

# GUD Holdings Limited

FY06 ok, but flat outlook



Wilson HTM  
INVESTMENT GROUP

28 July 2006

\$7.90

Hold

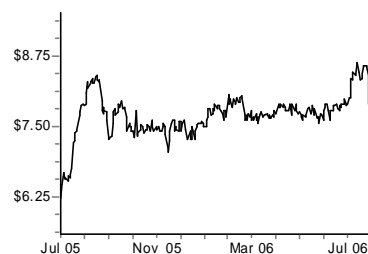
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## Price Performance



## 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	\$8.62 - \$7.03

## Key Data/Ratios – FY 2007

EBITDA / Sales	15.4%
EBIT / Sales	13.0%
Net Debt / Equity	51.9%
Interest Cover	8.4 x
ROE	27.6%
EPS Growth	2.3%
PEG Ratio	-31.95 x
NTA / Share	\$ 1.16
12 Mth Price Target	\$ 7.70

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 on GUD and have a revised share price target of \$7.70 p/share (previously \$8.10 p/share).

Earnings in FY06 were broadly in-line with our forecasts, however the outlook comments for FY07 have adopted a particularly cautious tone. Trading EBIT increased 6% in FY06, however the FY07 guidance is for flat EBIT, even after including an initial contribution from the recent Monarch Pool Systems acquisition. We have reduced our FY07 EPS forecast by 8% to 66.8 cents. We recommend a HOLD for yield investors only.

June year-end		FY06a	FY05a	% Chg
Sales revenue	\$M	462.4	394.4	17%
EBIT (trading)	\$M	63.6	60.2	6%
NPAT (reported)	\$M	40.2	30.4	32%
EPS	cps	67.1	64.8	4%
DPS	cps	60.0	50.0	20%

## Key Points

- GUD has reported FY06 NPAT of \$40.2M (+32%), slightly below our forecast of \$40.7M.
- Trading EBIT of \$63.6M (+6%) was primarily driven by an initial 12 month contribution from the Oates acquisition (NPAT of \$2.4M), and an improved trading performance from the Water Products division (EBIT growth +25%).
- The result reflects a creditable trading performance given the continuation of a difficult trading environment for GUD, featuring high petrol prices and difficult retail trading conditions, as well as the emergence of raw material cost pressures, particularly for metals and plastics.
- The full year DPS of 60.0 cents (pcp: 50.0 cents) was consistent with our forecast. Cash flow remained healthy with OCF of \$57.0M (pcp: \$34.7M), and was assisted by good management of working capital. Year end net debt was \$54M (net debt / equity: 38%).
- Management guidance for FY07 is for "trading EBIT to be in line with or slightly lower than FY06" given the likely continuation of a tough trading environment as well as raw materials cost pressures.
- We have revised our FY07 trading EBIT down by 9% to \$63.9M (previously \$70.1M). This provides revised NPAT of \$40.1M and EPS of 66.8 cents (previously 72.9 cents).
- Following material DPS increases in recent years, we forecast modest increases over the forecast period. A strong balance sheet provides capacity to fund further acquisitions and/or capital management initiatives.
- We have revised our price target to \$7.70 p/share (FY08 EV/EBITA 7.5x, implied PER of 11.0x) and 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 %
2006a	40.2	67.1	11.8	8.3	3.3	7.1	60.0	7.6	100
2007e	40.1	66.8	11.8	10.7	3.2	7.3	60.0	7.6	100
2008e	42.1	70.2	11.3	9.2	3.1	6.9	61.0	7.7	100
2009e	44.7	74.6	10.6	8.0	2.9	6.5	62.0	7.8	50

