated acquisition price of \$30M will be dependent on Monarch's FY06 financial result, and will be funded from GUD's existing debt facilities.
- The Monarch acquisition appears to be a sound add-on acquisition to GUD's existing Water Products division (incorporating Davey, Spa-Quip and Contamination Control).
- Good prospects for growth are underpinned by product range expansion and leveraging off Davey's extensive local and international distribution networks.
- GUD believes there are potential operational synergies, and Monarch should also benefit from GUD's expertise in manufacturing, marketing and supply chain management. Our forecasts do not include any cost or revenue synergies associated with the Monarch acquisition.
- We forecast the Monarch acquisition to add 5% to EPS in FY07. Our revised trading EBIT forecast is \$70.1M (previously \$65.5M), which assumes relatively flat underlying earnings, supplemented by an initial 12 month contribution from the Monarch acquisition.
- Our FY06 forecasts remain unchanged, and assume trading EBIT of \$64.8M, providing EPS growth of 5%.
- Monarch is a relatively small add-on acquisition, and GUD's balance sheet retains capacity to fund further acquisitions.
- We have increased our share price target slightly to \$8.10 p/share (implies FY08 EV/EBITDA of 7.1x and PER of 10.5x). We retain a HOLD recommendation.

June	NPAT (Rep) \$M	EPS (Norm) c	PER x	P/CF x	P/BV x	EV/EBITDA x	DPS c	Div Yld %	Franking %
2005a	30.4	64.8	12.2	13.8	3.5	7.5	50.0	6.3	100
2006e	40.7	68.0	11.6	11.2	3.3	7.5	60.0	7.6	100
2007e	43.7	72.9	10.8	11.0	3.2	7.3	62.0	7.9	100
2008e	45.7	76.3	10.4	9.4	3.0	7.0	65.0	8.2	100

Earnings revisions

We have increased our FY07 and FY08 EPS forecasts by 5% each after incorporating full 12 month contributions from the Monarch acquisition. Monarch is forecast to generate FY07 revenue of \$30M and EBIT of \$4.6M.

Earnings revisions

Y/e: 30 June		FY06e	FY07e	FY08e
NPAT - new	(\$M)	40.7	43.7	45.7
NPAT - old	(\$M)	40.7	41.7	43.6
- % chg	(%)	0.0%	4.9%	4.8%
EPS - new	(cents)	68.0	72.9	76.3
EPS - old	(cents)	68.0	69.5	72.8
- % chg	(%)	0.0%	4.9%	4.8%

Source: Wilson HTM

Earnings outlook

Financial summary

Y/e: 30 June		FY 2004	FY 2005	FY 2006e	FY 2007e	FY 2008e
Sales revenue	(\$M)	393.8	394.4	464.5	504.8	520.6
- growth	(%)	6%	0%	18%	9%	3%
Trading EBIT	(\$M)	62.6	58.7	64.8	70.1	72.8
- growth	(%)	41%	-6%	10%	8%	4%
NPAT (normalised)	(\$M)	41.7	39.2	40.7	43.7	45.7
- growth	(%)	52%	-6%	4%	7%	5%
NPAT (reported)		35.5	30.4	40.7	43.7	45.7
EPS (normalised)	(cents)	71.5	64.8	68.0	72.9	76.3
- growth	(%)	53%	-9%	5%	7%	5%
DPS	(cents)	40.0	50.0	60.0	62.0	65.0
OCF	(\$M)	49.4	34.7	42.2	42.9	50.4
Net debt	(\$M)	17.6	37.6	71.6	102.7	97.5
- net debt/equity	(%)	12%	28%	50%	69%	62%

Source: GUD & WHTM

FY06 forecasts:

- Our FY06 forecasts assume trading EBIT of \$64.8M (+10%), providing reported NPAT of \$40.7M (+4%), and normalised EPS of 68 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.
- Our forecasts assume a revenue contribution of \$62M and EBIT contribution of \$5.5M from Oates in FY06.

FY07 forecasts:

- Our revised FY07 forecasts assume relatively flat underlying earnings, supplemented by a \$4.6M EBIT contribution from Monarch.
- Our FY07 forecasts incorporate a cautious view on trading conditions given the ongoing challenging retail trading environment, as well as the effect of rising input costs, notably for plastic, metal and fuel inputs.

Balance Sheet:

GUD is forecast to have net debt of \$72M by the end of FY06 (net debt/equity: 50%) and forecast FY07 net debt/equity of 69% after funding the Monarch acquisition. GUD retains capacity to fund further add-on acquisitions (of up to \$200M).

GUD Holdings Limited (GUD : \$7.90)

INVESTMENT FUNDAMENTALS

Yr Ending June	2004A	2005A	2006E	2007E	2008E
EPS Reported (c)	58.5	50.3	68.0	72.9	76.3
EPS Normalised (c)	71.5	64.8	68.0	72.9	76.3
EPS Growth (%)	N/A	-5.7%	4.9%	7.2%	4.7%
PER Normalised (x)	11.1	12.2	11.6	10.8	10.4
DPS (c)	40.0	50.0	60.0	62.0	65.0
Payout (%)	68.4%	99.5%	88.2%	85.0%	85.2%
Yield (%)	5.1%	6.3%	7.6%	7.9%	8.2%
Franking (%)	100%	100%	100%	100%	100%

