

GUD Holdings Limited

Water 'features' in FY07 result



Wilson HTM
INVESTMENT GROUP

27 July 2007

\$11.35

Hold

David Arter

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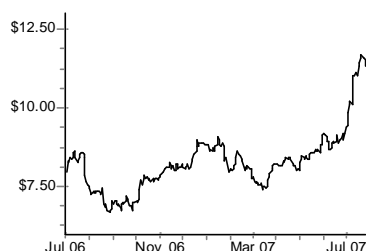
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Price Performance



Security/Capital Details

ASX Code	GUD
Market Cap	\$680 M
Issued Shares	59.9 M
Avg Mth T'over	3.65 M
12 Mth High – Low	\$11.70 - \$6.71

Key Data/Ratios – FY 2008

EBITDA / Sales	14.7%
EBIT / Sales	12.3%
Net Debt / Equity	60.7%
Interest Cover	7.3 x
ROE	29.5%
EPS Growth	16.4%
PEG Ratio	1.31 x
NTA / Share	\$ 0.66
12 Mth Price Target	\$ 9.70

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. Our stand-alone price target has increased to \$9.70 (from \$8.85), with upside to \$11.50-\$12.00 if a takeover/merger proceeds.

GUD reported FY07 trading EBIT of \$60.2M, slightly above our forecast of \$59.0M. Key features were: (a) a strong result from the Water Products, and (b) up-beat earnings guidance for FY08. We have increased our EPS forecasts by an additional 7% in FY08 and 9% in FY09, providing revised compound growth of 15% and 10% respectively. No comment was made re: recent takeover approaches and 6.1% shareholder Harbinger Capital.

June year-end		FY06	FY07	% Chg
Sales revenue	\$M	462.4	518.7	12%
EBIT (trading)	\$M	63.6	60.2	(5%)
NPAT (reported)	\$M	40.2	33.6	(16%)
DPS	cps	60.0	61.0	2%

Key Points

- **FY07 result.** GUD has reported FY07 trading EBIT of \$60.2M (-5%), slightly above GUD's implied guidance of \$58.4M and our forecast of \$59.0M.
- Reported NPAT was \$33.6M (-16%) vs our forecast of \$33.4M, and included the previously disclosed 1H07 \$2.4M (post tax) restructuring charge related to the cessation of automotive filtration manufacturing in New Zealand.
- A final DPS of 34.0 cents takes the total FY07 DPS of 61.0 cents.
- The trading EBIT result was slightly above forecast and reflects (a) a strong performance from Water products (+29%), (b) a sound result from Sunbeam (ie. flat excluding FX hedging costs), offset by (c) by a drought-related adverse result in Victa, and (d) underperformance from Oates. The headline benefits of a stronger AUD were largely offset by higher input costs.
- **Earnings outlook.** GUD has provided an upbeat earnings outlook, with trading EBIT expected to increase 10%-15% in FY08, driven by ~20% growth for Consumer Products, and +10% growth for Water Products.
- In light of GUD's upbeat outlook statements, we have increased our normalised NPAT forecasts by an additional 7% in FY08 and 9% in FY09, providing compound growth of 15% and 10% respectively.
- **Takeover update.** GUD made no further comment in relation to its recent rejection of an 'ownership approach'. Harbinger Capital has since increased its holding in GUD to 6.1%. We retain the view that Harbinger is likely to be targeting the facilitation of a merger between GUD and Housewares International ("HWI"). Harbinger owns 19% of HWI and is likely to be in discussions with Premier Investments et al (27% shareholders in HWI).
- **Valuation and recommendation.** Our 12 month price target for GUD as a stand-alone business has increased to \$9.70 p/share (FY09 EV/EBITA 9.0x, PER 12.7x), with upside to \$11.50 - \$12.00 p/share should a formal takeover/merger offer be forthcoming. On balance, we retain a HOLD rating.

June	NPAT (Rep) \$M	EPS (Norm) c	EPS Growth %	PER x	P/CF x	EV/EBITDA x	DPS c	Div Yld %	Franking %
2007a	33.6	59.4	-9.1	19.1	17.0	10.7	61.0	5.4	100
2008e	35.5	69.2	16.4	16.4	14.0	9.5	63.0	5.6	100
2009e	45.4	75.8	9.7	15.0	11.7	8.8	65.0	5.7	100
2010e	49.4	82.5	8.7	13.8	10.9	8.2	68.0	6.0	100



Earnings revisions

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

Earnings revisions

Y/e: 30 June		FY08e	FY09e	FY10e
NPAT - old	(\$M)	38.7	41.8	45.0
NPAT - new	(\$M)	41.4	45.4	49.4
- % chg	(%)	7%	9%	10%
- growth	(%)	15%	10%	9%
EPS - old	(\$M)	64.5	69.8	75.1
EPS - new	(\$M)	69.2	75.8	82.5
- % chg	(%)	7%	9%	10%
- growth	(%)	15%	10%	9%

Source: Wilson HTM

Our normalised NPAT forecasts have been increased by 7% in FY08 and 9% in FY09, providing revised EPS growth rates of 15% and 10%, respectively.

