

# GUD Holdings Limited

## Result Preview



Wilson HTM  
INVESTMENT GROUP

21 July 2008

\$8.10

BUY

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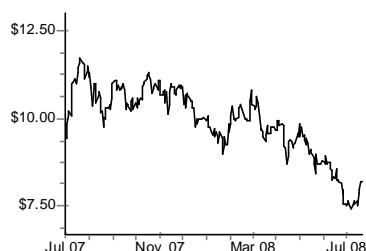
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### Price Performance



### Security/Capital Details

ASX Code	GUD
Market Cap	\$483 M
Issued Shares	58.9 M
Avg Mth T'over	5.34 M
12 Mth High – Low	\$11.70 - \$7.44

### Key Data/Ratios – FY 2008

EBITDA / Sales	14.7%
EBIT / Sales	12.4%
Net Debt / Equity	55.9%
Interest Cover	7.1 x
ROE	31.1%
EPS Growth	17.4%
PEG Ratio	0.68 x
NTA / Share	\$ 0.79
12 Mth Price Target	\$ 9.60

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 rating for yield focused investors. Our 12 month target is \$9.60 p/share (FY09 EV/EBITA 9x, implied PER 13x).

GUD will release its FY08 result this Thursday 24 July. There should be no major surprises given GUD's recent affirmation that trading EBIT growth will be "... at the top end of its 10% - 15% guidance range". Our forecast provides EBIT growth of 16%. Much of the focus will be on guidance for FY09, and we incorporate relatively flat earnings expectations given an uncertain consumer environment, and the recent divestment of *Victa*.

June year-end		FY07	FY08e	% Chg
Sales revenue	\$M	518.7	566.4	9%
EBIT (trading)	\$M	60.2	70.1	16%
NPAT (normalised)	\$M	36.2	42.5	18%
NPAT (reported)	\$M	33.6	38.0	13%
DPS	cps	61.0	67.0	10%

### Key Points

- **FY08 result.** We forecast trading EBIT of \$70.1M (+16%) and NPAT (normalised) of \$42.5M. NPAT (reported) will be reduced by 'significant costs' of \$4.6M (Oates restructuring costs: \$6.0M, *Victa* sale profit: ~\$1.4M).
- We forecast a final DPS of \$0.37, taking the FY08 DPS to \$0.67 (+10%).
- Overall, GUD should confirm a strong earnings performance in FY08, despite the under-performance of its *Water Products* Division (attributed to the impact of the drought on the sale of pool/spa products).
- At the Divisional level, we forecast trading EBIT contributions from *Consumer Products* of \$37.7M (pcp: \$25.6M), *Automotive Products* of \$19.8M (pcp: \$16.9M), while *Water Products* is expected to decline 20% to \$15.3M (pcp: \$19.1M), and *Security Products* to remain steady at \$2.3M.
- Cash flow should remain healthy (OCF: \$46.9M), and net debt is forecast at \$75M (assumes proceeds from *Victa* sale of \$23M) ie. interest cover of 7.4x.
- **Earnings outlook.** GUD's comments on its earnings outlook will be a key focus for investors. We expect GUD to be cautious on guidance, particularly in light of the uncertain consumer and economic outlook.
- Our forecasts factor in a relatively flat earnings outlook into FY09 (ie. trading EBIT steady at \$70M). These forecasts consider the June 2008 divestment of the *Victa* business (EBIT of ~\$4M in FY08), margin improvement for Oates (ie. transfer from manufacturer to importer of product), and an improved result from *Water Products* (ie. easing drought). Overall, we anticipate softer consumer demand (impact *Sunbeam*), and are mindful of margin pressure in the event of a weaker AUD/USD exchange rate.
- **Recommendation.** GUD is a well managed business. The main source of investment returns within the short-term will be dividends, with capital growth to resume over the longer-term. BUY below \$9.00 p/share.

