

GUD Holdings Limited

Positive update at AGM



Wilson HTM
INVESTMENT GROUP

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\$10.65

Hold

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Price Performance



Security/Capital Details

ASX Code	GUD
Market Cap	\$638 M
Issued Shares	59.9 M
Avg Mth T'over	3.65 M
12 Mth High – Low	\$11.70 - \$7.43

Key Data/Ratios – FY 2008

EBITDA / Sales	14.6%
EBIT / Sales	12.3%
Net Debt / Equity	61.4%
Interest Cover	7.3 x
ROE	29.9%
EPS Growth	18.2%
PEG Ratio	1.08 x
NTA / Share	\$ 0.67
12 Mth Price Target	\$10.80

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 current 12 month price target is **\$10.80 p/share** (previously **\$9.70**), with upside to **~\$12.00** if a takeover/merger proceeds.

GUD held its AGM on Friday, and shareholders were provided with a generally positive update. YTD trading has been strong and guidance for FY08 trading EBIT growth of 10% - 15% was reaffirmed. We have increased our FY08 forecast slightly (ie. +2%) to the top end of guidance, which reflects the increasingly positive outlook. In the absence of a formal takeover/merger offer, we view the stock as fairly priced. **HOLD**.

Key Points

- **AGM update.** GUD provided a generally positive update at its AGM in Melbourne on Friday. The key message provided to shareholders was confirmation of the upbeat earnings outlook delivered at the FY07 result. GUD reiterated its expectation of 10% - 15% growth in trading EBIT in FY08.
- **Trading update.** Trading through the YTD has been strong and broadly in line with expectations for:
 - (a) ~20% growth in trading EBIT for Consumer Products, led by a strong performance from Sunbeam, a solid result from Victa in tough drought conditions, and a recovery from Oates following its restructure.
 - (b) +10% growth in trading EBIT for Water Products, led by strong sales of Davey products, slightly offset by softer trading from Monarch due to the tough drought conditions.
- We understand cost pressures from product suppliers in China are largely negating the positive impact of a rising AUD/USD rate.
- **Earnings forecasts.** At the time of the FY07 result we increased our normalised NPAT forecasts by 7% in FY08 and 9% in FY09 to reflect GUD's upbeat outlook statements.
- We view the update provided at the AGM as confirming this expectation. We have therefore increased our EPS forecasts slightly: (a) +2% in FY08 to reflect the top end of guidance for 10% - 15% growth in trading EBIT, and (b) +3% in FY09 and +4% in FY10 to reflect the increasingly positive outlook. Our revised forecasts provide EPS growth of 16% in FY08 and 11% in FY09.
- **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 may target 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).
- **Recommendation.** Our valuation and 12 month price target for GUD as a stand-alone business has increased to \$10.80 p/share (previously \$9.70), representing an FY09 EV/EBITA 9.5x (implied PER 13.8x). We view upside to ~\$12.00 p/share should a formal takeover/merger offer be forthcoming. On balance, we view GUD as fairly priced, and 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	17.9	16.0	10.1	61.0	5.7	100
2008e	36.1	70.3	18.2	15.2	13.5	8.8	63.0	5.9	100
2009e	46.7	78.0	11.0	13.7	11.1	8.0	67.0	6.3	100
2010e	51.3	85.6	9.7	12.5	10.1	7.4	71.5	6.7	100

Earnings revision

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

Earnings revisions

Y/e: 30 June		FY08e	FY09e	FY10e
NPAT - old	(\$M)	41.4	45.4	49.4
NPAT - new	(\$M)	42.1	46.7	51.3
- % chg	(%)	2%	3%	4%
- growth	(%)	16%	11%	10%
EPS - old	(\$M)	69.2	75.8	82.5
EPS - new	(\$M)	70.3	78.0	85.6
- % chg	(%)	2%	3%	4%
- growth	(%)	16%	11%	10%

Source: Wilson HTM

We have increased our EPS forecasts slightly: (a) +2% in FY08 to reflect the top end of guidance for 10% - 15% growth in trading EBIT, and (b) +3% in FY09 and +4% in FY10 to reflect the increasingly positive outlook. Our revised forecasts provide EPS growth of 16% in FY08 and 11% in FY09.

