

GUD Holdings Limited

Proposed divestment of Victa



Wilson HTM
INVESTMENT GROUP

4 June 2008

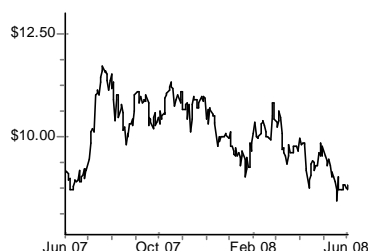
\$8.70

BUY

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Price Performance



Security/Capital Details

ASX Code	GUD
Market Cap	\$513 M
Issued Shares	58.9 M
Avg Mth T'over	5.34 M
12 Mth High – Low	\$11.70 - \$8.44

Key Data/Ratios – FY 2008

EBITDA / Sales	14.7%
EBIT / Sales	12.4%
Net Debt / Equity	73.8%
Interest Cover	7.1 x
ROE	31.3%
EPS Growth	17.4%
PEG Ratio	0.76 x
NTA / Share	\$ 0.51
12 Mth Price Target	\$ 9.80

Recommendation

We retain a BUY rating, with a 12 month target of \$9.80 p/share. Our rating would moderate to a HOLD above the \$9.50 p/share level.

GUD has announced the sale of its *Victa Lawncare* products business (subject to ACCC approval). On the basis that the divestment proceeds, it should reduce some of the volatility in GUD's earnings (ie. sales sensitive to weather), produce gross proceeds of \$23M to reduce debt, and moderate NPAT and EPS by ~4% in FY09. The logic for divestment is sound, and our investment assessment of GUD remains unchanged.

Key Points

- **Victa divestment.** GUD has announced the proposed sale of its *Victa Lawncare* products business ("Victa") to USA based Briggs & Stratton Corporation. The sale is conditional on Australian Competition and Consumer Commission ("ACCC") approval.
- **Background.** GUD acquired the *Victa* business as part of its 1996 takeover of the then ASX listed Sunbeam Victa Ltd. An Australian icon brand, *Victa* has ~50% market share of the domestic mower market. While *Victa* has generated good growth over the long-term, its annual sales and profit performance can be volatile given sensitivity to climatic weather conditions.
- **Financial implications.** GUD does not disclose the earnings performance of *Victa*, but we estimate annual sales in FY08 of ~\$60M and EBITA of ~\$4.0M. The trading environment (ie. weather conditions) for *Victa* in FY08 has been favourable, and the EBIT performance in the previous two years would have been materially below that forecast for FY08. The indicated sale proceeds is \$23M (FY08 EV/EBITA: 5.8x), and are expected to exceed book value (WHTM est: \$2.0M pre-tax profit).
- **Earnings forecasts.** We note that the sale of *Victa* remains conditional on ACCC approval, however our earnings forecasts have been revised on the basis that the acquisition proceeds. In summary, we have eliminated \$4.0m of EBIT to our FY09 and FY10 forecasts, offset by reduced net interest (of \$1.6M) following receipt of cash proceeds from the sale. The net impact is a reduction of 4% to our FY09 NPAT and EPS forecasts. Our pro-forma FY09 net debt forecast is \$76M (ND/E: 59%, net interest cover 8x), providing GUD with a strong balance sheet and sufficient capital resources to fund any prospective strategic acquisitions.
- **Wilson HTM view.** Overall we view the commercial logic to divesting *Victa* as sound, and will reduce the level of earnings volatility for GUD. Valuation creation can be assisted by deploying the funds raised (& other capital) towards strategic acquisitions, and we expect this to be a focus for GUD.
- **Recommendation.** We retain a BUY rating, mainly for value based investors, with the main source of investment returns to be delivered from dividend yield. Our 12 month price target is \$9.80 p/share (FY09 EV/EBITA 9x). We retain a BUY but would moderate to a HOLD above the \$9.50 level.

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

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	61.1	-10.3	14.2	11.5	8.4	61.0	7.0	100
2008e	36.5	71.8	17.4	12.1	11.0	7.4	67.0	7.7	100
2009e	44.4	73.8	2.8	11.8	9.2	7.0	69.0	7.9	100
2010e	46.0	79.7	8.0	10.9	8.7	6.6	72.0	8.3	100

Earnings summary

A summary of our earnings revisions is detailed in the table below.

Note: our analysis assumes the divestment secures ACCC approval, and settlement occurs on 1 July 2008.