## Earnings summary

### Financial summary

Y/e: 30 June		FY05	FY06	% Chg	FY07e	FY08e	FY09e
Sales revenue	(\$M)	394.4	462.4	17%	493.0	502.7	513.8
- growth	(%)	0%	17%		7%	2%	2%
<b>Divisional EBIT:</b>							
Consumer	(\$M)	28.6	30.4	6%	30.3	31.6	33.0
Automotive	(\$M)	17.7	17.9	1%	16.2	16.7	16.9
Water	(\$M)	11.1	13.9	25%	16.0	16.4	16.7
Security	(\$M)	2.7	2.0	-26%	1.8	1.9	2.0
Unallocated	(\$M)	0.2	-0.5	n/a	-0.4	-0.4	-0.4
<b>Trading EBIT</b>	(\$M)	<b>60.2</b>	<b>63.6</b>	<b>6%</b>	<b>63.9</b>	<b>66.3</b>	<b>68.2</b>
- growth	(%)	-4%	6%		0%	4%	3%
<b>NPAT (normalised)</b>	(\$M)	<b>39.2</b>	<b>40.2</b>	<b>3%</b>	<b>40.1</b>	<b>42.1</b>	<b>44.7</b>
- growth	(%)	-6%	3%		0%	5%	6%
NPAT (reported)		30.4	40.2	32%	40.1	42.1	44.7
EPS (normalised)	(cents)	64.8	67.1	4%	66.8	70.2	74.6
- growth	(%)	-9%	4%		0%	5%	6%
DPS	(cents)	50.0	60.0	20%	60.0	61.0	62.0
OCF	(\$M)	34.7	57.0	64%	44.1	51.2	59.1
Net debt	(\$M)	37.6	54.1	44%	77.4	67.4	50.1
- net debt/equity	(%)	28%	38%	n/a	52%	43%	31%

Source: GUD & WHTM

### Result overview

**Trading EBIT** of \$63.6M (+6%) reflects a relatively flat underlying profit result from the existing business, and reflects a tough trading environment generally. Growth was primarily driven by an initial 12 month contribution from the Oates acquisition made in July 2005 (NPAT ~\$2.4M), as well as a positive trading performance by the Water Products division which delivered EBIT growth of 25%.

The underlying result was assisted by pre-tax gains of \$5.3M from a combination of FX gains, and proceeds on asset sales.

In terms of **divisional trading performances**:

- **Consumer Products** contributed trading EBIT of \$30.4M (+6%), driven primarily by an initial 12 month contribution from Oates as well as a partial profit recovery by Victa. Sunbeam's performance was creditable given competitive trading conditions and raw materials cost pressures.
- **Automotive Products** delivered a modest improvement in earnings, with trading EBIT of \$17.9M (+1%), reflecting the benefits of last year's restructure of the division despite difficult trading conditions.
- **Water Products** posted an EBIT contribution of \$13.9M (+25%) driven by a full 12 month contribution from Contamination Control and new products in the traditional Davey business.
- **Security Products** delivered a slightly lower EBIT contribution of \$2.0M (-26%). The division was negatively impacted by lower building industry activity as well as cost pressures.

**OCF** improved to \$57.0M (pcp: \$34.7M), assisted by tight inventory management.

**Net debt** at year-end was \$54.1M (net debt / equity: 38%) after funding the Oates acquisition of \$35M.

**DPS** for the full year of 60 cents (pcp: 50 cents) increased 20% on FY05, and reflects a payout ratio of 80%.



## Earnings outlook

### Earnings revisions

Y/e: 30 June		FY07e	FY08e
Trading EBIT - new	(\$M)	63.9	66.3
Trading EBIT - old	(\$M)	70.1	72.8
- % chg	(%)	-8.8%	-9.0%
EPS - new	(cents)	66.8	70.2
EPS - old	(cents)	72.9	76.3
- % chg	(%)	-8.3%	-8.0%

Source: Wilson HTM

### FY07 forecasts:

- Management guidance for FY07 is for trading EBIT to be in line with FY06 or slightly lower. The cautious outlook is underpinned by the likely continuation of a tough trading environment and margin pressure from higher raw materials costs.
- Our revised FY07 trading EBIT forecast of \$63.9M, essentially flat on FY06, reflects a 5% decline in underlying earnings from the existing business plus a contribution from the recently acquired Monarch Pool Systems ("Monarch").
- Monarch is expected to contribute FY07 revenue of \$30M and EBIT of \$3.5M.
- GUD's balance sheet retains capacity to fund further acquisitions and/or additional capital management initiatives as appropriate. Net debt of \$77.4M is forecast for the end of FY07 (net debt / equity: 52%) after funding the Monarch acquisition (~\$30M).
- Our forecast is for a flat dividend of 60 cents given management guidance for dividends to remain at FY06 levels.

### FY08 & FY09 forecasts:

- Our forecasts assume FY08 and FY09 NPAT growth of 5% and 6% respectively.
- We have assumed dividends of 61.0 cents and 62.0 cents in FY08 and FY09.

### Summary:

- In the absence of acquisitions, in our view, it will be a challenge for GUD to deliver material earnings growth.
- Investors should view GUD as a high DPS yielding investment over the next 12 months, with negligible capital gain prospects.

