

GUD Holdings Limited

Oates and Victa clip 1H result



Wilson HTM
INVESTMENT GROUP

30 January 2007

\$8.05

Hold

David Arter

03 9640 3828

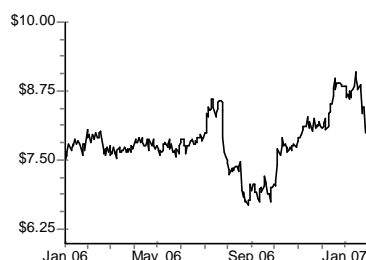
david.arter@wilsonhtm.com.au

James Ferrier

03 9640 3827

james.ferrier@wilsonhtm.com.au

Price Performance



Security/Capital Details

ASX Code	GUD
Market Cap	\$479 M
Issued Shares	59.9 M
Avg Mth T'over	3.65 M
12 Mth High – Low	\$9.10 - \$6.71

Key Data/Ratios – FY 2007

EBITDA / Sales	13.9%
EBIT / Sales	11.6%
Net Debt / Equity	60.2%
Interest Cover	6.6 x
ROE	25.0%
EPS Growth	-8.9%
PEG Ratio	-1.28 x
NTA / Share	\$ 1.08
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 maintain a **HOLD** recommendation on GUD Holdings (“GUD”), but have reduced our price target to **\$8.10 p/share** (previously **\$8.75 p/share**).

GUD’s 1H07 result was slightly below forecast, however the guidance for flat 2H profit was below previous expectations. We have reduced our trading EBIT forecast by 8% for FY07, providing normalised EPS growth of -8% for FY07 +8% for FY08. While the profit outlook is subdued, a steady DPS forecast of **\$0.60 p/share** (7.5% yield), and ‘re-ignition’ of the on-market share buy-back should provide some share price support. **HOLD**.

June year-end		1H07	1H06	% Chg
Sales revenue	\$M	265.6	241.1	10%
EBIT (trading)	\$M	29.2	32.4	(10%)
NPAT (reported)	\$M	14.9	20.2	(26%)
EPS	cps	28.8	33.7	(15%)
DPS	cps	27.0	27.0	-

Key Points

- 1H07 profit was slightly below our forecast while our DPS forecast was met. GUD’s guidance for 2H07 earnings is lower than expected, prompting us to reduce to our FY07 trading EBIT forecast by 8% to \$59.0M (-7% on pcp).
- GUD reported 1H07 trading EBIT of \$29.2M, below our forecast of \$30.2M, and down 10% on the pcp.
- Normalised NPAT was \$17.2M (pcp: \$20.2M). After including a previously foreshadowed restructuring charge of \$2.3M (net) in relation to the cessation of filtration manufacturing in New Zealand, reported NPAT was \$14.9M.
- The composition of GUD’s result was mixed, with good performances from Sunbeam and also the Water Products business, offset by:
 - Victa** - weak sales in the 2Q attributed to the drought
 - Oates Clean** – under-performance of the Bissell business (supply etc), and competitive pressure on margins across the business
 - Hedging costs** of \$2.0M following market valuation of FX contracts.
- GUD’s guidance of 2H07 trading EBIT being similar to the 1H (ie. \$29.2M) has prompted us to reduce our FY07 forecast to \$59.0M (from \$63.9M).
- Contributing to 2H performance should be continued growth for Sunbeam and Water Products, however contributions from Oates and Victa are expected to remain disappointing in the short-term. Any earnings variance is likely to be attributed to Electric Blanket sales in the 2H (weather sensitive).
- GUD has strong brands and is a well managed business, however the earnings environment remains difficult. A high DPS yield (7.5%) and re-ignition of an on-market buyback of up to 5% of GUD shares should provide share price support. Our revised share price target is **\$8.10 p/share**. **HOLD**.

June	NPAT (Rep)	EPS (Norm)	EPS Growth	PER	P/CF	EV/EBITDA	DPS	Div Yld	Franking
	\$M	c	%	x	x	x	c	%	%
2006a	40.2	65.4	0.9	12.3	8.5	7.2	60.0	7.5	100
2007e	33.4	59.5	-8.9	13.5	13.9	8.0	60.0	7.5	100
2008e	38.7	64.5	8.4	12.5	10.2	7.5	61.0	7.6	100
2009e	41.8	69.8	8.2	11.5	8.8	7.0	62.0	7.7	50

Earnings summary

A summary of the 1H07 result and our revised forecasts are detailed in the table below.

