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UBS Investment Research

GUD Holdings Limited

12-month rating	Neutral *Unchanged*
12m price target	A$10.00/US$8.79 *Prior:A$11.90/US$10.46*
Price	A$9.25/US$8.13

RIC: GUD.AX BBG: GUD AU

29 January 2008

Consumer products drives strong 1H result

■ 1H08 normalised NPAT +37% on pcp

GUD reported 1H08 normalised NPAT of $23.5m, ahead of UBSe ($20.6m) & market estimates, and an interim div of 30cps was declared. Reported NPAT ($17.5m) was lower, reflecting a one-off $6m restructuring charge associated with the restructuring of the Oates business. With the exception of water products (impacted by drought), the result was operationally very strong – operating EBIT rose 31%, driven by a seasonally strong weather, currency and market share gains.

■ FY08 & 09 EPS largely unchanged

Management now expect growth in FY08 trading EBIT to be at the top end of their previously advised guidance range of 10-15%. Following this implicit upgrade to guidance, we have upgraded our FY08 and 09 EBIT estimates by 2.9% and 4.8% respectively. Our EPS has, however, risen marginally less, reflecting rising costs of debt. With conditions expected to remain strong within consumer and automotive products into 2H08, we foresee upside potential to our FY08 EBIT forecast of 15.8%, which implies 2H08 growth of c2%.

■ Maintain Neutral

While we believe GUD represents an attractive investment, with a favourable earnings outlook and solid yield, at 13x FY09E earnings we believe the stock is fairly priced at current levels. The key catalyst going forward should be corporate activity.

■ SOTP Valuation declines to $10.00 reflecting peer multiple compression

Our SOTP valuation has declined to $10.00 (from $11.90) reflecting compression in global peer multiples over the past 6 months.

Highlights (A$m)	06/06	06/07	06/08E	06/09E	06/10E
Revenues	467.7	524.0	546.3	565.3	580.5
EBIT (UBS)	63.6	60.2	69.6	72.8	74.5
Net Income (UBS)	40.2	35.9	43.2	46.5	48.3
EPS (UBS, A$)	0.67	0.60	0.72	0.78	0.81
Net DPS (UBS, A$)	0.60	0.61	0.65	0.66	0.69

Profitability & Valuation	5-yr hist av.	06/07	06/08E	06/09E	06/10E
EBIT margin %	13.4	11.5	12.7	12.9	12.8
ROIC (EBIT) %	32.6	28.1	30.7	33.2	34.3
EV/EBITDA (core) x	6.2	7.7	7.7	7.3	7.1
PE (UBS) x	12.3	13.5	12.8	11.9	11.5
Net dividend yield %	6.8	7.5	7.0	7.1	7.5

Source: Company accounts, Thomson Financial, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E): based on a share price of A$9.25 on 28 Jan 2008 23:38 EST

Trading data (local/US$)

52-wk range	A$11.70-7.43/US$10.30-5.81
Market cap.	A$0.55bn/US$0.49bn
Shares o/s	59.9m (ORD)
Free float	100%
Avg. daily volume ('000)	168
Avg. daily value (A$m)	1.7

Balance sheet data 06/08E

Shareholders' equity	A$0.14bn
P/BV (UBS)	3.9x
Net Cash (debt)	(A$0.08bn)

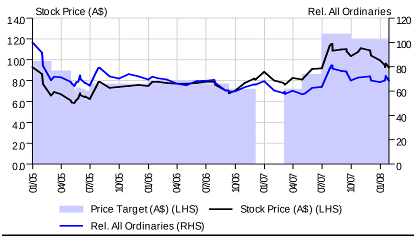
Forecast returns

Forecast price appreciation	+8.1%
Forecast dividend yield	10.0%
Forecast stock return	+18.1%
Market return assumption	11.7%
Forecast excess return	+6.4%

EPS (UBS, A$)

	06/08E			06/07
	From	To	Cons.	Actual
H1E	0.34	0.39	-	0.29
H2E	0.37	0.33	-	0.31
06/08E	0.72	0.72	*0.69*	
06/09E	0.75	0.78	*0.74*	

Performance (A$)



Source: UBS

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1H08 Result Review

Operationally strong, takeover speculation fades

GUD reported 1H08 normalised NPAT of $23.5 (UBSe $20.6m), up 37% on the pcp. An interim dividend of 30c was declared (UBSe 29cps).