## GUD Holdings Limited (GUD : \$7.90)

## INVESTMENT FUNDAMENTALS

Yr Ending June	2005A	2006A	2007E	2008E	2009E
EPS Reported (c)	50.3	67.1	66.8	70.2	74.6
<b>EPS Normalised (c)</b>	<b>64.8</b>	<b>65.4</b>	<b>66.8</b>	<b>70.2</b>	<b>74.6</b>
EPS Growth (%)	N/A	3.5%	-0.4%	5.1%	6.2%
<b>PER Normalised (x)</b>	<b>12.2</b>	<b>12.1</b>	<b>11.8</b>	<b>11.3</b>	<b>10.6</b>
DPS (c)	50.0	60.0	60.0	61.0	62.0
Payout (%)	<b>99.5%</b>	<b>89.4%</b>	<b>89.8%</b>	<b>86.9%</b>	<b>83.2%</b>
Yield (%)	6.3%	7.6%	7.6%	7.7%	7.8%
Franking (%)	100%	100%	100%	100%	50%

## VALUATION DATA

Yr Ending June	2005A	2006A	2007E	2008E	2009E
EV / EBITA (x)	8.4	7.9	8.0	7.7	7.3
EV / EBITDA (x)	7.5	7.1	7.3	6.9	6.5
CFPS (c)	57.4	95.2	73.5	85.5	98.6
<b>Price / CF</b>	<b>13.8</b>	<b>8.3</b>	<b>10.7</b>	<b>9.2</b>	<b>8.0</b>
Book Value / Share (\$)	2.2	2.4	2.5	2.6	2.7
<b>Price / Book (x)</b>	<b>3.5</b>	<b>3.3</b>	<b>3.2</b>	<b>3.1</b>	<b>2.9</b>

## PROFIT &amp; LOSS (\$m)

Yr Ending June	2005A	2006A	2007E	2008E	2009E
Sales Revenue	394.4	462.4	493.0	502.7	513.8
EBITDA	68.4	74.2	75.8	78.2	80.3
Depreciation	7.6	7.0	7.3	7.6	8.0
<b>EBITA</b>	<b>60.8</b>	<b>67.2</b>	<b>68.5</b>	<b>70.6</b>	<b>72.3</b>
Amortisation	0.6	4.6	4.5	4.3	4.1
<b>EBIT</b>	<b>60.2</b>	<b>62.6</b>	<b>63.9</b>	<b>66.3</b>	<b>68.2</b>
Net Interest Expense	3.9	6.7	7.1	6.6	4.9
<b>Pre-tax Profit</b>	<b>56.3</b>	<b>56.9</b>	<b>56.8</b>	<b>59.7</b>	<b>63.4</b>
Tax	17.1	16.7	16.8	17.6	18.7
Tax rate (%)	30.4%	29.4%	29.5%	29.5%	29.5%
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
<b>Net Profit</b>	<b>39.2</b>	<b>40.2</b>	<b>40.1</b>	<b>42.1</b>	<b>44.7</b>
Abn's / Extraord's	-8.8	0.0	0.0	0.0	0.0
Reported Net Profit	30.4	40.2	40.1	42.1	44.7
Revenue Growth (%)	N/A	17.2%	6.6%	2.0%	2.2%
EBIT Growth (%)	N/A	4.0%	2.1%	3.7%	3.0%
NPAT Growth (%)	N/A	2.5%	-0.4%	5.1%	6.2%

## PROFITABILITY RATIOS

Yr Ending June	2005A	2006A	2007E	2008E	2009E
<b>EBIT / Sales (%)</b>	<b>15.3%</b>	<b>13.5%</b>	<b>13.0%</b>	<b>13.2%</b>	<b>13.3%</b>
ROA (%)	N/A	26.0%	23.1%	22.6%	24.0%
<b>ROE (%)</b>	<b>N/A</b>	<b>29.2%</b>	<b>27.6%</b>	<b>27.7%</b>	<b>28.0%</b>
ROFE (%)	N/A	36.6%	32.5%	31.5%	33.2%