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	13.3	10.7	7.9	61.0	7.5	100
2008e	38.0	71.8	17.4	11.3	10.3	6.7	67.0	8.3	100
2009e	42.4	73.8	2.8	11.0	8.6	6.6	69.0	8.5	100
2010e	46.0	79.7	8.0	10.2	8.1	6.2	72.0	8.9	100

## Earnings summary

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

### Financial summary

Y/e: 30 June		FY05	FY06	FY07	FY08e	FY09e	FY10e
<b>Sales revenue</b>	<b>\$M</b>	<b>394.4</b>	<b>462.4</b>	<b>518.7</b>	<b>566.4</b>	<b>534.8</b>	<b>560.4</b>
- growth	%	0%	17%	12%	9%	-6%	5%
<b>Divisional EBIT:</b>							
- 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
<b>Trading EBIT</b>	<b>\$M</b>	<b>60.2</b>	<b>63.6</b>	<b>60.2</b>	<b>70.1</b>	<b>70.3</b>	<b>74.4</b>
- growth	%	-4%	6%	-5%	17%	0%	6%
<b>NPAT (normalised)</b>	<b>\$M</b>	<b>39.2</b>	<b>40.2</b>	<b>36.2</b>	<b>42.5</b>	<b>43.0</b>	<b>46.0</b>
- growth	%	-6%	3%	-10%	18%	1%	7%
Significant items	\$M	-8.8	0.0	-2.5	-4.6	-0.6	0.0
NPAT (reported)		30.4	40.2	33.6	38.0	42.4	46.0
<b>EPS (normalised)</b>	<b>cents</b>	<b>64.8</b>	<b>67.1</b>	<b>60.3</b>	<b>71.2</b>	<b>73.6</b>	<b>79.5</b>
- 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%
<b>Gearing ratios:</b>							
Net debt	\$M	37.6	54.1	94.7	74.9	76.0	66.2
- net debt/equity	%	28%	38%	68%	56%	60%	50%
Interest cover	x	15.6	9.5	6.7	7.4	8.0	8.6
<b>Earnings multiples:</b>							
EV / EBITA	x	8.7	8.5	9.6	7.9	7.8	7.2
PER (pre g'will)	x	12.5	12.1	13.4	11.4	11.0	10.2
Yield	%	6.2	7.4	7.5	8.3	8.5	8.9

Source: GUD & WHTM

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

## GUD Holdings Limited (GUD : \$8.10)

## INVESTMENT FUNDAMENTALS

Yr Ending June	2006A	2007A	2008E	2009E	2010E
EPS Reported (c)	67.1	56.2	63.9	72.5	79.5
<b>EPS Normalised (c)</b>	<b>68.2</b>	<b>61.1</b>	<b>71.8</b>	<b>73.8</b>	<b>79.7</b>
EPS Growth (%)	N/A	-10.1%	18.6%	2.8%	8.1%
<b>PER Normalised (x)</b>	<b>11.9</b>	<b>13.3</b>	<b>11.3</b>	<b>11.0</b>	<b>10.2</b>
DPS (c)	60.0	61.0	67.0	69.0	72.0
Payout (%)	<b>89.4%</b>	<b>108.6%</b>	<b>104.9%</b>	<b>95.1%</b>	<b>90.6%</b>
Yield (%)	7.4%	7.5%	8.3%	8.5%	8.9%
Franking (%)	100%	100%	100%	100%	100%

## VALUATION DATA

Yr Ending June	2006A	2007A	2008E	2009E	2010E
EV / EBITA (x)	8.4	9.6	7.9	7.8	7.2
EV / EBITDA (x)	7.2	7.9	6.7	6.6	6.2
CFPS (c)	103.5	76.0	79.0	94.2	99.8
<b>Price / CF</b>	<b>7.8</b>	<b>10.7</b>	<b>10.3</b>	<b>8.6</b>	<b>8.1</b>
Book Value / Share (\$)	2.4	2.3	2.3	2.2	2.3
<b>Price / Book (x)</b>	<b>3.4</b>	<b>3.5</b>	<b>3.6</b>	<b>3.7</b>	<b>3.5</b>