On a reported basis, earnings growth was more modest, at $17.5m (+18%), reflecting a $6m after tax charge associated with the restructure of the Oates cleaning business (closure of two plants and relinquishing Bissel distribution).

Today’s result, with the exception of water products (drought impacted), was operationally strong, driven by:

- **Cost controls:** Recent re-structuring within the automotive (NZ Ryco) and consumer products business (off-shore sourcing of Victa). Benefits of the respective re-structures are expected to continue into 2H08.
- **Favourable seasonal conditions**: Improved grass growing conditions led to higher sales within Victa, in turn driving earnings in this high fixed cost business.
- **Market share gains:** Across automotive and consumer products (Oates and Sunbeam), driving top line sales growth across the respective divisions.
- **Currency:** A strong AUD/USD offset much of the recent rises in commodity prices (zinc, copper etc.).

Management provided upbeat commentary on the outlook, guiding to the top end of the previous range for 10-15% FY08 EBIT growth. With trading within consumer products and automotive expected to remain strong for the 2H, we believe there is upside potential to current guidance. We forecast 15.8% FY08 EBIT growth.

Following today’s result, we have maintained our Neutral rating. Our SOTP valuation has, however, dropped to $10.00, reflecting the compression of global peer multiples over recent months.

Result Overview:

The result is summarised below:

Table 1: 1H08 Results Summary

	1H07	1H08	% Change	Comment
Revenues	266.1	285.8	7.4%	Driven by market share gains
COGS	-168.2	-176.4	4.9%	Margin expansion attributed to offshore sourcing and recent re-
Gross Profit	97.8	109.5	11.9%	structure within Oates and Automotive
SG&A	-62.3	-64.7	3.8%	
EBITDA	35.6	44.8	26.0%	
D&A	-6.4	-6.5	1.9%	
Trading EBIT	29.2	38.3	31.3%	Driven by 85% rise in consumer products
Net Interest	-4.4	-4.7	7.%	
Re-structuring expenses	-3.5	-8.5	144.1%	Associated with closure of 2 Oates plants in WA & Vic
NPBT	21.3	25.1	17.8%	
Income Tax Expense	-6.412	-7.552		
NPAT (reported)	14.9	17.5	17.9%	post one-off restructuring costs
NPAT (normalised)	17.2	23.5	36.8%	excluding $6m after tax restructuring charge
EPS (reported)	24.8	29.2	17.9%	
EPS (normalised)	28.6	39.2	36.8%	
DPS	27	30	11.1%	
Operating Metrics			Bpts	
Gross Margin	36.8%	38.3%	152	Reflecting cost reductions from re-structures, currency benefits
EBITDA Margin	13.4%	15.7%	231	and seasonally favourable weather
EBIT Margin	11.0%	13.4%	244	
Tax Rate	30.2%	30.1%		

Source: Company, UBS

Table 2: Divisional overview

$m	Revenue	chge pcp	EBIT	chge pcp	Comment
Consumer Products	168.1	13.7%	20.9	85.0%	EBIT margins up c480bps on pcp, driven by Victa, Sunbeam & Oates restructure
Automotive	36.5	6.0%	10.2	26.5%	Continue to take share and expand distribution channel
Water Products	73.6	-3.7%	8.5	-20.0%	Drought impacted pool & spa business, Davey continue to perform well
Security Products	7.0	1.9%	1.2	-1.7%	Higher commodity prices resulted in a c63bp decline in margins
Un-allocated			-2.5		
Total	285.2	7.4%	38.3	31%	Cost controls, currency and market share gains drove margins up 240bps on pcp

Source: Company, UBS

- Operating cash flows were strong, up from -$3.1m in the pcp to $13.3m, due to margin expansion and sales growth. We expect this to continue into the 2H08.
- The balance sheet remains in healthy shape with debt declining to $108.2m (from $113.8m) and interest cover rising to 8.1x. This provides the group with the scope to pursue further acquisition or implement potential capital management.

