

GUD Holdings Limited

Returns to a BUY



Wilson HTM
INVESTMENT GROUP

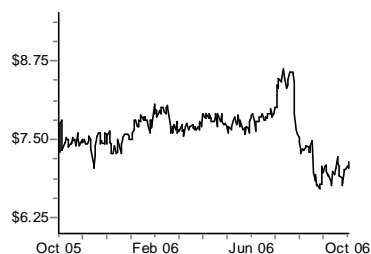
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\$7.13

BUY

David Arter
03 9640 3828
david.arter@wilsonhtm.com.au

Price Performance



Security/Capital Details

ASX Code	GUD
Market Cap	\$421 M
Issued Shares	59.9 M
Avg Mth T'over	6.69 M
12 Mth High – Low	\$8.62 - \$6.71

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	-28.84 x
NTA / Share	\$ 1.16
12 Mth Price Target	\$ 8.00

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

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	65.4	10.9	7.5	3.0	6.5	60.0	8.4	100
2007e	40.1	66.8	10.7	9.7	2.9	6.7	60.0	8.4	100
2008e	42.1	70.2	10.2	8.3	2.8	6.3	61.0	8.6	100
2009e	44.7	74.6	9.6	7.2	2.6	6.0	62.0	8.7	50

Equities Research – GUD Holdings Limited

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Recommendation

We have upgraded GUD Holdings (GUD) to a BUY (previously Hold). Our 12 month target has been increased slightly to \$8.00 p/share (from \$7.70).

GUD's share price has declined 15% since late July 2006 and in our view has been oversold. While GUD is likely to retain its guidance of 'flat' earnings growth in FY07, we understand the year has started positively across all divisions. In our view, any change to the current profit outlook is biased toward the positive. A sustainable DPS yield of 8.4%, and the prospect of an improved profit outlook for FY07 underpin our BUY rating.

Key Points

- GUD recently reported FY06 NPAT of \$40.2M, and a FY06 DPS of \$0.60. Trading EBIT was \$63.6M (+6%), 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.
- This reflected a creditable trading performance from GUD given a continued difficult trading environment, featuring high petrol prices and 'patchy' consumer demand, as well as the emergence of raw material cost pressures, particularly for metals and plastics.
- At the time of the FY06 result release (ie. late July 2006), management guidance for FY07 was for "trading EBIT to be in line or slightly lower than FY06" given the continuation of a tough trading environment as well as raw material cost pressures.
- We do not expect GUD to vary its earnings guidance when it provides an update at its upcoming AGM (on 26/10/06) given the it is still early in the FY07 year, and the critical pre-Christmas trading period will still lay ahead.
- Notwithstanding GUD's current earnings guidance, we understand the year has started positively, with all divisions trading well in the 1Q. The outlook is cautiously optimistic in relation to the balance of FY07, and we believe any changes to current earnings guidance are biased toward the positive.
- Our earnings forecast are in line with management's current guidance, with our trading EBIT forecast for FY07 unchanged at \$63.9M (FY06: \$63.6M), providing normalised NPAT of \$40.1M.
- Our DPS forecast for FY07 is \$0.60 p/share, which provides a prospective fully franked yield of 8.4% at the current share price. We view the current DPS levels as comfortable given GUD's strong free cash flow, and relatively conservative balance sheet (FY06 net debt/equity: 38%).
- We have upgraded our recommendation to BUY (previously Hold) on the basis that the shares have been oversold. GUD shares are down \$1.28 or 15% since the release of the FY06 result and earnings guidance for FY07.
- Given the current share price, high and sustainable DPS yield (of 8.4%), and the prospect of a positive earnings updates (from current levels) during FY07, we expect a recovery to our 12 month target of \$8.00 p/share.

Earnings outlook

A summary of our earnings forecasts for GUD are detailed in the table below.

Given our understanding of a positive start to the year, and a cautiously optimistic outlook for the balance of FY07, we believe the prospect of any earnings revisions from current levels are biased toward the positive.

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%
Divisional EBIT:							
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
Trading EBIT	(\$M)	60.2	63.6	6%	63.9	66.3	68.2
- growth	(%)	-4%	6%		0%	4%	3%
NPAT (normalised)	(\$M)	39.2	40.2	3%	40.1	42.1	44.7
- 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

Source: GUD & WHTM

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 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.
- The majority of GUD's business is linked closely to consumer demand (ie. Sunbeam and Oates), however the release of new products across the categories, particularly Sunbeam, should underpin a satisfactory performance during FY07. July 2006 appears to have been a good month for Sunbeam electric blankets given the late and cold winter, while the dry weather and expectation of a dry and hot summer have been positive so far for the sale of water Davey products (ie. pumps and fire fighting equipment).
- 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 \$0.60 given management guidance for dividends to remain at FY06 levels. We view this forecast as conservative, and believe there is potential upside to our \$0.60 forecast.

