

GUD Holdings Limited

Strong FY08 but cautious outlook



Wilson HTM
INVESTMENT GROUP

25 July 2008

\$8.28

HOLD

David Arter
03 9640 3828
david.arter@wilsonhtm.com.au

James Ferrier
03 9640 3827
james.ferrier@wilsonhtm.com.au

Price Performance



Security/Capital Details

ASX Code	GUD
Market Cap	\$479 M
Issued Shares	57.9 M
Avg Mth T'over	5.34 M
12 Mth High – Low	\$11.52 - \$7.44

Key Data/Ratios – FY 2009

EBITDA / Sales	15.4%
EBIT / Sales	13.2%
Net Debt / Equity	81.6%
Interest Cover	6.5 x
ROE	33.1%
EPS Growth	-6.3%
PEG Ratio	-1.98 x
NTA / Share	\$ 0.39
12 Mth Price Target	\$ 8.40

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 have moderated to a HOLD for yield (previously BUY). Our 12 month target is \$8.40 p/share (previously \$9.60 p/share).

GUD has confirmed a year of strong underlying earnings despite a sharply weaker result from its Water Products business. FY08 trading EBIT growth of 14% was within guidance of 10%-15% growth, but tempered by cautious comments regarding the FY09 outlook. GUD's guidance for FY09 EBIT of ~\$63.5M was below our previous forecast of \$70M, and has prompted an earnings downgrade accordingly. The shares are fairly priced, HOLD.

June year-end		FY07	FY08	% Chg
Sales revenue	\$M	518.7	534.9	3%
EBIT (trading)	\$M	60.2	68.9	14%
NPAT (normalised)	\$M	36.2	42.0	16%
NPAT (reported)	\$M	33.6	37.4	11%
DPS	cps	61.0	68.0	11%

Key Points

- **Strong FY08 result.** Trading EBIT of \$68.9M (+14%) compared with our forecast of \$70.1M, and within GUD's guidance of 10%-15% growth. NPAT (normalised) was \$42.0M (+16%), with NPAT (reported) reduced by \$4.6M of 'significant costs' (Oates restructuring: -\$6.0M, Victa sale profit: +\$1.4M).
- The final DPS of \$0.38 takes the FY08 DPS to \$0.68 (+11%).
- Overall, this was a solid result from GUD, confirming a strong earnings performance in FY08, despite the under-performance of its *Water Products* Division (ie. impact of the drought on the sale of pool/spa products).
- At the Divisional level, trading EBIT contributions were strong for *Consumer Products* (ie. \$38.3M, +49%) and *Automotive Products* (ie. \$19.4M, +15%), while *Water Products* declined 29% to \$13.5M (pcp: \$19.1M), and *Security Products* was slightly stronger at \$2.5M (+10%).
- **Earnings outlook.** GUD's has adopted caution with regard to its earnings guidance of trading EBIT of ~\$63.5M, reflecting the uncertain consumer and economic outlook, and also the elimination of ~\$5.4M of EBIT following the divestment of *Victa* (ie. assumes flat underlying EBIT ex-Victa).
- GUD's guidance has prompted us to reduce our FY08 trading EBIT forecast to \$63.9M (previously \$70M). These forecasts consider the June 2008 divestment of *Victa* (elimination of \$5.4m of EBIT), 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 (ie. 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, but in the current environment, the main source of investment returns will be dividends. Our revised 12 month target is \$8.40 p/share (FY09 EV/EBITA 9.0x), and we view the shares as fairly priced based on current fundamentals, HOLD.

June	NPAT (Rep) \$M	EPS (Norm) c	EPS Growth %	PER x	P/CF x	EV/EBITDA x	DPS c	Div Yld %	Franking %
2008a	37.4	71.5	16.9	11.6	8.5	6.9	68.0	8.2	100
2009e	38.2	67.0	-6.3	12.4	9.2	7.6	68.0	8.2	100
2010e	41.2	72.2	7.7	11.5	9.2	7.2	70.0	8.5	100
2011e	44.4	77.7	7.7	10.7	8.7	1.0	72.0	8.7	100

Earnings outlook

The table below summarises the FY08 result and our forecasts for future periods.

