

UBS Investment Research

GUD Holdings Limited

Trading Update – Guidance re-affirmed

■ Expect earnings growth at top end of 10-15% guidance

Following a strong April and solid May to date, GUD have re-iterated guidance for FY08 EBIT growth at the upper end of the 10-15% range. With the exception of water products, all division are trading up of the pcp, a strong result given cost pressures and a slowing domestic economy. While trading within the water division has been challenging, the outlook is positive, with growth into 09 expected to be considerably better as GUD benefits from recent strategic initiatives and the general strength of water engineering space.

■ Estimates unchanged – UBSe FY08 marginally ahead of guidance

For FY08 we forecast 15.8% EBIT growth, implying 2H08 EBIT growth of just 1.2%, within which we assume; i) ~6% Growth in consumer products (Victa); ii) Ongoing market share gains in automotive products and; iii) A softer result in water products. For FY09 we forecast 4.5% EBIT growth driven by an improved performance from Davey, the benefit of recent contract wins (SUL) in the automotive division and an ongoing focus on cost rationalisation.

■ Maintain Neutral

While GUD has a favourable medium term earnings outlook and solid yield, at 11.6x FY09e earnings we believe the stock is fairly priced at current levels.

■ Valuation: SOTP declines to \$9.50 reflecting peer multiple compression

Our SOTP valuation has declined reflecting the contraction in domestic and global peers over the past 3 months. The SOTP valuation lies in line with our DCF range of \$9.25 - \$10.21 within which we assume a 9.6% WACC and 2%-3% terminal growth rate.

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	7.5	7.1	7.0
PE (UBS) x	12.3	13.5	12.5	11.6	11.2
Net dividend yield %	6.8	7.5	7.2	7.3	7.7

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\$8.99 on 22 May 2008 18:42 EST

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Global Equity Research

Australia

Auto Parts

12-month rating **Neutral**
Unchanged

12m price target **A\$9.50/US\$9.13**
Prior: A\$10.00/US\$9.61

Price **A\$8.99/US\$8.64**

RIC: GUD.AX BBG: GUD AU

22 May 2008

Trading data (local/US\$)

52-wk range	A\$11.70-8.44/US\$10.30-7.05
Market cap.	A\$0.54bn/US\$0.52bn
Shares o/s	59.9m (ORD)
Free float	100%
Avg. daily volume ('000)	265
Avg. daily value (A\$m)	2.6

Balance sheet data 06/08E

Shareholders' equity	A\$0.14bn
P/BV (UBS)	3.8x
Net Cash (debt)	(A\$0.08bn)

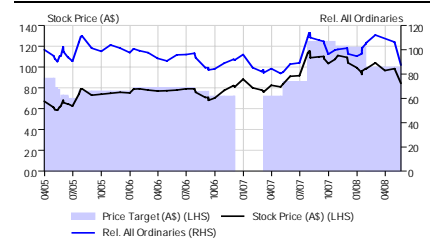
Forecast returns

Forecast price appreciation	+5.7%
Forecast dividend yield	10.5%
Forecast stock return	+16.2%
Market return assumption	11.7%
Forecast excess return	+4.5%

EPS (UBS, A\$)

	06/08E		06/07	06/07
	From	To	Cons.	Actual
H1	-	0.39	-	0.29
H2E	-	0.33	-	0.31
06/08E	-	0.72	0.72	
06/09E	-	0.78	0.77	

Performance (A\$)



Source: UBS

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ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 4.

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Valuation

While we maintain our Neutral rating, our SOTP valuation has declined to \$9.50 (from \$10.00), representing a compression in global peer multiples over recent months. This compares to our DCF valuation of between \$9.25 - \$10.21 (WACC 9.6%, Tg 2-3%).