(refer overleaf for a summary of our earnings forecasts)

Earnings summary

A summary of our earnings 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	563.2	603.1	637.4
- growth	%	17%	12%	9%	7%	6%
Divisional EBIT:						
Consumer Products	\$M	32.8	25.6	30.7	34.7	37.9
Automotive Products	\$M	18.8	16.9	16.6	16.7	16.8
Water Products	\$M	14.9	19.1	22.1	24.5	26.8
Security Products	\$M	2.1	2.3	2.4	2.6	2.7
Unallocated	\$M	-5.0	-3.7	-2.6	-2.6	-2.6
Trading EBIT	\$M	63.6	60.2	69.2	75.9	81.6
- growth	%	6%	-5%	15%	10%	8%
NPAT (normalised)	\$M	40.2	36.2	42.1	46.7	51.3
- growth	%	3%	-10%	16%	11%	10%
Significant items	\$M	0.0	-2.5	-6.0	0.0	0.0
NPAT (reported)		40.2	33.6	36.1	46.7	51.3
EPS (normalised)	(cents)	67.1	60.3	70.3	78.0	85.6
- growth	%	4%	-10%	16%	11%	10%
DPS	(cents)	60.0	61.0	63.0	67.0	71.5
- payout ratio	%	80%	89%	90%	86%	84%
Gearing ratios:						
Net debt	\$M	54.1	94.7	87.5	75.8	61.3
- net debt/equity	%	38%	68%	61%	50%	38%
Interest cover	x	9.5	6.7	7.6	8.3	9.7
Earnings multiples:						
EV / EBITA	x	11.2	12.5	10.8	9.7	8.8
PER (pre g'will)	x	16.4	18.2	15.7	14.1	12.9
Yield	%	5.5	5.5	5.7	6.1	6.5

Source: GUD & WHTM

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

Key points:

- GUD provided a generally positive update at its AGM in Melbourne on Friday, and reiterated its expectation of 10% - 15% growth in trading EBIT in FY08.
- Trading through the YTD has been positive and broadly in line with expectations for ~20% growth in trading EBIT for Consumer Products, and +10% growth in trading EBIT for Water Products.
- Our forecasts provide for normalised NPAT of \$42.1M in FY08 and \$46.7M in FY09, which represents EPS growth of 16% and 11%, respectively.
- GUD is a disciplined and well run business with quality brands and a positive earnings outlook, but, as a 'stand-alone' business, we believe it remains fully priced at current levels. We retain our HOLD recommendation.

GUD Holdings Limited (GUD : \$10.65)

INVESTMENT FUNDAMENTALS

Yr Ending June	2006A	2007A	2008E	2009E	2010E
EPS Reported (c)	67.1	56.2	60.2	78.0	85.6
EPS Normalised (c)	65.4	59.4	70.3	78.0	85.6
EPS Growth (%)	N/A	-10.1%	16.4%	11.0%	9.7%
PER Normalised (x)	16.3	17.9	15.2	13.7	12.5
DPS (c)	60.0	61.0	63.0	67.0	71.5
Payout (%)	89.4%	108.6%	104.6%	85.9%	83.6%
Yield (%)	5.6%	5.7%	5.9%	6.3%	6.7%
Franking (%)	100%	100%	100%	100%	100%

VALUATION DATA

Yr Ending June	2006A	2007A	2008E	2009E	2010E
EV / EBITA (x)	10.3	11.4	9.8	8.9	8.2
EV / EBITDA (x)	9.3	10.1	8.8	8.0	7.4
CFPS (c)	95.2	66.6	78.7	95.5	105.2
Price / CF	11.2	16.0	13.5	11.1	10.1
Book Value / Share (\$)	2.4	2.3	2.4	2.5	2.7
Price / Book (x)	4.5	4.6	4.5	4.2	4.0

PROFIT & LOSS (\$m)