Financial summary

Y/e: 30 June		FY06	FY07	FY08	FY09e	FY10e	FY11e
Sales revenue	\$M	462.4	518.7	534.9	484.9	504.3	525.3
- growth	%	17%	12%	3%	-9%	4%	4%
Divisional EBIT:							
- Consumer Products	\$M	32.8	25.6	38.3	30.5	32.4	34.8
- Automotive Products	\$M	18.8	16.9	19.4	19.5	20.2	21.2
- Water Products	\$M	14.9	19.1	13.5	16.2	18.0	19.2
- Security Products	\$M	2.1	2.3	2.5	2.5	2.6	2.6
- Unallocated	\$M	-5.0	-3.7	-4.8	-4.9	-5.1	-5.3
Trading EBIT	\$M	63.6	60.2	68.9	63.9	68.2	72.5
- growth	%	6%	-5%	14%	-7%	7%	6%
NPAT (normalised)	\$M	40.2	36.2	42.0	38.2	41.2	44.4
- growth	%	3%	-10%	16%	-9%	8%	8%
Significant items	\$M	0.0	-2.5	-4.6	0.0	0.0	0.0
NPAT (reported)		40.2	33.6	37.4	38.2	41.2	44.4
EPS (normalised)	cents	67.1	60.3	70.2	66.0	71.3	76.8
- growth	%	4%	-10%	16%	-6%	8%	8%
DPS	cents	60.0	61.0	68.0	68.0	70.0	72.0
- payout ratio	%	80%	101%	95%	103%	98%	94%
Gearing ratios:							
Net debt	\$M	54.1	94.7	86.2	89.7	85.1	78.7
- net debt/equity	%	38%	68%	72%	82%	77%	69%
Interest cover	x	9.5	6.7	7.3	7.0	7.4	8.1
Earnings multiples:							
EV / EBITA	x	8.6	9.8	8.2	8.9	8.3	7.7
PER (pre g'will)	x	12.3	13.7	11.8	12.5	11.6	10.8
Yield	%	7.2	7.4	8.2	8.2	8.5	8.7

Source: GUD & WHTM

FY08 result – key points:

- The FY08 result was broadly in-line with our forecasts, and featured by a strong result from Consumer Products (*Sunbeam* and *Victa*), improved performances from Security Products and Automotive, offset by a poor result from Water Products (adverse impact of drought on sales of pool/spa products).
- Cash flow was strong (OCF: \$58M), with net debt of \$86M (includes proceeds from *Victa* sale of \$19M) and good coverage ratios (ie. interest cover of 7.3x).

Earnings outlook:

- While Water Products should have improved earnings in FY09 (ie. reversal of the drought), the discretionary consumer trading environment remains uncertain and prompts caution with regard to near-term earnings generation for *Sunbeam*, *Filtration* and *Security Products*.
- Following the sale of *Victa* (effective: end FY08), pro-forma FY08 trading EBIT for the continuing business was \$63.5M. On this basis, GUD expects trading EBIT to remain relatively flat in FY09. We view this as prudent given the uncertain outlook heading into FY09, prompting a reduction to our previous forecast of \$70M to \$63.9M.
- We cautiously assume a resumption of positive EPS growth in FY10.

GUD Holdings Limited (GUD : \$8.28)

INVESTMENT FUNDAMENTALS

Yr Ending June	2007A	2008A	2009E	2010E	2011E
EPS Reported (c)	56.2	62.8	66.0	71.3	76.8
EPS Normalised (c)	61.1	71.5	67.0	72.2	77.7
EPS Growth (%)	N/A	16.8%	-6.3%	7.9%	7.8%
PER Normalised (x)	13.5	11.6	12.4	11.5	10.7
DPS (c)	61.0	68.0	68.0	70.0	72.0
Payout (%)	108.6%	108.2%	103.0%	98.2%	93.7%
Yield (%)	7.4%	8.2%	8.2%	8.5%	8.7%
Franking (%)	100%	100%	100%	100%	100%