Table 1: GUD SOTP Valuation

	EBIT		Value (\$m)	Comment
	FY08e EBIT \$m	Multiple x		
Consumer Products	36.1	8.2	296	Domestic consumer products comps (ALS, GWA, HWI)
Automotive	18.4	8.5	157	Repeco take over multiple
Water Products	16.7	11.2	186	Average of Weir, Pentair and Franklin Elec
Security Products	2.3	8.0	18	Mkt multiple
Unallocated			-3	
Firm Value	73.5	8.9	654.7	
Investments			0	
Less Debt (\$m)			-80.0	
Equity Valuation			574.63	
Total Diluted Ord Shares (m)			60.27	
SOP: Value per Share			9.53	

Source: UBS estimates, IBES

Table 2: GUD Compco

Stock	Price	PE		EV/EBIT		ROE	Yield
		2008e	2009e	2008e	2009e		
Alesco Corporation	8.01	9.6.x	9.2.x	8.4.x	7.6.x	15%	8.9%
GWA International Limited	2.84	12.5.x	11.2.x	9.3.x	8.0.x	15%	7.9%
GUD Holdings Limited	8.44	11.7.x	10.9.x	8.5.x	8.0.x	27%	7.7%
McPherson's Limited	2.82	6.3.x	5.9.x	9.7.x	9.1.x	18%	11.4%
Housewares International Ltd	1.44	7.9.x	7.3.x	6.9.x	6.0.x	18%	7.5%
Average		9.6	8.9	8.5	7.7	18.7%	8.7%
<i>GUD Premium/(Discount)</i>		<i>22%</i>	<i>22%</i>	<i>0%</i>	<i>3%</i>	<i>42%</i>	<i>-11%</i>

Source: UBS estimates, IBES

GUD Holdings (GUD.AX)

MARKET INFORMATION

Rating:	Neutral
Price (as of 22-May-08): (A\$)	8.99
Price Target (12 months): (A\$)	9.50
Shares outstanding: (m)	59.9
Market Capital (A\$ m):	538.6
Avg. daily turnover (A\$ m):	2.6
Year end:	June
Website:	www.gud.com.au
Major Shareholders:	Perpetual, Invesco

INVESTMENT SUMMARY

(A\$ m)	2007	2008E	2009E	2010E
Net profit [reported]	33.6	37.3	46.5	48.3
Net profit [adjusted]	35.9	43.2	46.5	48.3
EPS [reported]	0.56	0.62	0.78	0.81
EPS [adjusted, diluted]	0.60	0.72	0.78	0.81
EPS Growth (%)	(10.6)	20.2	7.7	3.7
PER [adjusted]* (x)	13.5	12.5	11.6	11.2
Dividend	0.61	0.65	0.66	0.69
Payout ratio, [EPS adj.] (%)	102	90	85	86
Dividend Yield [Net]* (%)	7.5	7.2	7.3	7.7
Shares [period-avg, basic] (m)	59.9	59.9	59.9	59.9
Book value per share	2.32	2.36	2.47	2.59
Price to Book* (x)	3.5	3.8	3.6	3.5
Equity Free Cash Flow Yield (%)	5.9	8.4	9.4	9.7
Franning (%)	100	100	100	100

PROFIT AND LOSS

(A\$ m)	2007	2008E	2009E	2010E
Revenue	524.0	546.3	565.3	580.5
EBITDA [adjusted]	73.0	83.1	86.3	88.2
Depreciation & Amortisation	(12.9)	(13.4)	(13.5)	(13.7)
EBIT [adjusted]	60.2	69.6	72.8	74.5
Net interest	(9.0)	(8.3)	(6.8)	(6.1)
Income from associates	0.0	0.0	0.0	0.0
Other non-operating items	0.0	0.0	0.0	0.0
Profit before tax [adj]	51.2	61.3	66.0	68.4
Tax on pre-abnormal profit	(15.3)	(18.2)	(19.4)	(20.2)
Minority Interests	0.0	0.0	0.0	0.0
Dividends (preferred)	0.0	0.0	0.0	0.0
Net Profit [adjusted]	35.9	43.2	46.5	48.3
Abnormal Gain/(Loss) after Tax	(2.3)	(5.9)	0.0	0.0
Net Profit [reported]	33.6	37.3	46.5	48.3