Earnings Revisions:

Following today's result we have adjusted our estimates as per below…

Chart 1: Earnings Revisions

GUD Holdings Limited (A$m)	Actual 2007	New 2008E	Prev. 2008E	(%) Change	New 2009E	Prev. 2009E	(%) Change	New 2010E	Prev. 2010E	(%) Change
Revenues	524.0	546.3	542.9	0.6	565.3	555.8	1.7	580.5	572.1	1.5
EBITDA	73.0	83.1	80.1	3.6	86.3	81.3	6.2	88.2	82.8	6.1
EBITA	60.2	69.6	67.6	2.9	72.8	69.4	4.8	74.5	71.4	4.3
EBIT	60.2	69.6	67.6	2.9	72.8	69.4	4.8	74.5	71.4	4.3
Net interest expense	(9.0)	(8.3)	(6.9)	(16.9)	(6.8)	(5.5)	(22.8)	(6.1)	(4.9)	(19.5)
PBT	47.7	61.3	60.7	1.0	66.0	63.9	3.3	68.4	66.4	2.9
Tax Expense	(14.1)	(15.6)	(17.9)	15.0	(19.4)	(18.8)	(3.3)	(20.2)	(19.6)	(2.9)
Tax Rate (%)	(29.5)	(25.4)	(29.5)	16.1	(29.5)	-	-	(29.5)	-	-
Minority Int. & Equity Ass.	0.0	0.0	0.0	-	0.0	0.0	-	0.0	0.0	-
Net Profit (normalised)	35.9	45.8	42.8	6.4	46.5	45.1	3.3	48.3	46.9	2.9
Reported NPAT	33.6	37.3	42.8	(15.0)	46.5	45.1	3.3	48.3	46.9	2.9
EPS (reported)	56.2	62.2	72.8	(17.0)	77.7	77.9	(0.3)	80.6	81.1	(0.6)
EPS (normalised)	60.0	72.1	72.8	(0.9)	77.7	77.9	(0.3)	80.6	81.1	(0.6)
DPS	61.0	65.0	65.0	0.0	66.0	69.6	(5.2)	69.0	72.4	(4.9)
Operating Free Cashflow	58.7	72.9	73.0	(0.1)	77.0	72.8	5.8	78.4	73.6	6.1
Net Debt	(94.7)	(80.0)	(99.5)	24.4	(70.7)	(87.7)	19.4	(61.9)	(78.0)	26.0

Source: UBS

…within which we assume:

- **Revenue growth**: For FY08 we forecast 5.1% revenue growth (vs $7.4% for 1H08), driven by consumer products (+10%) and Automotive (+3%). Water products are expected to remain weak for the full year as the drought continues to impact the sales of pool and spa products.

- **EBIT margins:** On the margin front, we assume a 120bp improvement in FY08 EBIT margins to 12.8%. Within this, we assume:

  - A material improvement in consumer products margins, driven by a strong 2H in Victa (typically heavily 1H weighted), benefits of Oates re-structure and the impact of a favourable currency.

  - Declining margins within Water products as the drought continues to hurt the business.

- **Dividend:** We have left our dividend unchanged, implying an FY08 payout ratio of 90%.

- **Finance costs:** With GUD needing to re-finance c$90m of debt by June-08, our medium term interest costs forecasts have increased in anticipation of higher costs of debt into FY09 and beyond. We assume a 90bp increase in finance costs for FY09.

Valuation & Rating

While we maintain our Neutral rating, our SOTP valuation has declined to $10.00 (from $11.90), representing a compression in global peer multiples over recent months. This compares to our DCF valuation (WACC 9.6%, Tg 2.5%) of $10.22.

Table 3: GUD SOTP Valuation

	FY08e EBIT $m	FY08 EBIT Multiple x	Value ($m)	Comment
Consumer Products	36.1	9.2	332	Domestic consumer products comps (ALS, GWA, HWI)
Automotive	18.4	8.5	157	Repco takeover multiple
Water Products	16.7	10.6	177	Average of Weir, Pentair and Franklin Elec
Security Products	2.3	8.0	18	Mkt multiple
Unallocated			-3	
Firm Value	73.5	9.3	682.2	
Investments			0	
Less Debt ($m)			-80.0	
Equity Valuation			602.14	
Total Diluted Ord Shares (m)			60.27	
SOP: Value per Share			$9.99	

Source: UBS, Consensus estimates

■ GUD Holdings Limited

GUD Holdings owns and manages a diverse group of businesses selling branded manufactured products in Australia and New Zealand. GUD operates several of Australia's most established and well-recognised consumer and industrial brands, including Sunbeam appliances, Victa lawnmowers, Ryco filters, Davey pumps and the recently acquired Oates Clean cleaning accessories. GUD was formed in 1940 and first listed in 1959.