Financial summary									
Y/e: 30 June		FY05	1H06	FY06	1H07	2H07e	FY07e	FY08e	FY09e
Sales revenue	\$M	394.4	241.1	462.4	265.6	243.2	509.0	523.4	539.9
- growth	%	0%	14%	17%	10%	10%	10%	3%	3%
Divisional EBIT:									
Consumer	\$M	28.6	17.3	30.4	11.3	12.2	23.5	25.4	27.2
Automotive	\$M	17.7	9.4	17.9	8.0	7.6	15.6	15.9	16.0
Water Products	\$M	11.1	7.1	13.9	10.7	10.2	20.8	22.0	23.5
Security	\$M	2.7	1.2	2.0	1.2	0.8	2.0	2.0	2.1
Unallocated	\$M	0.2	-2.6	-0.5	-2.0	-0.9	-2.9	-2.6	-2.6
Trading EBIT	\$M	60.2	32.4	63.6	29.2	29.8	59.0	62.7	66.2
- growth	%	-4%	5%	6%	-10%	-5%	-7%	6%	6%
Pre-tax profit	\$M	56.3	29.1	56.9	24.8	25.8	50.6	54.8	59.3
Tax exp	\$M	-17.1	-8.9	-16.7	-7.5	-7.4	-14.9	-16.2	-17.5
- tax rate	%	30%	31%	29%	30%	29%	30%	30%	30%
NPAT (normalised)	\$M	39.2	20.2	40.2	17.2	18.4	35.7	38.7	41.8
- growth	%	-6%	1%	3%	-15%	-8%	-11%	8%	8%
Significant items	\$M	-8.8	0.0	0.0	-2.3	0.0	-2.3	0.0	0.0
NPAT (reported)		30.4	20.2	40.2	14.9	18.4	33.4	38.7	41.8
EPS (normalised)	(cents)	64.8	33.7	67.1	28.8	30.7	59.5	64.5	69.8
- growth	%	-6%	3%	4%	-15%	-8%	-11%	8%	8%
DPS	(cents)	50.0	27.0	60.0	27.0	33.0	60.0	61.0	62.0
- payout ratio	%	77%	80%	80%	94%	107%	101%	95%	89%
OCF	\$M	34.7	7.0	57.0	-3.1	37.7	34.6	47.5	55.1
Net debt	\$M	37.6	87.8	54.1	115.4	86.8	86.8	80.6	67.3
- net debt/equity	%	28%	63%	38%	85%	60%	60%	55%	44%
Interest cover	x	15.6	10.0	9.5	6.6	7.5	7.0	8.0	9.6
Earnings multiples:									
EV		520	570	536	n/a	n/a	539	533	520
EV / EBITA	x	8.6	0.0	8.4	n/a	n/a	9.1	8.5	7.8
PER (pre g'will)	x	12.4	0.0	12.0	n/a	n/a	13.5	12.5	11.5
Yield	%	6.2	0.0	7.5	n/a	n/a	7.5	7.6	7.7

Source: GUD & WHTM

The **key features** of the 1H07 result were:

- **Trading EBIT** of \$29.2M (-10%), 3% below our forecast of \$30.2M.
- An **underlying earnings** performance reflecting good performances from Sunbeam and the Water Products businesses, while the Consumer Products Division reflected mixed results, with a good performance from Sunbeam, offset by disappointing results from Oates and Victa.
- Normalised NPAT of \$17.2M, or reported NPAT of \$14.9M after including a (\$2.3M (net) restructuring charge for the New Zealand filtration business.
- An interim **DPS** of 27 cents (pcp: 27 cents), consistent with our forecast.

Our **earnings revisions** include:

- Reductions to our trading EBIT forecasts by 8% for FY07 and 5% for FY08. Our FY07 forecast implies 2H07 trading EBIT of \$29.8M.
- Downward earnings revisions reflect our expectation of continued difficulties in the trading environment for both the Victa and Oates Clean brands.
- FY07 normalised NPAT of \$35.7M (-11%), providing normalised EPS growth of -8% and +8% for FY07 and FY08 respectively.
- Our DPS forecasts remain unchanged. Our FY07 DPS forecast of \$0.60 p/share reflects a payout ratio of 101%. While we are confident this DPS will be paid, clearly any medium-term earnings 'challenges' presents a risk to our current DPS forecasts.



Divisional overview

- **Consumer products** delivered trading EBIT down 35% on pcp, with the result was affected by FX hedging costs of \$2.0M. Brand performance in Consumer products was mixed:
 - (a) **Sunbeam** performed well, driven by continued product innovation and market leadership in the Australian small appliance market. Continued product innovation should underpin a positive outlook for Sunbeam.
 - (b) **Victa** recorded a poor result with the drought affecting 2Q sales as demand slowed significantly. The near term outlook remains challenging.
 - (c) **Oates** continues to be challenged by competitive conditions in the cleaning products market (ie. sales and margin pressure). In addition, planned offshore sourcing initiatives are yet to implemented, and are also inhibiting the performance of the business. We do not expect material improvement in performance in 2H07, however some improvement should commence in FY08+.
- **Water Products** delivered trading EBIT up 50% on pcp, driven by the success of several new products, the Monarch Pool Systems acquisition, and strong demand for pumps due to the drought and the ongoing threat of bushfires. The outlook remains positive, with the drought and increased recognition of water on the national agenda, expected to contribute to sustain demand for water products.
- **Automotive** recorded trading EBIT down 15% on pcp, driven by trading disruption during the NZ restructuring process. We do not expect any material improvement (or decline) in the automotive market in the medium term.
- **Security** delivered trading EBIT of \$1.2M, which was in line with pcp, and should remain relatively steady during the forecast period.