## BALANCE SHEET (\$m)

Yr Ending June	2005A	2006A	2007E	2008E	2009E
Cash	23.3	17.0	20.7	20.7	25.0
Receivables	50.0	55.9	59.6	60.8	62.1
Inventories	67.3	82.9	88.4	90.1	92.1
Other	4.3	4.6	5.9	5.9	0.0
<b>Current Assets</b>	<b>144.9</b>	<b>160.4</b>	<b>174.6</b>	<b>177.5</b>	<b>179.2</b>
Net PPE	27.2	29.9	27.6	24.9	22.0
Investments	0.0	0.0	30.0	30.0	30.0
Intangibles	63.0	83.9	79.4	75.1	71.0
Other	11.4	0.2	4.4	4.4	0.0
<b>Non-current Assets</b>	<b>101.6</b>	<b>114.0</b>	<b>141.4</b>	<b>134.4</b>	<b>123.0</b>
<b>Total Assets</b>	<b>246.5</b>	<b>274.4</b>	<b>316.0</b>	<b>311.9</b>	<b>302.2</b>
Current Payables	32.8	44.9	47.9	48.9	49.9
Current Debt	29.9	35.3	35.3	35.3	35.3
Non-Current Debt	31.0	35.8	62.8	52.8	39.8
Provisions	0.0	0.0	0.0	0.0	0.0
Other	18.6	17.0	20.9	20.0	14.3
<b>Total Liabilities</b>	<b>112.3</b>	<b>133.0</b>	<b>166.9</b>	<b>157.0</b>	<b>139.4</b>
Equity	98.4	98.4	98.4	98.4	98.4
Reserves	0.0	-0.5	-0.5	-0.5	-0.5
Retained Profits	35.8	43.5	51.2	57.1	64.9
Minorities	0.0	0.0	0.0	0.0	0.0
<b>Total Equity</b>	<b>134.3</b>	<b>141.4</b>	<b>149.1</b>	<b>155.0</b>	<b>162.8</b>
<b>Total Funds Employed</b>	<b>171.9</b>	<b>195.5</b>	<b>226.5</b>	<b>222.3</b>	<b>212.9</b>

## LIQUIDITY &amp; LEVERAGE RATIOS

Yr Ending June	2005A	2006A	2007E	2008E	2009E
Net Debt (Cash) (\$m)	37.6	54.1	77.4	67.4	50.1
<b>Net Debt / Equity (%)</b>	<b>28.0%</b>	<b>38.2%</b>	<b>51.9%</b>	<b>43.5%</b>	<b>30.8%</b>
Interest Cover (x)	14.3	8.9	8.4	9.4	13.1
<b>Debt / CashFlow (x)</b>	<b>1.8</b>	<b>1.2</b>	<b>2.2</b>	<b>1.7</b>	<b>1.3</b>

## CASHFLOW (\$m)

Yr Ending June	2005A	2006A	2007E	2008E	2009E
EBIT	60.2	62.6	63.9	66.3	68.2
Dep'n and Amort'n	8.2	11.6	11.9	12.0	12.1
Net Int Rec'd (Paid)	-3.9	-6.7	-7.1	-6.6	-4.9
Tax Paid	-17.5	-17.3	-18.4	-18.4	-14.1
Dec / (Inc) W'kg Cap	-4.8	-9.3	-6.2	-2.0	-2.2
Other	-7.5	16.1	0.0	0.0	0.0
<b>Operating Cash Flow</b>	<b>34.7</b>	<b>57.0</b>	<b>44.1</b>	<b>51.2</b>	<b>59.1</b>
Capital Expenditure	-4.6	0.8	-5.0	-5.0	-5.0
Asset Sales	0.0	0.0	0.0	0.0	0.0
Investments	-12.2	-41.4	-30.0	0.0	0.0
Other Inv. Flows	0.0	0.0	0.0	0.0	0.0
<b>Investing Cash Flow</b>	<b>-16.8</b>	<b>-40.6</b>	<b>-35.0</b>	<b>-5.0</b>	<b>-5.0</b>
Equity Raised	-7.9	0.0	0.0	0.0	0.0
Inc / (Dec) in Loans	8.1	13.6	27.0	-10.0	-13.0
Dividends Paid	-27.9	-32.4	-32.4	-36.2	-36.8
Other Fin. Flows	0.0	0.0	0.0	0.0	0.0
<b>Financing Cash Flow</b>	<b>-27.7</b>	<b>-18.8</b>	<b>-5.4</b>	<b>-46.2</b>	<b>-49.8</b>
<b>Net Cash Flow</b>	<b>-9.8</b>	<b>-2.3</b>	<b>3.7</b>	<b>0.0</b>	<b>4.2</b>

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 20,160 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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