Refer overleaf for a summary of our revised earnings forecasts.

Earnings summary

A summary of the FY07 result and our forecasts are detailed in the table below.

Financial summary

Y/e: 30 June		FY06	FY07	FY08e	FY09e	FY10e
Sales revenue	\$M	462.4	518.7	552.3	580.1	607.4
- growth	%	17%	12%	6%	5%	5%
Divisional EBIT:						
Consumer Products	\$M	32.8	25.6	30.7	33.2	35.6
Automotive Products	\$M	18.8	16.9	16.2	16.3	16.4
Water Products	\$M	14.9	19.1	21.3	23.4	25.3
Security Products	\$M	2.1	2.3	2.4	2.5	2.6
Unallocated	\$M	-5.0	-3.7	-2.6	-2.6	-2.6
Trading EBIT	\$M	63.6	60.2	68.1	72.8	77.3
- growth	%	6%	-5%	13%	7%	6%
NPAT (normalised)	\$M	40.2	36.2	41.4	45.4	49.4
- growth	%	3%	-10%	15%	10%	9%
Significant items	\$M	0.0	-2.5	-5.9	0.0	0.0
NPAT (reported)		40.2	33.6	35.5	45.4	49.4
EPS (normalised)	(cents)	67.1	60.3	69.2	75.8	82.5
- growth	%	4%	-10%	15%	10%	9%
DPS	(cents)	60.0	61.0	63.0	65.0	68.0
- payout ratio	%	80%	89%	91%	86%	82%
Gearing ratios:						
Net debt	\$M	54.1	94.7	86.1	73.5	58.6
- net debt/equity	%	38%	68%	61%	49%	37%
Interest cover	x	9.5	6.7	7.7	9.2	11.4
Earnings multiples:						
EV / EBITA	x	11.5	12.9	11.3	10.4	9.5
PER (pre g'will)	x	16.9	18.8	16.4	15.0	13.8
Yield	%	5.3	5.4	5.6	5.7	6.0

Source: GUD & WHTM

* Note: EPS is pre-g'will & assumes no further shares are acq. under the buy-back

Key points:

- Our revised forecasts include trading EBIT of \$68.1M in FY08 (in line with GUD guidance of 10% - 15% growth) and \$72.8M in FY09.
- The upbeat trading EBIT forecast for FY08 is underpinned by GUD's expectation of ~20% growth in consumer products and +10% growth in Water products (following ~30% CAGR over last 3 years).
- FY08 Reported NPAT is expected to be impacted by a one-off restructuring cost of \$5.9M after tax (cash cost: \$2.9M) relating to the Oates business.

GUD Holdings Limited (GUD : \$11.35)

INVESTMENT FUNDAMENTALS

Yr Ending June	2006A	2007A	2008E	2009E	2010E
EPS Reported (c)	67.1	56.2	59.3	75.8	82.5
EPS Normalised (c)	65.4	59.4	69.2	75.8	82.5
EPS Growth (%)	N/A	-10.1%	14.6%	9.6%	8.7%
PER Normalised (x)	17.4	19.1	16.4	15.0	13.8
DPS (c)	60.0	61.0	63.0	65.0	68.0
Payout (%)	89.4%	108.6%	106.2%	85.7%	82.5%
Yield (%)	5.3%	5.4%	5.6%	5.7%	6.0%
Franking (%)	100%	100%	100%	100%	100%

VALUATION DATA

Yr Ending June	2006A	2007A	2008E	2009E	2010E
EV / EBITA (x)	10.9	12.0	10.5	9.8	9.1
EV / EBITDA (x)	9.9	10.7	9.5	8.8	8.2
CFPS (c)	95.2	66.6	81.0	97.0	104.0
Price / CF	11.9	17.0	14.0	11.7	10.9
Book Value / Share (\$)	2.4	2.3	2.4	2.5	2.6
Price / Book (x)	4.8	4.9	4.8	4.6	4.3

PROFIT & LOSS (\$m)

Yr Ending June	2006A	2007A	2008E	2009E	2010E
Sales Revenue	462.4	518.7	552.3	580.1	607.4
EBITDA	74.2	72.4	81.0	86.0	90.3
Depreciation	7.0	7.9	8.3	8.8	9.3
EBITA	67.2	64.6	72.7	77.2	81.1
Amortisation	4.6	5.0	4.7	4.4	3.7
EBIT	62.6	59.6	68.1	72.8	77.3
Net Interest Expense	6.7	8.8	8.9	7.9	6.8
Pre-tax Profit	56.9	51.3	59.2	64.9	70.6
Tax	16.7	15.1	17.8	19.5	21.2
Tax rate (%)	29.4%	29.5%	30.0%	30.0%	30.0%
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	40.2	36.2	41.4	45.4	49.4
Abn's / Extraord's	0.0	-2.5	-5.9	0.0	0.0
Reported Net Profit	40.2	33.6	35.5	45.4	49.4
Revenue Growth (%)	N/A	12.2%	6.5%	5.0%	4.7%
EBIT Growth (%)	N/A	-4.8%	14.2%	6.9%	6.3%
NPAT Growth (%)	N/A	-10.1%	14.6%	9.6%	8.7%