## PROFIT &amp; 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
<b>EBITA</b>	<b>64.3</b>	<b>60.7</b>	<b>70.3</b>	<b>70.4</b>	<b>74.5</b>
Amortisation	0.6	0.5	0.1	0.1	0.1
<b>EBIT</b>	<b>63.6</b>	<b>60.2</b>	<b>70.1</b>	<b>70.3</b>	<b>74.4</b>
Net Interest Expense	6.7	9.0	9.4	8.8	8.7
<b>Pre-tax Profit</b>	<b>56.9</b>	<b>51.3</b>	<b>60.7</b>	<b>61.6</b>	<b>65.7</b>
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
<b>Net Profit</b>	<b>40.2</b>	<b>36.2</b>	<b>42.5</b>	<b>43.0</b>	<b>46.0</b>
Abn's / Extraord's	0.0	-2.5	-4.6	-0.6	0.0
Reported Net Profit	40.2	33.6	38.0	42.4	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
<b>EBIT / Sales (%)</b>	<b>13.8%</b>	<b>11.6%</b>	<b>12.4%</b>	<b>13.1%</b>	<b>13.3%</b>
ROA (%)	N/A	21.4%	23.0%	23.8%	25.8%
<b>ROE (%)</b>	<b>N/A</b>	<b>25.8%</b>	<b>31.1%</b>	<b>32.8%</b>	<b>35.3%</b>
ROFE (%)	N/A	28.3%	31.7%	34.1%	37.0%

## BALANCE SHEET (\$m)

Yr Ending June	2006A	2007A	2008E	2009E	2010E
Cash	17.0	17.7	40.7	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
<b>Current Assets</b>	<b>160.4</b>	<b>186.0</b>	<b>225.0</b>	<b>198.2</b>	<b>205.4</b>
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	87.1	82.8	79.3
Other	0.2	1.4	1.8	1.9	2.1
<b>Non-current Assets</b>	<b>114.0</b>	<b>138.3</b>	<b>118.0</b>	<b>107.8</b>	<b>103.2</b>
<b>Total Assets</b>	<b>274.4</b>	<b>324.2</b>	<b>343.0</b>	<b>306.0</b>	<b>308.5</b>
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	32.9	22.7	27.9
<b>Total Liabilities</b>	<b>133.0</b>	<b>185.0</b>	<b>209.0</b>	<b>178.4</b>	<b>175.5</b>
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	45.0	47.5	53.0
Minorities	0.0	0.0	0.0	0.0	0.0
<b>Total Equity</b>	<b>141.4</b>	<b>139.3</b>	<b>134.1</b>	<b>127.5</b>	<b>133.0</b>
<b>Total Funds Employed</b>	<b>195.5</b>	<b>234.0</b>	<b>209.0</b>	<b>203.5</b>	<b>199.2</b>

## LIQUIDITY &amp; LEVERAGE RATIOS

Yr Ending June	2006A	2007A	2008E	2009E	2010E
Net Debt (Cash) (\$m)	54.1	94.7	74.9	76.0	66.2
<b>Net Debt / Equity (%)</b>	<b>38.2%</b>	<b>68.0%</b>	<b>55.9%</b>	<b>59.6%</b>	<b>49.8%</b>
Interest Cover (x)	9.1	6.5	7.1	7.7	8.3
<b>Debt / CashFlow (x)</b>	<b>1.1</b>	<b>2.5</b>	<b>2.5</b>	<b>1.7</b>	<b>1.5</b>

## 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
<b>Operating Cash Flow</b>	<b>62.0</b>	<b>45.5</b>	<b>47.0</b>	<b>55.0</b>	<b>57.8</b>
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	23.0	0.0	0.0
Other Inv. Flows	0.0	0.0	0.0	0.0	0.0
<b>Investing Cash Flow</b>	<b>-40.6</b>	<b>-44.4</b>	<b>16.0</b>	<b>-7.2</b>	<b>-7.5</b>
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
<b>Financing Cash Flow</b>	<b>-18.8</b>	<b>5.1</b>	<b>-40.0</b>	<b>-68.9</b>	<b>-51.5</b>
<b>Net Cash Flow</b>	<b>2.6</b>	<b>6.2</b>	<b>23.0</b>	<b>-21.1</b>	<b>-1.2</b>

Disclosure of Interest. The Directors of Wilson HTM Ltd advise that at the date of this report they and their associates have relevant interests in 24,750 securities in GUD Holdings Limited. They also advise that Wilson HTM Ltd and Wilson HTM Corporate Finance Ltd A.B.N. 65 057 547 323 and their associates have received and may receive commissions or fees from GUD Holdings Limited in relation to advice or dealings in securities. Some or all of Wilson HTM Ltd authorised representatives may be remunerated wholly or partly by way of commission.



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