GUD Holdings Limited (GUD : \$8.05)

INVESTMENT FUNDAMENTALS

Yr Ending June	2005A	2006A	2007E	2008E	2009E
EPS Reported (c)	50.3	67.1	55.7	64.5	69.8
EPS Normalised (c)	64.8	65.4	59.5	64.5	69.8
EPS Growth (%)	N/A	3.5%	-11.3%	8.4%	8.2%
PER Normalised (x)	12.4	12.3	13.5	12.5	11.5
DPS (c)	50.0	60.0	60.0	61.0	62.0
Payout (%)	99.5%	89.4%	107.8%	94.5%	88.8%
Yield (%)	6.2%	7.5%	7.5%	7.6%	7.7%
Franking (%)	100%	100%	100%	100%	50%

VALUATION DATA

Yr Ending June	2005A	2006A	2007E	2008E	2009E
EV / EBITA (x)	8.6	8.0	9.0	8.4	7.8
EV / EBITDA (x)	7.6	7.2	8.0	7.5	7.0
CFPS (c)	57.4	95.2	57.7	79.2	92.0
Price / CF	14.0	8.5	13.9	10.2	8.8
Book Value / Share (\$)	2.2	2.4	2.4	2.4	2.5
Price / Book (x)	3.6	3.4	3.3	3.3	3.2

PROFIT & LOSS (\$m)

Yr Ending June	2005A	2006A	2007E	2008E	2009E
Sales Revenue	394.4	462.4	508.8	523.4	539.9
EBITDA	68.4	74.2	70.8	74.7	78.3
Depreciation	7.6	7.0	7.3	7.6	8.0
EBITA	60.8	67.2	63.5	67.0	70.3
Amortisation	0.6	4.6	4.5	4.3	4.1
EBIT	60.2	62.6	59.0	62.7	66.2
Net Interest Expense	3.9	6.7	8.4	7.9	6.9
Pre-tax Profit	56.3	56.9	50.6	54.8	59.3
Tax	17.1	16.7	14.9	16.2	17.5
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	35.7	38.7	41.8
Abn's / Extraord's	-8.8	0.0	-2.3	0.0	0.0
Reported Net Profit	30.4	40.2	33.4	38.7	41.8
Revenue Growth (%)	N/A	17.2%	10.0%	2.9%	3.1%
EBIT Growth (%)	N/A	4.0%	-5.8%	6.3%	5.6%
NPAT Growth (%)	N/A	2.5%	-11.3%	8.4%	8.2%

PROFITABILITY RATIOS

Yr Ending June	2005A	2006A	2007E	2008E	2009E
EBIT / Sales (%)	15.3%	13.5%	11.6%	12.0%	12.3%
ROA (%)	N/A	26.0%	21.2%	21.0%	22.7%
ROE (%)	N/A	29.2%	25.0%	26.6%	28.0%
ROFE (%)	N/A	36.6%	29.8%	29.2%	31.4%

BALANCE SHEET (\$m)

Yr Ending June	2005A	2006A	2007E	2008E	2009E
Cash	23.3	17.0	11.3	7.5	7.8
Receivables	50.0	55.9	61.5	63.3	65.3
Inventories	67.3	82.9	91.2	93.8	96.8
Other	4.3	4.6	5.9	5.9	0.0
Current Assets	144.9	160.4	170.0	170.5	169.8
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	311.3	304.9	292.8
Current Payables	32.8	44.9	49.5	50.9	52.5
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	19.4	19.2	13.4
Total Liabilities	112.3	133.0	167.0	158.1	141.0
Equity	98.4	98.4	98.4	98.4	98.4
Reserves	0.0	-0.5	-0.9	-0.9	-0.9
Retained Profits	35.8	43.5	46.8	49.2	54.2
Minorities	0.0	0.0	0.0	0.0	0.0
Total Equity	134.3	141.4	144.3	146.8	151.7
Total Funds Employed	171.9	195.5	231.2	227.4	219.1

LIQUIDITY & LEVERAGE RATIOS

Yr Ending June	2005A	2006A	2007E	2008E	2009E
Net Debt (Cash) (\$m)	37.6	54.1	86.8	80.6	67.3
Net Debt / Equity (%)	28.0%	38.2%	60.2%	54.9%	44.4%
Interest Cover (x)	14.3	8.9	6.6	7.5	9.2
Debt / CashFlow (x)	1.8	1.2	2.8	1.9	1.4

CASHFLOW (\$m)

Yr Ending June	2005A	2006A	2007E	2008E	2009E
EBIT	60.2	62.6	59.0	62.7	66.2
Dep'n and Amort'n	8.2	11.6	11.9	12.0	12.1
Net Int Rec'd (Paid)	-3.9	-6.7	-8.4	-7.9	-6.9
Tax Paid	-17.5	-17.3	-18.4	-16.4	-12.9
Dec / (Inc) W'kg Cap	-4.8	-9.3	-9.5	-2.9	-3.3
Other	-7.5	16.1	0.0	0.0	0.0
Operating Cash Flow	34.7	57.0	34.6	47.5	55.1
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	-5.8	-3.8	0.3

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