VALUATION DATA

Yr Ending June	2007A	2008A	2009E	2010E	2011E
EV / EBITA (x)	9.7	8.1	8.9	8.2	1.1
EV / EBITDA (x)	8.1	6.9	7.6	7.2	1.0
CFPS (c)	76.0	97.8	89.9	89.8	95.0
Price / CF	10.9	8.5	9.2	9.2	8.7
Book Value / Share (\$)	2.3	2.1	1.9	1.9	
Price / Book (x)	3.6	4.0	4.4	4.3	

PROFIT & LOSS (\$m)

Yr Ending June	2007A	2008A	2009E	2010E	2011E
Sales Revenue	518.7	534.9	484.9	504.3	525.3
EBITDA	73.1	81.5	74.6	78.5	82.5
Depreciation	12.3	12.0	10.2	9.8	9.5
EBITA	60.7	69.5	64.5	68.7	73.0
Amortisation	0.5	0.6	0.6	0.5	0.5
EBIT	60.2	68.9	63.9	68.2	72.5
Net Interest Expense	9.0	9.5	9.2	9.3	9.0
Pre-tax Profit	51.3	59.4	54.7	58.9	63.5
Tax	15.1	17.5	16.5	17.7	19.0
Tax rate (%)	29.5%	29.4%	30.2%	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	36.2	42.0	38.2	41.2	44.4
Abn's / Extraord's	-2.5	-4.6	0.0	0.0	0.0
Reported Net Profit	33.6	37.4	38.2	41.2	44.4
Revenue Growth (%)	N/A	3.1%	-9.4%	4.0%	4.2%
EBIT Growth (%)	N/A	14.4%	-7.3%	6.7%	6.3%
NPAT Growth (%)	N/A	16.0%	-9.0%	7.9%	7.8%

PROFITABILITY RATIOS

Yr Ending June	2007A	2008A	2009E	2010E	2011E
EBIT / Sales (%)	11.6%	12.9%	13.2%	13.5%	13.8%
ROA (%)	N/A	23.9%	23.8%	25.4%	26.6%
ROE (%)	N/A	32.4%	33.1%	37.3%	39.4%
ROFE (%)	N/A	31.6%	31.7%	34.7%	37.5%

INTERIMS (\$m)

Half Yr	Dec 07	Jun 08	Dec 08	Jun 09	Dec 09
Yr Ending June	1H A	2H A	1H E	2H E	1H E
Sales Revenue	285.3	249.6	253.6	231.3	263.8
EBIT	38.3	30.6	30.4	33.5	31.6
Net Profit	17.6	19.8	17.4	20.8	18.5
EBIT / Sales (%)	13.4%	12.3%	12.0%	14.5%	12.0%

BALANCE SHEET (\$m)

Yr Ending June	2007A	2008A	2009E	2010E	2011E
Cash	17.7	33.1	24.6	27.2	33.6
Receivables	67.7	65.9	65.8	68.4	71.2
Inventories	95.7	81.4	81.8	85.1	88.6
Other	4.9	4.2	4.5	4.7	4.9
Current Assets	186.0	184.7	176.7	185.4	198.3
Net PPE	30.4	20.2	21.7	23.2	24.3
Investments	0.0	0.0	0.0	0.0	0.0
Intangibles	106.5	92.2	87.1	82.8	79.7
Other	1.4	5.2	5.4	5.6	5.7
Non-current Assets	138.3	117.6	114.3	111.6	109.8
Total Assets	324.2	302.3	291.0	297.0	308.1
Current Payables	55.4	45.1	45.9	47.7	49.7
Current Debt	35.8	0.5	0.5	0.5	0.5
Non-Current Debt	76.7	118.8	113.8	111.8	111.8
Provisions	0.0	0.0	0.0	0.0	0.0
Other	17.2	17.8	20.9	25.7	31.5
Total Liabilities	185.0	182.2	181.0	185.7	193.5
Equity	98.4	80.7	71.7	71.7	71.7
Reserves	-0.4	-0.8	-0.8	-0.8	-0.8
Retained Profits	41.2	40.3	39.1	40.4	43.8
Minorities	0.0	0.0	0.0	0.0	0.0
Total Equity	139.3	120.1	109.9	111.2	114.6
Total Funds Employed	234.0	206.3	199.6	196.4	193.3