BALANCE SHEET

(A\$ m)	2007	2008E	2009E	2010E
Cash & equivalents	17.7	17.7	17.7	17.7
Accounts receivable	67.7	70.4	72.9	74.8
Inventory	95.7	97.9	99.9	102.6
Fixed assets	30.4	30.7	31.3	31.9
Intangibles	106.5	93.7	88.2	82.8
Investments	0.8	0.8	0.8	0.8
Other assets	5.4	5.4	5.4	5.4
Total Assets	324.2	316.7	316.3	316.1
Accounts payable	55.4	56.9	58.8	60.4
Short & long term debt	112.5	97.7	88.5	79.7
Provisions & other	17.2	20.9	20.9	20.9
Preferred securities	0.0	0.0	0.0	0.0
Total liabs & pref shares	185.0	175.5	168.1	161.0
Minorities	0.0	0.0	0.0	0.0
Common equity	139.3	141.2	148.2	155.1
Total liabilities & equity	324.2	316.7	316.3	316.1
Net cash / (debt)	(94.7)	(80.0)	(70.7)	(61.9)

CASH FLOW

(A\$ m)	2007	2008E	2009E	2010E
Operating income [EBIT, UBS]	60.2	69.6	72.8	74.5
Depreciation & Amortisation	12.9	13.4	13.5	13.7
Net change in working capital	(8.3)	(3.4)	(2.6)	(3.0)
Other (operating)	0.0	0.0	0.0	0.0
Pre-tax op cash flow	64.7	79.7	83.8	85.2
Interest (paid) / received	(8.9)	(8.3)	(6.8)	(6.1)
Tax paid	(15.9)	(15.6)	(19.4)	(20.2)
Other	0.0	0.0	0.0	0.0
Operating cash flow	39.9	55.8	57.5	58.9
Capital expenditure	(8.7)	(8.0)	(6.8)	(6.8)
Free cash flow	31.2	47.8	50.7	52.1
Net (acquisitions) / disposals	(36.6)	(8.3)	(8.6)	(8.8)
Dividends paid (Common)	(35.9)	(41.3)	(39.5)	(41.3)
Shares issued/(repurchased)	0.0	0.0	0.0	0.0

Source: UBS estimates, * Historical valuations are based on an average share price for the period. Current & future valuations are based on a share price of A\$8.99 on 22-May-2008

COMPANY DESCRIPTION

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.

KEY RATIOS

	2007	2008E	2009E	2010E
Profitability (%)				
Revenue growth	12.0	4.3	3.5	2.7
EBITDA margin	13.9	15.2	15.3	15.2
EBIT margin	11.5	12.7	12.9	12.8
Effective tax rate	29.5	29.5	29.5	29.5
Return on Inv Cap (post-tax)	19.7	21.6	23.4	24.2
Return on Equity	25.6	30.8	32.2	31.8
Capital Structure				
Net Debt / EBITDA (x)	1.0	1.1	0.9	0.9
Net Debt / Common equity (%)	68.0	56.7	47.7	39.9
Net Debt / Core EV* (x)	0.2	0.1	0.1	0.1
Capex / Depreciation (x)	0.7	0.6	0.5	0.5
EBIT / Net Interest (x)	6.7	8.4	10.7	12.2

PROFIT AND LOSS (HALF YEAR)

(A\$ m)	1H 07	2H 07	1H 08	2H 08E
Revenue	266.1	253.5	285.8	260.4
EBITDA [adjusted]	35.2	37.8	44.8	38.2
Depreciation & Amortisation	(6.0)	(6.9)	(6.5)	(6.9)
EBIT [adjusted]	29.2	31.0	38.3	31.3
Net interest	(4.4)	(4.5)	(4.7)	(3.6)
Income from associates	0.0	0.0	0.0	0.0
Other non-operating items	0.0	0.0	0.0	0.0
Profit before tax [adj]	24.8	26.4	33.6	27.8
Tax on pre-abnormal profit	(7.6)	(7.6)	(10.2)	(8.0)
Minority Interests	0.0	0.0	0.0	0.0
Dividends (preferred)	0.0	0.0	0.0	0.0
Net Profit [adjusted]	17.2	18.8	23.5	19.7
Abnormal Gain/(Loss) after Tax	(2.3)	0.0	(5.9)	0.0
Net Profit [reported]	14.9	18.8	17.5	19.7