Yr Ending June	2006A	2007A	2008E	2009E	2010E
Sales Revenue	462.4	518.7	563.2	603.1	637.4
EBITDA	74.2	72.4	82.2	89.1	94.6
Depreciation	7.0	7.9	8.3	8.8	9.3
EBITA	67.2	64.6	73.9	80.3	85.3
Amortisation	4.6	5.0	4.7	4.4	3.7
EBIT	62.6	59.6	69.2	75.9	81.6
Net Interest Expense	6.7	8.8	9.1	9.1	8.4
Pre-tax Profit	56.9	51.3	60.1	66.8	73.2
Tax	16.7	15.1	18.0	20.0	22.0
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	42.1	46.7	51.3
Abn's / Extraord's	0.0	-2.5	-6.0	0.0	0.0
Reported Net Profit	40.2	33.6	36.1	46.7	51.3
Revenue Growth (%)	N/A	12.2%	8.6%	7.1%	5.7%
EBIT Growth (%)	N/A	-4.8%	16.1%	9.7%	7.5%
NPAT Growth (%)	N/A	-10.1%	16.4%	11.0%	9.7%

PROFITABILITY RATIOS

Yr Ending June	2006A	2007A	2008E	2009E	2010E
EBIT / Sales (%)	13.5%	11.5%	12.3%	12.6%	12.8%
ROA (%)	N/A	21.1%	22.2%	23.7%	25.1%
ROE (%)	N/A	25.8%	29.9%	31.8%	32.9%
ROFE (%)	N/A	30.1%	31.9%	35.1%	38.0%

BALANCE SHEET (\$m)

Yr Ending June	2006A	2007A	2008E	2009E	2010E
Cash	17.0	17.7	18.0	17.6	17.1
Receivables	55.9	67.7	73.5	78.7	83.1
Inventories	82.9	95.7	103.9	111.3	117.6
Other	4.6	4.9	5.9	6.1	6.2
Current Assets	160.4	186.0	201.3	213.7	224.1
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	2.0	2.2
Non-current Assets	114.0	138.3	132.7	126.9	121.7
Total Assets	274.4	324.2	334.0	340.6	345.8
Current Payables	44.9	55.4	60.1	64.4	68.0
Current Debt	35.3	35.8	35.8	35.8	35.8
Non-Current Debt	35.8	76.7	69.7	57.7	42.7
Provisions	0.0	0.0	0.0	0.0	0.0
Other	17.0	17.2	26.1	32.0	38.3
Total Liabilities	133.0	185.0	191.6	189.8	184.7
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	44.4	52.8	63.0
Minorities	0.0	0.0	0.0	0.0	0.0
Total Equity	141.4	139.3	142.4	150.8	161.0
Total Funds Employed	195.5	234.0	229.9	226.6	222.3

LIQUIDITY & LEVERAGE RATIOS

Yr Ending June	2006A	2007A	2008E	2009E	2010E
Net Debt (Cash) (\$m)	54.1	94.7	87.5	75.8	61.3
Net Debt / Equity (%)	38.2%	68.0%	61.4%	50.2%	38.1%
Interest Cover (x)	8.9	6.5	7.3	8.0	9.4
Debt / CashFlow (x)	1.2	2.8	2.2	1.6	1.2

CASHFLOW (\$m)

Yr Ending June	2006A	2007A	2008E	2009E	2010E
EBIT	62.6	59.6	69.2	75.9	81.6
Dep'n and Amort'n	11.6	12.8	13.0	13.2	13.0
Net Int Rec'd (Paid)	-6.7	-8.8	-9.1	-9.1	-8.4
Tax Paid	-17.3	-15.9	-16.6	-14.4	-16.0
Dec / (Inc) W'kg Cap	-9.3	-14.2	-9.3	-8.3	-7.1
Other	16.1	6.4	0.0	0.0	0.0
Operating Cash Flow	57.0	39.9	47.2	57.2	63.0
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	-7.0	-12.0	-15.0
Dividends Paid	-32.4	-35.9	-33.0	-38.3	-41.0
Other Fin. Flows	0.0	0.0	0.0	0.0	0.0
Financing Cash Flow	-18.8	5.1	-40.0	-50.3	-56.0
Net Cash Flow	-2.3	0.6	0.2	-0.3	-0.5

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