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.

GUD Holdings Limited (GUD : \$7.13)

INVESTMENT FUNDAMENTALS

Yr Ending June	2005A	2006A	2007E	2008E	2009E
EPS Reported (c)	50.3	67.1	66.8	70.2	74.6
EPS Normalised (c)	64.8	65.4	66.8	70.2	74.6
EPS Growth (%)	N/A	3.5%	-0.4%	5.1%	6.2%
PER Normalised (x)	11.0	10.9	10.7	10.2	9.6
DPS (c)	50.0	60.0	60.0	61.0	62.0
Payout (%)	99.5%	89.4%	89.8%	86.9%	83.2%
Yield (%)	7.0%	8.4%	8.4%	8.6%	8.7%
Franking (%)	100%	100%	100%	100%	50%

VALUATION DATA

Yr Ending June	2005A	2006A	2007E	2008E	2009E
EV / EBITA (x)	7.7	7.2	7.4	7.0	6.6
EV / EBITDA (x)	6.8	6.5	6.7	6.3	6.0
CFPS (c)	57.4	95.2	73.5	85.5	98.6
Price / CF	12.4	7.5	9.7	8.3	7.2
Book Value / Share (\$)	2.2	2.4	2.5	2.6	2.7
Price / Book (x)	3.2	3.0	2.9	2.8	2.6

PROFIT & 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
EBITA	60.8	67.2	68.5	70.6	72.3
Amortisation	0.6	4.6	4.5	4.3	4.1
EBIT	60.2	62.6	63.9	66.3	68.2
Net Interest Expense	3.9	6.7	7.1	6.6	4.9
Pre-tax Profit	56.3	56.9	56.8	59.7	63.4
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
Net Profit	39.2	40.2	40.1	42.1	44.7
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
EBIT / Sales (%)	15.3%	13.5%	13.0%	13.2%	13.3%
ROA (%)	N/A	26.0%	23.1%	22.6%	24.0%
ROE (%)	N/A	29.2%	27.6%	27.7%	28.0%
ROFE (%)	N/A	36.6%	32.5%	31.5%	33.2%

INTERIMS (\$m)

Half Yr	Dec 05	Jun 06	Dec 06	Jun 07	Dec 07
Yr Ending June	1H A	2H A	1H E	2H E	1H E
Sales Revenue	241.1	221.3	270.5	222.5	275.9
EBIT	32.4	30.2	33.6	30.3	34.2
Net Profit	20.2	20.0	21.6	18.5	21.6
EBIT / Sales (%)	13.4%	13.7%	12.4%	13.6%	12.4%

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
Current Assets	144.9	160.4	174.6	177.5	179.2
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
Non-current Assets	101.6	114.0	141.4	134.4	123.0
Total Assets	246.5	274.4	316.0	311.9	302.2
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
Total Liabilities	112.3	133.0	166.9	157.0	139.4
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
Total Equity	134.3	141.4	149.1	155.0	162.8
Total Funds Employed	171.9	195.5	226.5	222.3	212.9

LIQUIDITY & LEVERAGE RATIOS

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

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
Operating Cash Flow	34.7	57.0	44.1	51.2	59.1
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
Investing Cash Flow	-16.8	-40.6	-35.0	-5.0	-5.0
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
Financing Cash Flow	-27.7	-18.8	-5.4	-46.2	-49.8
Net Cash Flow	-9.8	-2.3	3.7	0.0	4.2

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BRISBANE Ph: 07 3212 1333 Fax: 07 3212 1399	SYDNEY Ph: 02 8247 6600 Fax: 02 8247 6601	MELBOURNE Ph: 03 9640 3888 Fax: 03 9640 3800	GOLD COAST Ph: 07 5557 3000 Fax: 07 5557 3010	BALLINA Ph: 02 6681 3477 Fax: 02 6681 4933
CAIRNS Ph: 07 4031 6882 Fax: 07 4031 6874	DALBY Ph: 07 4662 3833 Fax: 07 4662 4169	HERVEY BAY Ph: 07 4128 3300 Fax: 07 4128 4903	TOWNSVILLE Ph: 07 4725 5787 Fax: 07 4725 5104	TAMWORTH Ph: 02 6766 7114 Fax: 02 6766 7285

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