PROFITABILITY RATIOS

Yr Ending June	2006A	2007A	2008E	2009E	2010E
EBIT / Sales (%)	13.5%	11.5%	12.3%	12.5%	12.7%
ROA (%)	N/A	21.1%	22.0%	23.1%	24.4%
ROE (%)	N/A	25.8%	29.5%	31.2%	32.1%
ROFE (%)	N/A	30.1%	31.5%	34.2%	36.9%

INTERIMS (\$m)

Half Yr	Dec 06	Jun 07	Dec 07	Jun 08	Dec 08
Yr Ending June	1H A	2H A	1H E	2H E	1H E
Sales Revenue	265.6	253.1	287.7	264.6	303.9
EBIT	29.2	30.4	33.5	34.6	36.3
Net Profit	14.9	18.7	19.9	15.6	22.5
EBIT / Sales (%)	11.0%	12.0%	11.6%	13.1%	12.0%

BALANCE SHEET (\$m)

Yr Ending June	2006A	2007A	2008E	2009E	2010E
Cash	17.0	17.7	16.3	15.9	17.8
Receivables	55.9	67.7	72.0	75.7	79.2
Inventories	82.9	95.7	101.9	107.1	112.1
Other	4.6	4.9	5.9	6.1	6.2
Current Assets	160.4	186.0	196.2	204.7	215.3
Net PPE	29.9	30.4	29.1	27.5	25.8
Investments	0.0	0.0	0.0	0.0	0.0
Intangibles	83.9	106.5	101.8	97.4	93.7
Other	0.2	1.4	1.8	1.9	2.2
Non-current Assets	114.0	138.3	132.7	126.9	121.6
Total Assets	274.4	324.2	328.9	331.5	336.9
Current Payables	44.9	55.4	58.9	61.9	64.8
Current Debt	35.3	35.8	35.8	35.8	35.8
Non-Current Debt	35.8	76.7	66.7	53.7	40.7
Provisions	0.0	0.0	0.0	0.0	0.0
Other	17.0	17.2	25.7	31.2	37.2
Total Liabilities	133.0	185.0	187.0	182.6	178.4
Equity	98.4	98.4	98.4	98.4	98.4
Reserves	-0.5	-0.4	-0.4	-0.4	-0.4
Retained Profits	43.5	41.2	43.8	50.9	60.5
Minorities	0.0	0.0	0.0	0.0	0.0
Total Equity	141.4	139.3	141.9	149.0	158.5
Total Funds Employed	195.5	234.0	228.0	222.5	217.1

LIQUIDITY & LEVERAGE RATIOS

Yr Ending June	2006A	2007A	2008E	2009E	2010E
Net Debt (Cash) (\$m)	54.1	94.7	86.1	73.6	58.6
Net Debt / Equity (%)	38.2%	68.0%	60.7%	49.4%	37.0%
Interest Cover (x)	8.9	6.5	7.3	8.9	10.9
Debt / CashFlow (x)	1.2	2.8	2.1	1.5	1.2

CASHFLOW (\$m)

Yr Ending June	2006A	2007A	2008E	2009E	2010E
EBIT	62.6	59.6	68.1	72.8	77.3
Dep'n and Amort'n	11.6	12.8	13.0	13.2	13.0
Net Int Rec'd (Paid)	-6.7	-8.8	-8.9	-7.9	-6.8
Tax Paid	-17.3	-15.9	-16.6	-14.2	-15.6
Dec / (Inc) W'kg Cap	-9.3	-14.2	-7.0	-5.8	-5.7
Other	16.1	6.4	0.0	0.0	0.0
Operating Cash Flow	57.0	39.9	48.5	58.1	62.3
Capital Expenditure	0.8	-7.2	-7.0	-7.2	-7.5
Asset Sales	0.0	0.0	0.0	0.0	0.0
Investments	-41.4	-37.3	0.0	0.0	0.0
Other Inv. Flows	0.0	0.0	0.0	0.0	0.0
Investing Cash Flow	-40.6	-44.4	-7.0	-7.2	-7.5
Equity Raised	0.0	0.0	0.0	0.0	0.0
Inc / (Dec) in Loans	13.6	41.1	-10.0	-13.0	-13.0
Dividends Paid	-32.4	-35.9	-33.0	-38.3	-39.8
Other Fin. Flows	0.0	0.0	0.0	0.0	0.0
Financing Cash Flow	-18.8	5.1	-43.0	-51.3	-52.8
Net Cash Flow	-2.3	0.6	-1.4	-0.4	1.9

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 28,200 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.



"On the Move" 
Wilson HTM

From Monday 23 July 2007, our new Sydney office address will be:

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1 Farrer Place
Sydney NSW 2000

Our contact numbers and PO Box remain unchanged

Kindly update your records to reflect our new office address

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