

GUD Holdings Limited

Strong start to FY08



Wilson HTM
INVESTMENT GROUP

30 January 2008

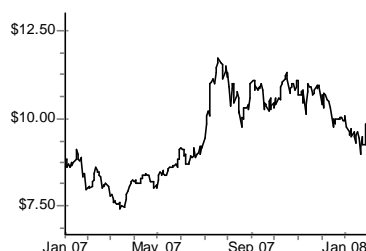
\$9.30

BUY

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Price Performance



Security/Capital Details

ASX Code	GUD
Market Cap	\$589 M
Issued Shares	59.9 M
Avg Mth T'over	5.34 M
12 Mth High – Low	\$11.70 - \$7.43

Key Data/Ratios – FY 2008

EBITDA / Sales	14.8%
EBIT / Sales	12.5%
Net Debt / Equity	61.4%
Interest Cover	7.4 x
ROE	30.6%
EPS Growth	20.9%
PEG Ratio	0.79 x
NTA / Share	\$ 0.66
12 Mth Price Target	\$ 10.70

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 BUY and our 12 month target of \$10.70 p/share (FY09 PER 13x).

GUD has confirmed a strong start to FY08, with 1H08 growth rates for trading EBIT of 31% and NPAT (normalised) of 36%. Earnings were slightly above our forecasts. GUD predicts FY08 EBIT at the top end of its previous guidance of 10% - 15% growth. Our growth forecast has been increased slightly to 17% (previously 15%), with any future changes biased toward the positive. GUD's positive earnings outlook, healthy cash flow and balance sheet, and strong DPS outlook support our BUY rating.

June year-end		1H07	1H08	% Chg
Sales revenue	\$M	265.6	285.3	7%
EBIT (trading)	\$M	29.2	38.3	31%
NPAT (normalised)	\$M	17.2	23.5	36%
NPAT (reported)	\$M	14.9	17.5	17%
DPS	cps	27.0	30.0	11%

Key Points

- **1H08 result.** GUD has confirmed a strong start to FY08, with 1H08 trading EBIT of \$38.3M (+31%) and NPAT (normalised) of \$23.5M (+36%). This was slightly above our forecast of \$38.1M and \$23.2M respectively.
- Reported NPAT of \$17.5M includes a previously foreshadowed \$6.0M (\$8.5M pre-tax) restructuring charge related to the cessation of Australian manufacturing of Oates cleaning products.
- The interim DPS is \$0.30 p/share (pcp: \$0.27), above our forecast of \$0.29.
- Overall, GUD's 1H08 earnings reflects a strong start to the year. Group profit was slightly above our forecasts, the main variance being composition of the divisional contributions between *Water* and *Automotive Products*.
- **Divisional results.** Key features included trading EBIT contributions from Consumer Products of \$20.9M (+85%), driven by (a) good sales of *Sunbeam* appliances in Australia and New Zealand, (b) a strong recovery by *Victa* (ie. improved weather and benefits of previous restructuring), and assisted by (c) a significant improvement from the *Oates* business (ie. sales growth and initial benefits of new product outsourcing arrangements).
- *Water Products* had a difficult 1H08, with EBIT of \$8.5M (-20%), weighed down by weak demand for pool/spa related product (ie impact of drought/water restrictions), and a mixed result from *Davey*. EBIT from *Water Products* was well below our forecast of \$10.5M, but was replaced by a stronger than expected \$10.2M EBIT result from *Filtration Products* (ie. good sales and the benefits of new product sourcing arrangements).
- GUD now expects FY08 trading EBIT growth at the top-end of its previous 10%-15% range. We forecast increased slightly to 17% growth (from 15%), with any future changes biased toward further upside. We retain a BUY.

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	15.7	14.0	9.0	61.0	6.6	100
2008e	37.1	71.9	20.9	12.9	11.5	7.7	69.0	7.4	100
2009e	48.3	80.6	12.2	11.5	9.6	7.0	73.0	7.8	100
2010e	53.4	89.1	10.6	10.4	8.6	6.4	80.0	8.6	100

Earnings summary

A summary of the 1H08 result and our forecasts are detailed in the table below.