Earnings revisions

Y/e: 30 June		FY08e	FY09e	FY10e
NPAT - old	(\$M)	42.5	44.8	47.8
NPAT - new	(\$M)	42.5	43.0	46.0
- % chg	(%)	0%	-4%	-4%
- growth	(%)	18%	1%	7%
EPS - old	(\$M)	71.2	76.6	82.5
EPS - new	(\$M)	71.2	73.6	79.5
- % chg	(%)	0%	-4%	-4%
- growth	(%)	18%	3%	8%

Source: Wilson HTM

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

Financial summary

Y/e: 30 June		FY05	FY06	FY07	FY08e	FY09e	FY10e
Sales revenue	\$M	394.4	462.4	518.7	566.4	534.8	560.4
- growth	%	0%	17%	12%	9%	-6%	5%
Divisional EBIT:							
Consumer Products	\$M	28.6	32.8	25.6	37.7	35.2	37.2
Automotive Products	\$M	17.7	18.8	16.9	19.8	20.2	20.9
Water Products	\$M	11.1	14.9	19.1	15.3	17.9	19.5
Security Products	\$M	2.7	2.1	2.3	2.3	2.4	2.4
Unallocated	\$M	0.2	-5.0	-3.7	-5.0	-5.4	-5.5
Trading EBIT	\$M	60.2	63.6	60.2	70.1	70.3	74.4
- growth	%	-4%	6%	-5%	17%	0%	6%
NPAT (normalised)	\$M	39.2	40.2	36.2	42.5	43.0	46.0
- growth	%	-6%	3%	-10%	18%	1%	7%
Significant items	\$M	-8.8	0.0	-2.5	-6.0	1.4	0.0
NPAT (reported)		30.4	40.2	33.6	36.5	44.4	46.0
EPS (normalised)	cents	64.8	67.1	60.3	71.2	73.6	79.5
- growth	%	-6%	4%	-10%	18%	3%	8%
DPS	cents	50.0	60.0	61.0	67.0	69.0	72.0
- payout ratio	%	77%	80%	89%	94%	93%	91%
Gearing ratios:							
Net debt	\$M	37.6	54.1	94.7	97.9	76.0	66.2
- net debt/equity	%	28%	38%	68%	74%	59%	50%
Interest cover	x	15.6	9.5	6.7	7.4	8.0	8.6
Earnings multiples:							
EV / EBITA	x	9.3	9.0	10.2	8.7	8.2	7.7
PER (pre g'will)	x	13.4	13.0	14.4	12.2	11.8	10.9
Yield	%	5.7	6.9	7.0	7.7	7.9	8.3

Source: GUD & WHTM

* Note: Forecasts assumes 1M shares are acquired under the buy-back in each of 2H08 & FY09.

GUD Holdings Limited (GUD : \$8.70)

INVESTMENT FUNDAMENTALS

Yr Ending June	2006A	2007A	2008E	2009E	2010E
EPS Reported (c)	67.1	56.2	61.4	76.0	79.5
EPS Normalised (c)	68.2	61.1	71.8	73.8	79.7
EPS Growth (%)	N/A	-10.1%	18.6%	2.8%	8.1%
PER Normalised (x)	12.8	14.2	12.1	11.8	10.9
DPS (c)	60.0	61.0	67.0	69.0	72.0
Payout (%)	89.4%	108.6%	109.0%	90.8%	90.6%
Yield (%)	6.9%	7.0%	7.7%	7.9%	8.3%
Franking (%)	100%	100%	100%	100%	100%

VALUATION DATA

Yr Ending June	2006A	2007A	2008E	2009E	2010E
EV / EBITA (x)	9.0	10.1	8.7	8.3	7.7
EV / EBITDA (x)	7.7	8.4	7.4	7.0	6.6
CFPS (c)	103.5	76.0	79.0	94.2	99.8
Price / CF	8.4	11.5	11.0	9.2	8.7
Book Value / Share (\$)	2.4	2.3	2.3	2.2	2.3
Price / Book (x)	3.7	3.7	3.9	3.9	3.8

PROFIT & LOSS (\$m)