■ Statement of Risk

We believe the key risks include a downturn in spending on homewares in Australia, adverse currency movements, and variations in the cost of raw materials.

■ Analyst Certification

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UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage[1]	IB Services[2]
Buy	**Buy**	55%	39%
Neutral	**Hold/Neutral**	36%	36%
Sell	**Sell**	8%	20%
UBS Short-Term Rating	**Rating Category**	**Coverage[3]**	**IB Services[4]**
Buy	**Buy**	less than 1%	25%
Sell	**Sell**	less than 1%	50%

1:Percentage of companies under coverage globally within the 12-month rating category.
2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.
3:Percentage of companies under coverage globally within the Short-Term rating category.
4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 31 December 2007.

UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	**Definition**
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.
Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).
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Company Disclosures

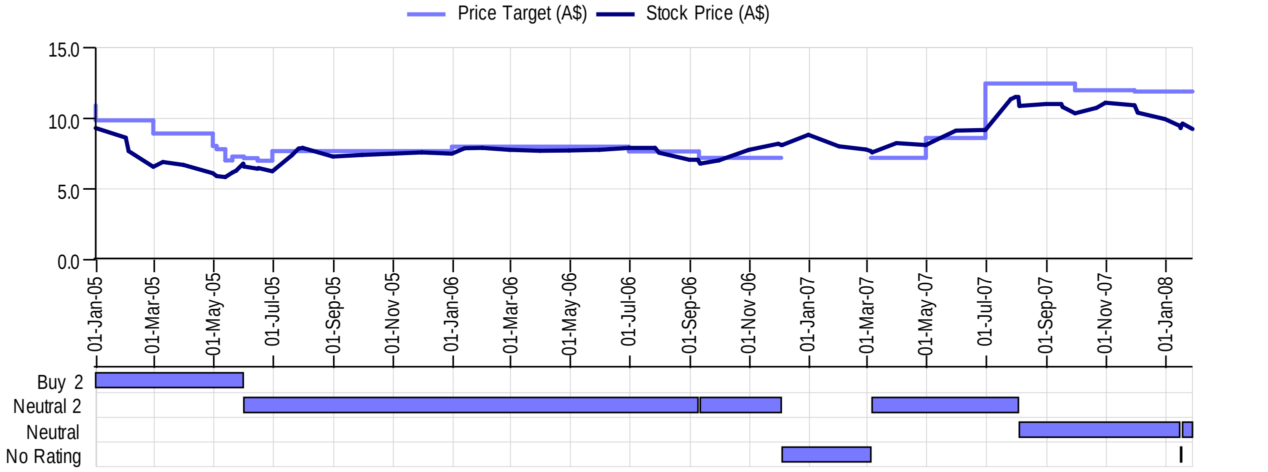
Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
GUD Holdings Limited[13]	GUD.AX	Neutral	N/A	A$9.25	28 Jan 2008

Source: UBS. All prices as of local market close.
Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

13. UBS AG, its affiliates or subsidiaries beneficially owned 1% or more of a class of this company`s common equity securities as of last month`s end (or the prior month`s end if this report is dated less than 10 days after the most recent month`s end).

Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

GUD Holdings Limited (A$)



Source: UBS; as of 28 Jan 2008

Note: On August 4, 2007 UBS revised its rating system. (See 'UBS Investment Research: Global Equity Rating Definitions' table for details). From September 9, 2006 through August 3, 2007 the UBS ratings and their definitions were: Buy 1 = FSR is > 6% above the MRA, higher degree of predictability; Buy 2 = FSR is > 6% above the MRA, lower degree of predictability; Neutral 1 = FSR is between -6% and 6% of the MRA, higher degree of predictability; Neutral 2 = FSR is between -6% and 6% of the MRA, lower degree of predictability; Reduce 1 = FSR is > 6% below the MRA, higher degree of predictability; Reduce 2 = FSR is > 6% below the MRA, lower degree of predictability. The predictability level indicates an analyst's conviction in the FSR. A predictability level of '1' means that the analyst's estimate of FSR is in the middle of a narrower, or smaller, range of possibilities. A predictability level of '2' means that the analyst's estimate of FSR is in the middle of a broader, or larger, range of possibilities. From October 13, 2003 through September 8, 2006 the percentage band criteria used in the rating system was 10%.

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