ENTERPRISE VALUE*

(A\$ m)	2007	2008E	2009E	2010E
Market capital	484.8	538.6	538.6	538.6
Net debt / (cash) [avg]	74.4	87.4	75.4	75.4
Estimated share buy backs	0.0	0.0	0.0	0.0
Minorities	0.0	0.0	0.0	0.0
Pension provisions	0.0	0.0	0.0	0.0
Total Enterprise Value	559.2	626.0	614.0	614.0
(Non-core assets)	0.0	0.0	0.0	0.0
Core Enterprise Value	559.2	626.0	614.0	614.0
Core EV Ratios				
EV / Sales	1.1	1.1	1.1	1.1
EV / EBITDA	7.7	7.5	7.1	7.0
EV / EBIT	9.3	9.0	8.4	8.2
EV / OpFCF [post-tax]	9.5	8.6	8.0	7.8
EV / Invested Capital	2.6	2.8	2.8	2.8

DIVISIONAL BREAKDOWN

(A\$ m)	2007	2008E	2009E	2010E
Total Revenue	524.0	546.3	565.3	580.5
Sunbeam Victa	287.5	316.3	325.8	333.9
Ryco Wesfil	68.6	70.6	71.3	72.0
Davey Pumps	148.8	144.3	153.0	159.1
Lock Focus	13.8	14.0	14.2	14.4
Adjustment	5.3	1.1	1.1	1.1
EBIT	60.2	69.6	72.8	74.5
Sunbeam Victa	25.6	36.1	37.2	38.1
Ryco Wesfil	16.8	18.4	18.3	18.3
Davey Pumps	19.1	16.7	18.9	19.6
Lock Focus	2.3	2.3	2.3	2.4
Adjustment	(3.7)	(3.9)	(3.9)	(3.9)

■ 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	59%	38%
Neutral	Hold/Neutral	34%	35%
Sell	Sell	7%	26%
UBS Short-Term Rating	Rating Category	Coverage ³	IB Services ⁴
Buy	Buy	less than 1%	67%
Sell	Sell	less than 1%	25%

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 March 2008.

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).

Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

Short-Term Ratings reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.

EXCEPTIONS AND SPECIAL CASES

UK and European Investment Fund ratings and definitions are :

Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Sell: Negative on factors such as structure, management, performance record, discount.

Core Banding Exceptions (CBE) : Exceptions to the standard +/-6% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Company Disclosures table in the relevant research piece.

Company Disclosures

Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
GUD Holdings Limited ¹³	GUD.AX	Neutral	N/A	A\$8.44	21 May 2008

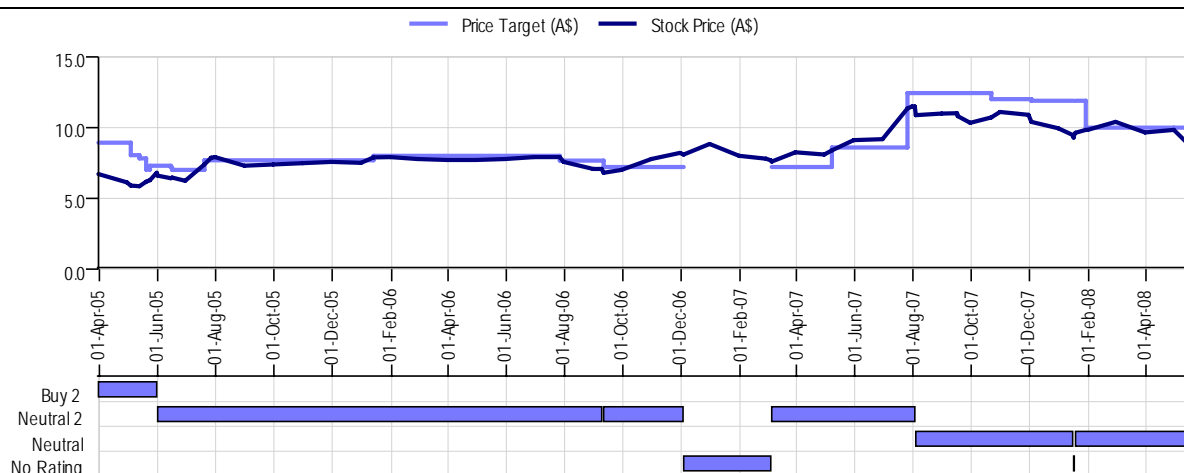
Source: UBS. All prices as of local market close.

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 21 May 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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