Yr Ending June	2006A	2007A	2008E	2009E	2010E
Sales Revenue	462.4	518.7	566.5	534.8	560.4
EBITDA	75.2	73.1	83.0	82.8	86.7
Depreciation	11.0	12.3	12.7	12.3	12.2
EBITA	64.3	60.7	70.3	70.4	74.5
Amortisation	0.6	0.5	0.1	0.1	0.1
EBIT	63.6	60.2	70.1	70.3	74.4
Net Interest Expense	6.7	9.0	9.4	8.8	8.7
Pre-tax Profit	56.9	51.3	60.7	61.6	65.7
Tax	16.7	15.1	18.2	18.6	19.7
Tax rate (%)	29.4%	29.5%	30.0%	30.2%	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	42.5	43.0	46.0
Abn's / Extraord's	0.0	-2.5	-6.0	1.4	0.0
Reported Net Profit	40.2	33.6	36.5	44.4	46.0
Revenue Growth (%)	N/A	12.2%	9.2%	-5.6%	4.8%
EBIT Growth (%)	N/A	-5.3%	16.5%	0.2%	5.8%
NPAT Growth (%)	N/A	-10.1%	17.6%	1.1%	7.1%

PROFITABILITY RATIOS

Yr Ending June	2006A	2007A	2008E	2009E	2010E
EBIT / Sales (%)	13.8%	11.6%	12.4%	13.1%	13.3%
ROA (%)	N/A	21.4%	22.5%	22.7%	24.5%
ROE (%)	N/A	25.8%	31.3%	32.9%	35.2%
ROFE (%)	N/A	28.3%	30.3%	32.3%	36.9%

BALANCE SHEET (\$m)

Yr Ending June	2006A	2007A	2008E	2009E	2010E
Cash	17.0	17.7	17.7	19.7	18.4
Receivables	55.9	67.7	73.9	73.8	77.3
Inventories	82.9	95.7	104.5	98.7	103.4
Other	4.6	4.9	5.9	6.1	6.2
Current Assets	160.4	186.0	202.0	198.2	205.4
Net PPE	29.9	30.4	29.1	23.1	21.7
Investments	0.0	0.0	0.0	0.0	0.0
Intangibles	83.9	106.5	102.1	97.8	94.3
Other	0.2	1.4	1.8	1.9	2.1
Non-current Assets	114.0	138.3	133.0	122.8	118.2
Total Assets	274.4	324.2	335.0	321.0	323.5
Current Payables	44.9	55.4	60.5	60.1	63.0
Current Debt	35.3	35.8	35.8	35.8	35.8
Non-Current Debt	35.8	76.7	79.9	59.9	48.9
Provisions	0.0	0.0	0.0	0.0	0.0
Other	17.0	17.2	26.3	37.2	42.4
Total Liabilities	133.0	185.0	202.4	192.9	190.0
Equity	98.4	98.4	89.4	80.4	80.4
Reserves	-0.5	-0.4	-0.4	-0.4	-0.4
Retained Profits	43.5	41.2	43.6	48.0	53.5
Minorities	0.0	0.0	0.0	0.0	0.0
Total Equity	141.4	139.3	132.6	128.1	133.6
Total Funds Employed	195.5	234.0	230.5	204.0	199.8

LIQUIDITY & LEVERAGE RATIOS

Yr Ending June	2006A	2007A	2008E	2009E	2010E
Net Debt (Cash) (\$m)	54.1	94.7	97.9	76.0	66.2
Net Debt / Equity (%)	38.2%	68.0%	73.8%	59.3%	49.6%
Interest Cover (x)	9.1	6.5	7.1	7.7	8.3
Debt / CashFlow (x)	1.1	2.5	2.5	1.7	1.5

CASHFLOW (\$m)

Yr Ending June	2006A	2007A	2008E	2009E	2010E
EBIT	63.6	60.2	70.1	70.3	74.4
Dep'n and Amort'n	11.6	12.8	12.9	12.5	12.3
Net Int Rec'd (Paid)	-6.7	-9.0	-9.4	-8.8	-8.7
Tax Paid	-17.3	-15.9	-16.6	-14.6	-14.9
Dec / (Inc) W'kg Cap	-9.3	-14.2	-9.9	5.6	-5.4
Other	20.0	11.5	0.0	-10.0	0.0
Operating Cash Flow	62.0	45.5	47.0	55.0	57.8
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	23.0	0.0
Other Inv. Flows	0.0	0.0	0.0	0.0	0.0
Investing Cash Flow	-40.6	-44.4	-7.0	15.8	-7.5
Equity Raised	0.0	0.0	-9.0	-9.0	0.0
Inc / (Dec) in Loans	13.6	41.1	3.2	-20.0	-11.0
Dividends Paid	-32.4	-35.9	-34.2	-39.9	-40.5
Other Fin. Flows	0.0	0.0	0.0	0.0	0.0
Financing Cash Flow	-18.8	5.1	-40.0	-68.9	-51.5
Net Cash Flow	2.6	6.2	0.0	1.9	-1.2

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