# GUD Holdings Limited

## Heading into AGM season ...

7 October 2008

$5.93

HOLD

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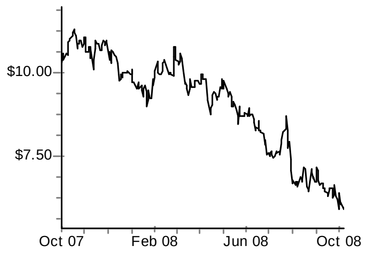
**Price Performance**




**Security/Capital Details**

| | |
|---|---|
| ASX Code | GUD |
| Market Cap | $343 M |
| Issued Shares | 57.9 M |
| Avg Mth T'over | 5.34 M |
| 12 Mth High – Low | $11.31 - $5.87 |

**Key Data/Ratios – FY 2009**

| | |
|---|---|
| EBITDA / Sales | 15.4% |
| EBIT / Sales | 13.2% |
| Net Debt / Equity | 81.6% |
| Interest Cover | 7.0 x |
| ROE | 33.1% |
| EPS Growth | -6.3% |
| PEG Ratio | -1.42 x |
| NTA / Share | $ 0.39 |
| 12 Mth Price Target | $ 6.80 |

## Recommendation

**We retain a HOLD rating. While long-term value is being presented, short-term uncertainties persist. Our notional 12 month target is $6.80 p/share.**

**GUD will hold its 2008 AGM on Thursday 23 October. We expect GUD to confirm a sound start to FY09, and to leave its FY09 EBIT guidance unchanged at $63.5M. Clearly FY09 earnings performance, and therefore any future update from GUD, will be heavily reliant on actual Christmas related trade. In this report we discuss GUD's currency exposure and have also detailed the moderation of our FY10 EPS by 3%. We retain a HOLD.**

## Key Points

- **Upcoming AGM**. GUD's 2008 AGM is scheduled for Thursday 23 October 2008. The formal business of the meeting is relatively straight forward (eg. re-election of Directors etc). We also expect an update on recent trading results, and the outlook for the balance of FY09 (refer comments below).
- **Trading environment**. We understand trading conditions for GUD have been satisfactory so far in FY09, however general industry feedback suggests trading at retail level has been 'patchy' so far in FY09. We expect GUD to re-affirm its FY09 EBIT guidance of $63.5M, but to provide caveats on that earnings guidance (ie. conditional on Christmas, weather etc).
- Our FY09 forecasts assume EBIT of $63.9M, slightly above guidance of $63.5M. GUD's FY08 EBIT was $68.9M, with GUD's FY09 earnings guidance incorporating flat earnings for the underlying business less the $5.4M of EBIT contributed from Victa (ie. divested on 30 June 2008).
- **FX exposure**. GUD is a net importer of consumer and industrial products. The vast majority of imported product is sourced from China, with transactions based in USD. In FY08 (excluding Victa), we estimate ~55% of GUD's cost of good sold as being imported. A lower AUD/USD exchange rate (all other variables being equal) is a net negative for GUD.
- We expect the impact of the recent devaluation of the AUD/USD exchange rate as being nominal in FY09, but potentially more of an issue in FY10. We understand the average AUD/USD exchange rate relevant to GUD's earnings in FY08 was ~$0.87 (vs current spot rate of ~$0.72). We estimate GUD's product sourcing in FY09 to be at an average rate of $0.90 (ie. incorporates stable FX rates in July and August, ~3 months of inventory at favourable rates, and current hedging facilities in place). In relation to FY10, if the AUD/USD remains at current levels, then in order to protect its margins, GUD would need to successfully implement product price increases (notably for *Sunbeam*), to offset higher costs of imported product (all other variables remaining constant).
- **Earnings forecasts**. Our earnings forecasts for FY09 remain unchanged, but we have moderated our FY10 EPS by 3% to incorporate some margin pressure from a lower AUD/USD (refer overleaf).
- **Valuation**. Our 12 month target is $6.80 p/share (FY09 PER 10.3x). HOLD.