LIQUIDITY & LEVERAGE RATIOS

Yr Ending June	2007A	2008A	2009E	2010E	2011E
Net Debt (Cash) (\$m)	94.7	86.2	89.7	85.1	78.7
Net Debt / Equity (%)	68.0%	71.8%	81.6%	76.5%	68.7%
Interest Cover (x)	6.5	7.1	6.5	6.8	7.3
Debt / CashFlow (x)	2.5	2.0	2.2	2.2	2.0

CASHFLOW (\$m)

Yr Ending June	2007A	2008A	2009E	2010E	2011E
EBIT	60.2	68.9	63.9	68.2	72.5
Dep'n and Amort'n	12.8	12.6	10.8	10.4	10.0
Net Int Rec'd (Paid)	-9.0	-9.5	-9.2	-9.3	-9.0
Tax Paid	-15.9	-13.3	-14.0	-13.2	-14.1
Dec / (Inc) W'kg Cap	-14.2	5.8	0.6	-4.1	-4.4
Other	11.5	-6.4	0.0	0.0	0.0
Operating Cash Flow	45.5	58.2	52.0	52.0	55.0
Capital Expenditure	-7.2	-12.2	-7.2	-7.5	-7.5
Asset Sales	0.0	0.0	0.0	0.0	0.0
Investments	-37.3	17.9	0.0	0.0	0.0
Other Inv. Flows	0.0	0.0	0.0	0.0	0.0
Investing Cash Flow	-44.4	5.6	-7.2	-7.5	-7.5
Equity Raised	0.0	-17.8	-9.0	0.0	0.0
Inc / (Dec) in Loans	41.1	8.0	-5.0	-2.0	0.0
Dividends Paid	-35.9	-38.3	-39.3	-39.9	-41.1
Other Fin. Flows	0.0	0.0	0.0	0.0	0.0
Financing Cash Flow	5.1	-48.1	-53.3	-41.9	-41.1
Net Cash Flow	6.2	15.7	-8.5	2.6	6.4

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.



Disclaimer. Whilst Wilson HTM Ltd believes the information contained in this communication is based on reliable information, no warranty is given as to its accuracy and persons relying on this information do so at their own risk. To the extent permitted by law Wilson HTM Ltd disclaims all liability to any person relying on the information contained in this communication in respect of any loss or damage (including consequential loss or damage) however caused, which may be suffered or arise directly or indirectly in respect of such information. Any projections contained in this communication are estimates only. Such projections are subject to market influences and contingent upon matters outside the control of Wilson HTM and therefore may not be realised in the future.

The advice contained in this document is general advice. It has been prepared without taking account of any person's objectives, financial situation or needs and because of that, any person should, before acting on the advice, consider the appropriateness of the advice, having regard to the client's objectives, financial situation and needs. If the advice relates to the acquisition, or possible acquisition, of a particular financial product – the client should obtain a Product Disclosure Statement relating to the product and consider the Statement before making any decision about whether to acquire the product. This communication is not to be disclosed in whole or part or used by any other party without Wilson HTM Ltd's prior written consent.

BRISBANE Ph: 07 3212 1333 Fax: 07 3212 1399	SYDNEY Ph: 02 8247 6600 Fax: 02 8247 6601	MELBOURNE Ph: 03 9640 3888 Fax: 03 9640 3800	GOLD COAST Ph: 07 5557 3000 Fax: 07 5557 3010	BALLINA Ph: 02 6681 3477 Fax: 02 6681 4933	GEELONG Ph: 03 5225 1500 Fax: 03 5225 1599
CANBERRA Ph: 02 6230 1000 Fax: 02 6230 5668	DALBY Ph: 07 4662 3833 Fax: 07 4662 4169	HERVEY BAY Ph: 07 4128 3300 Fax: 07 4128 4903	TOWNSVILLE Ph: 07 4725 5787 Fax: 07 4725 5104	TAMWORTH Ph: 02 6766 7114 Fax: 02 6766 7285	

Our web site: www.wilsonhtm.com.au