Financial summary

Y/e: 30 June		FY06	1H07	FY07	1H08	FY08e	FY09e	FY10e
Sales revenue	\$M	462.4	265.6	518.7	285.3	563.6	608.3	646.6
- growth	%	17%	10%	12%	7%	9%	8%	6%
Divisional EBIT:								
Consumer Products	\$M	32.8	11.3	25.6	20.9	37.0	42.4	47.2
Automotive Products	\$M	18.8	8.0	16.9	10.2	19.4	19.6	19.8
Water Products	\$M	14.9	10.7	19.1	8.5	16.8	18.6	20.0
Security Products	\$M	2.1	1.2	2.3	1.2	2.3	2.5	2.6
Unallocated	\$M	-5.0	-2.0	-3.7	-2.5	-5.0	-5.0	-5.0
Trading EBIT	\$M	63.6	29.2	60.2	38.3	70.6	78.1	84.7
- growth	%	6%	-10%	-5%	31%	17%	11%	8%
NPAT (normalised)	\$M	40.2	17.2	36.2	23.5	43.1	48.3	53.4
- growth	%	3%	-15%	-10%	36%	19%	12%	11%
Significant items	\$M	0.0	-2.3	-2.5	-6.0	-6.0	0.0	0.0
NPAT (reported)		40.2	14.9	33.6	17.5	37.1	48.3	53.4
EPS (normalised)	cents	67.1	28.8	60.3	39.2	71.9	80.6	89.1
- growth	%	4%	-15%	-10%	36%	19%	12%	11%
DPS	cents	60.0	27.0	61.0	30.0	69.0	73.0	80.0
- payout ratio	%	80%	94%	89%	76%	96%	91%	90%
Gearing ratios:								
Net debt	\$M	54.1	115.4	94.7	108.2	87.4	79.0	67.3
- net debt/equity	%	38%	85%	68%	79%	61%	53%	43%
Interest cover	x	9.5	6.6	6.7	8.1	7.8	8.6	10.1
Earnings multiples:								
EV / EBITA	x	9.6	n/a	10.8	0.0	9.1	8.1	7.4
PER (pre g'will)	x	13.9	n/a	15.4	0.0	12.9	11.5	10.4
Yield	%	6.5	n/a	6.6	0.0	7.4	7.8	8.6

Source: GUD & WHTM

Key points:

- Our earnings forecasts for GUD assume normalised EPS growth of 19% for FY08, 12% for FY09, and 11% for FY10.
- Our forecast for FY08 is for trading EBIT of \$70.6M. This reflects growth of 17% (upgraded from 15%), and compares with GUD's guidance of trading EBIT growth at the top-end of its previous 10% - 15% guidance range.
- We view GUD's FY08 outlook statement as adopting a reasonable level of conservatism (ie. assumes flat EBIT growth in the 2H). We suspect GUD's caution reflects recognition of (a) the net benefits that have flowed from a strong AUD/USD exchange rate (ie. lower cost of imported product), and (b) from a generally favourable consumer spending environment. We believe our forecasts also recognise the influences (as above), but also consider a cautious tone with regard to the earnings outlook. We understand retail trading conditions have been satisfactory so far in 2H08.
- Our positive longer-term forecasts are underpinned by an expectation of ongoing product innovation across the group to drive sales, with the increased benefits of offshore product sourcing (ie. *Oates* and *Automotive*) to assist margin improvement in an environment of ongoing competitive trading conditions across the Group. Our forecasts assume relatively stable economic and consumer trading environment in Australia and New Zealand, and no material changes to the current AUD/USD exchange rate.

