

GUD Holdings Limited

Returns to a HOLD



Wilson HTM
INVESTMENT GROUP

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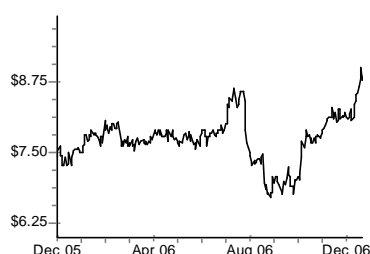
\$8.83

Hold

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

James Ferrier
03 9640 6827
james.ferrier@wilsonhtm.com.au

Price Performance



Security/Capital Details

ASX Code	GUD
Market Cap	\$526 M
Issued Shares	59.9 M
Avg Mth T'over	6.69 M
12 Mth High – Low	\$8.99 - \$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	-38.03 x
NTA / Share	\$ 1.16
12 Mth Price Target	\$ 8.75

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 recommendation to HOLD (previously BUY). We have increased our target slightly to \$8.75 p/share (from \$8.25 p/share), but believe the shares are now appropriately priced following recent gains.

Our earnings forecasts for GUD Holdings (“GUD”) remain unchanged, and are consistent with our view of current trading conditions. GUD is a well managed business, with a strong portfolio of high brand equity products. GUD remains attractive from a yield perspective, but recent share price gains now warrant a HOLD recommendation (from BUY).

Key Points

- Our earnings forecasts for GUD remain unchanged, and assume flat underlying profit in FY07. This is consistent with management guidance made at the FY06 result release, and also re-confirmed at the recent AGM.
- Specifically, our earnings forecasts assume ‘trading EBIT’ for FY07 of \$63.9M (FY06: \$63.6M), providing normalised NPAT of \$40.1M. Reported NPAT is forecast at \$37.6M after including a previously foreshadowed “NZ” restructuring charge of \$2.5M (post tax).
- Divisional performance is expected to be mixed in FY07. Despite a competitive retail trading environment, we expect improved earnings from Sunbeam, assisted by the successful release of a number of new products. The good performance from Sunbeam however is expected to be partially offset by less than optimum performance from Victa given weak demand for mowers in light of dry weather conditions across Australia.
- Trading updates on the other divisions include a good trading environment from water products, assisted by strong demand for Davey fire-fighting equipment. We understand Oates is performing okay, however we believe the business is still going through its restructuring phase, with better results expected from FY08. Both the Filtration and Security Products Divisions appear to be performing okay in light of the generally challenging trading conditions (refer forecasts overleaf).
- Our DPS forecast for FY07 remains unchanged at \$0.60 p/share, which provides a prospective fully franked yield of 6.8% 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%). Any future changes to our DPS forecasts have a positive bias.
- GUD remains acquisitive, but suitable targets at appropriate valuations appear scarce. We believe good potential exists for rationalisation amongst the ASX listed wholesalers of consumer products. For example, we believe a merger of Housewares International and GUD would have commercial merit, and this may present a viable option for growth for GUD.
- GUD’s shares have had strong recovery during the past 3 months (+28%). Given this re-rating, we now view the shares as appropriately priced, and have reviewed our recommendation to HOLD (previously BUY).

June	NPAT (Rep) \$M	EPS (Norm) c	EPS Growth %	PER x	P/CF x	EV/EBITDA x	DPS c	Div Yld %	Franking %
2006a	40.2	65.4	0.9	13.5	9.3	7.9	60.0	6.8	100
2007e	37.6	66.8	2.3	13.2	12.0	8.0	60.0	6.8	100
2008e	42.1	70.2	5.1	12.6	10.3	7.6	61.0	6.9	100
2009e	44.7	74.6	6.2	11.8	9.0	7.2	62.0	7.0	50

Earnings summary

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

Financial summary

Y/e: 30 June		FY05	FY06	FY07e	FY08e	FY09e
Sales revenue	(\$M)	394.4	462.4	493.0	502.7	513.8
- growth	(%)	0%	17%	7%	2%	2%
Divisional EBIT:						
Consumer	(\$M)	28.6	30.4	30.3	31.6	33.0
Automotive	(\$M)	17.7	17.9	16.2	16.7	16.9
Water	(\$M)	11.1	13.9	16.0	16.4	16.7
Security	(\$M)	2.7	2.0	1.8	1.9	2.0
Unallocated	(\$M)	0.2	-0.5	-0.4	-0.4	-0.4
Trading EBIT	(\$M)	60.2	63.6	63.9	66.3	68.2
- growth	(%)	-4%	6%	0%	4%	3%
NPAT (normalised)	(\$M)	39.2	40.2	40.1	42.1	44.7
- growth	(%)	-6%	3%	0%	5%	6%
NPAT (reported)		30.4	40.2	37.6	42.1	44.7
EPS (normalised)	(cents)	64.8	67.1	66.8	70.2	74.6
- growth	(%)	-9%	4%	0%	5%	6%

Source: GUD & WHTM

FY07 forecasts:

- 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), with the release of new products driving a solid performance from Sunbeam in the compliance category, while the hot and dry weather experienced of late has been positive for the sale of water Davey products (ie. pumps and fire fighting equipment). This trend is partially offset by weak demand for Victa products as a result of dry weather conditions.
- GUD's balance sheet retains capacity to fund further acquisitions and/or additional capital management initiatives. Net debt of \$77M is forecast for 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.
- A \$2.5M (post tax) restructuring charge in FY07 has been foreshadowed, and relates to the cessation of filter manufacturing in NZ. The financial benefits from this initiative should become apparent in FY08+.

FY08 & FY09 forecasts:

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

Recommendation and price target:

- Following strong share price gains (+28% in past 3 months), we have moderated our recommendation on GUD to HOLD (previously BUY).
- Our current price target is \$8.75 p/share (FY08 PER of 12.5x, EV/EBIT of 8.5x).
- The shares may trade a slight premium to our current view of fundamental value given the high and sustainable DPS yield, and the upside offered from potential industry rationalisation.

GUD Holdings Limited (GUD : \$8.83)

INVESTMENT FUNDAMENTALS

Yr Ending June	2005A	2006A	2007E	2008E	2009E
EPS Reported (c)	50.3	67.1	62.8	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)	13.6	13.5	13.2	12.6	11.8
DPS (c)	50.0	60.0	60.0	61.0	62.0
Payout (%)	99.5%	89.4%	95.6%	86.9%	83.2%
Yield (%)	5.7%	6.8%	6.8%	6.9%	7.0%
Franking (%)	100%	100%	100%	100%	50%

VALUATION DATA

Yr Ending June	2005A	2006A	2007E	2008E	2009E
EV / EBITA (x)	9.3	8.7	8.9	8.5	8.0
EV / EBITDA (x)	8.3	7.9	8.0	7.6	7.2
CFPS (c)	57.4	95.2	73.5	85.5	98.6
Price / CF	15.4	9.3	12.0	10.3	9.0
Book Value / Share (\$)	2.2	2.4	2.5	2.6	2.7
Price / Book (x)	3.9	3.7	3.5	3.4	3.2

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	-2.5	0.0	0.0
Reported Net Profit	30.4	40.2	37.6	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%

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

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 18,560 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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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 5574 1457	BALLINA Ph: 02 6681 3477 Fax: 02 6681 4933
	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

Our web site: www.wilsonhtm.com.au