VALUATION DATA

Yr Ending June	2004A	2005A	2006E	2007E	2008E
EV / EBITA (x)	7.7	8.4	8.4	8.2	7.8
EV / EBITDA (x)	6.7	7.5	7.5	7.3	7.0
CFPS (c)	81.3	57.4	70.4	71.7	84.1
Price / CF	9.7	13.8	11.2	11.0	9.4
Book Value / Share (\$)	2.3	2.2	2.4	2.5	2.6
Price / Book (x)	3.4	3.5	3.3	3.2	3.0

PROFIT & LOSS (\$m)

Yr Ending June	2004A	2005A	2006E	2007E	2008E
Sales Revenue	393.8	394.4	464.5	504.8	520.6
EBITDA	74.4	68.4	72.9	78.7	81.9
Depreciation	9.6	7.6	8.0	8.5	9.0
EBITA	64.9	60.8	64.9	70.2	72.9
Amortisation	2.3	0.6	0.1	0.1	0.1
EBIT	62.6	60.2	64.9	70.1	72.8
Net Interest Expense	2.4	3.9	5.4	6.9	6.8
Pre-tax Profit	60.2	56.3	59.5	63.2	66.1
Tax	18.4	17.1	18.7	19.5	20.4
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	40.7	43.7	45.7
Abn's / Extraord's	-6.2	-8.8	0.0	0.0	0.0
Reported Net Profit	35.6	30.4	40.7	43.7	45.7
Revenue Growth (%)	N/A	0.2%	17.8%	8.7%	3.1%
EBIT Growth (%)	N/A	-3.8%	7.8%	8.1%	3.9%
NPAT Growth (%)	N/A	-6.1%	3.9%	7.2%	4.7%

PROFITABILITY RATIOS

Yr Ending June	2004A	2005A	2006E	2007E	2008E
EBIT / Sales (%)	15.9%	15.3%	14.0%	13.9%	14.0%
ROA (%)	N/A	26.8%	26.1%	23.9%	23.1%
ROE (%)	N/A	28.2%	29.4%	29.9%	29.7%
ROFE (%)	N/A	36.5%	33.6%	30.1%	28.7%

BALANCE SHEET (\$m)

Yr Ending June	2004A	2005A	2006E	2007E	2008E
Cash	29.7	23.3	1.3	2.2	2.4
Receivables	51.1	50.0	58.9	64.0	66.0
Inventories	66.5	67.3	74.2	80.7	83.2
Other	4.7	4.3	5.9	5.9	5.9
Current Assets	152.0	144.9	140.4	152.8	157.5
Net PPE	36.8	27.2	25.3	24.3	22.9
Investments	0.0	0.0	37.7	67.7	67.7
Intangibles	57.9	63.0	63.0	62.9	62.9
Other	8.1	11.4	8.4	8.9	9.0
Non-current Assets	102.8	101.6	134.4	163.8	162.4
Total Assets	254.7	246.5	274.8	316.6	319.9
Current Payables	37.9	32.8	38.6	41.9	43.2
Current Debt	27.1	29.9	41.9	41.9	41.9
Non-Current Debt	20.2	31.0	31.0	63.0	58.0
Provisions	0.0	0.0	0.0	0.0	0.0
Other	26.9	18.6	20.6	20.0	19.0
Total Liabilities	112.1	112.3	132.0	166.8	162.1
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	44.2	51.4	59.3
Minorities	0.0	0.0	0.0	0.0	0.0
Total Equity	142.6	134.3	142.7	149.9	157.8
Total Funds Employed	160.2	171.9	214.3	252.5	255.4

LIQUIDITY & LEVERAGE RATIOS

Yr Ending June	2004A	2005A	2006E	2007E	2008E
Net Debt (Cash) (\$m)	17.6	37.6	71.6	102.7	97.5
Net Debt / Equity (%)	12.3%	28.0%	50.1%	68.5%	61.8%
Interest Cover (x)	21.9	14.3	11.4	10.1	10.8
Debt / CashFlow (x)	1.0	1.8	1.7	2.4	2.0

CASHFLOW (\$m)

Yr Ending June	2004A	2005A	2006E	2007E	2008E
EBIT	62.6	60.2	64.9	70.1	72.8
Dep'n and Amort'n	11.9	8.2	8.0	8.5	9.0
Net Int Rec'd (Paid)	-2.4	-3.9	-5.4	-6.9	-6.8
Tax Paid	-11.3	-17.5	-15.3	-20.6	-21.5
Dec / (Inc) W'kg Cap	-9.9	-4.8	-10.0	-8.2	-3.2
Other	-1.5	-7.5	0.0	0.0	0.0
Operating Cash Flow	49.4	34.7	42.2	42.9	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	-37.7	-30.0	0.0
Other Inv. Flows	0.0	0.0	0.0	0.0	0.0
Investing Cash Flow	-20.1	-16.8	-43.8	-37.5	-7.5
Equity Raised	-0.7	-7.9	0.0	0.0	0.0
Inc / (Dec) in Loans	-1.4	8.1	12.0	32.0	-5.0
Dividends Paid	-19.4	-27.9	-32.4	-36.5	-37.7
Other Fin. Flows	0.0	0.0	0.0	0.0	0.0
Financing Cash Flow	-21.5	-27.7	-20.4	-4.5	-42.7
Net Cash Flow	7.8	-9.8	-22.0	0.9	0.2

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 18,160 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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