GUD Holdings Limited (GUD : \$9.30)

INVESTMENT FUNDAMENTALS

Yr Ending June	2006A	2007A	2008E	2009E	2010E
EPS Reported (c)	67.1	56.2	61.9	80.6	89.1
EPS Normalised (c)	65.4	59.4	71.9	80.6	89.1
EPS Growth (%)	N/A	-10.1%	19.1%	12.2%	10.6%
PER Normalised (x)	14.2	15.7	12.9	11.5	10.4
DPS (c)	60.0	61.0	69.0	73.0	80.0
Payout (%)	89.4%	108.6%	111.6%	90.6%	89.8%
Yield (%)	6.5%	6.6%	7.4%	7.8%	8.6%
Franking (%)	100%	100%	100%	100%	100%

VALUATION DATA

Yr Ending June	2006A	2007A	2008E	2009E	2010E
EV / EBITA (x)	9.1	10.1	8.6	7.7	7.1
EV / EBITDA (x)	8.2	9.0	7.7	7.0	6.4
CFPS (c)	95.2	66.6	80.9	97.0	108.0
Price / CF	9.8	14.0	11.5	9.6	8.6
Book Value / Share (\$)	2.4	2.3	2.4	2.5	2.6
Price / Book (x)	3.9	4.0	3.9	3.8	3.6

PROFIT & LOSS (\$m)

Yr Ending June	2006A	2007A	2008E	2009E	2010E
Sales Revenue	462.4	518.7	563.7	608.3	646.6
EBITDA	74.2	72.4	83.5	91.3	97.6
Depreciation	7.0	7.9	8.3	8.8	9.3
EBITA	67.2	64.6	75.2	82.5	88.4
Amortisation	4.6	5.0	4.7	4.4	3.7
EBIT	62.6	59.6	70.6	78.1	84.7
Net Interest Expense	6.7	8.8	9.1	9.1	8.4
Pre-tax Profit	56.9	51.3	61.5	69.0	76.3
Tax	16.7	15.1	18.5	20.7	22.9
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	43.1	48.3	53.4
Abn's / Extraord's	0.0	-2.5	-6.0	0.0	0.0
Reported Net Profit	40.2	33.6	37.1	48.3	53.4
Revenue Growth (%)	N/A	12.2%	8.7%	7.9%	6.3%
EBIT Growth (%)	N/A	-4.8%	18.5%	10.7%	8.4%
NPAT Growth (%)	N/A	-10.1%	19.1%	12.2%	10.6%

PROFITABILITY RATIOS

Yr Ending June	2006A	2007A	2008E	2009E	2010E
EBIT / Sales (%)	13.5%	11.5%	12.5%	12.8%	13.1%
ROA (%)	N/A	21.1%	22.7%	24.3%	25.8%
ROE (%)	N/A	25.8%	30.6%	33.2%	35.2%
ROFE (%)	N/A	30.1%	32.5%	36.1%	39.3%

BALANCE SHEET (\$m)

Yr Ending June	2006A	2007A	2008E	2009E	2010E
Cash	17.0	17.7	18.1	14.4	11.1
Receivables	55.9	67.7	73.5	79.3	84.3
Inventories	82.9	95.7	104.0	112.3	119.3
Other	4.6	4.9	5.9	6.1	6.2
Current Assets	160.4	186.0	201.5	212.1	221.0
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	334.2	339.0	342.6
Current Payables	44.9	55.4	60.2	64.9	69.0
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	26.5	32.7	39.4
Total Liabilities	133.0	185.0	192.0	191.1	186.8
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	44.1	49.9	57.7
Minorities	0.0	0.0	0.0	0.0	0.0
Total Equity	141.4	139.3	142.2	147.9	155.8
Total Funds Employed	195.5	234.0	229.5	226.9	223.1

LIQUIDITY & LEVERAGE RATIOS

Yr Ending June	2006A	2007A	2008E	2009E	2010E
Net Debt (Cash) (\$m)	54.1	94.7	87.4	79.0	67.3
Net Debt / Equity (%)	38.2%	68.0%	61.4%	53.4%	43.2%
Interest Cover (x)	8.9	6.5	7.4	8.3	9.7
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	70.6	78.1	84.7
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	-14.8	-16.6
Dec / (Inc) W'kg Cap	-9.3	-14.2	-9.4	-9.3	-8.0
Other	16.1	6.4	0.0	0.0	0.0
Operating Cash Flow	57.0	39.9	48.5	58.1	64.7
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	-34.2	-42.5	-45.5
Other Fin. Flows	0.0	0.0	0.0	0.0	0.0
Financing Cash Flow	-18.8	5.1	-41.2	-54.5	-60.5
Net Cash Flow	-2.3	0.6	0.3	-3.6	-3.3

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