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 % |
|---|---|---|---|---|---|---|---|---|---|
| **2008a** | 37.4 | 71.5 | 16.9 | 8.3 | 6.1 | 5.3 | 68.0 | 11.5 | 100 |
| **2009e** | 38.2 | 67.0 | -6.3 | 8.9 | 6.6 | 5.8 | 68.0 | 11.4 | 100 |
| **2010e** | 39.9 | 69.9 | 4.4 | 8.5 | 6.8 | 5.6 | 68.0 | 11.5 | 100 |
| **2011e** | 43.1 | 75.3 | 7.8 | 7.9 | 6.4 | 1.0 | 70.0 | 11.8 | 100 |

## Earnings outlook

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

Key points:

- Our FY09 EBIT forecast is broadly in-line with GUD's guidance of $63.5M.
- Our FY10 EBIT forecast assumes nominal growth of 4%, and follows a modest downgrade from our previous forecast of 7% growth (ie. margins trimmed to reflect some pressure from a lower AUD/USD FX rate).
- Given the uncertain economic landscape (ie. consumer discretionary spending, interest rates, currency etc), earnings uncertainty persists, with any future changes to our forecasts more biased toward than downside (than upside).

**Financial summary**

| Y/e: 30 June | | FY06 | FY07 | FY08 | FY09e | FY10e | FY11e |
|---|---|---|---|---|---|---|---|
| **Sales revenue** | **$M** | **462.4** | **518.7** | **534.9** | **484.9** | **500.9** | **521.8** |
| *- growth* | *%* | *17%* | *12%* | *3%* | *-9%* | *3%* | *4%* |
| **Divisional EBIT:** | | | | | | | |
| - Consumer Products | $M | 32.8 | 25.6 | 38.3 | 30.5 | 31.3 | 33.6 |
| - Automotive Products | $M | 18.8 | 16.9 | 19.4 | 19.5 | 19.9 | 20.5 |
| - Water Products | $M | 14.9 | 19.1 | 13.5 | 16.2 | 17.6 | 19.1 |
| - Security Products | $M | 2.1 | 2.3 | 2.5 | 2.5 | 2.5 | 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** | **66.3** | **70.5** |
| *- growth* | *%* | *6%* | *-5%* | *14%* | *-7%* | *4%* | *6%* |
| **NPAT (normalised)** | $M | **40.2** | **36.2** | **42.0** | **38.2** | **39.9** | **43.1** |
| *- growth* | *%* | *3%* | *-10%* | *16%* | *-9%* | *5%* | *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 | 39.9 | 43.1 |
| **EPS (normalised)** | cents | **67.1** | **60.3** | **70.2** | **66.0** | **69.0** | **74.5** |
| *- growth* | *%* | *4%* | *-10%* | *16%* | *-6%* | *5%* | *8%* |
| DPS | cents | 60.0 | 61.0 | 68.0 | 68.0 | 68.0 | 70.0 |
| - payout ratio | % | 80% | 101% | 95% | 103% | 99% | 94% |
| **Earnings multiples:** | | | | | | | |
| EV / EBITA | x | 6.4 | 7.5 | 6.2 | 6.8 | 6.5 | 6.0 |
| PER (pre g'will) | x | 8.8 | 9.8 | 8.4 | 9.0 | 8.6 | 8.0 |
| Yield | % | 10.1 | 10.3 | 11.5 | 11.5 | 11.5 | 11.8 |

Source: GUD & WHTM

## Valuation & recommendation

GUD has a strong portfolio of consumer and industrial brands, and an experienced management team.

Clearly the macro-economic environment is challenging, and there are significant uncertainties with regard to specific variables relevant to GUD's business (eg. discretionary consumer spending, the interest rate cycle, FX rates etc). Given these uncertainties, we adopt a cautious investment view on GUD despite GUD appearing to offer good investment value at current levels.

Our current share price for GUD is $6.80 p/share (previously $8.40). This is based on FY09 EV/EBITA of 7.5x (implied PER of 10.3x), and is in-line with the S&P/ASX Small Industrials PER of 10.3x, and supported by a high DPS yield of 11.5%.

GUD appears oversold, however we retain a HOLD at this point in time.

# GUD Holdings Limited (GUD : $5.93)

## INVESTMENT FUNDAMENTALS

| Yr Ending June | 2007A | 2008A | 2009E | 2010E | 2011E |
|---|---|---|---|---|---|
| EPS Reported (c) | 56.2 | 62.8 | 66.0 | 69.0 | 74.5 |
| **EPS Normalised (c)** | **61.1** | **71.5** | **67.0** | **69.9** | **75.3** |
| EPS Growth (%) | N/A | 16.8% | -6.3% | 4.5% | 7.9% |
| **PER Normalised (x)** | **9.7** | **8.3** | **8.9** | **8.5** | **7.9** |
| DPS (c) | 61.0 | 68.0 | 68.0 | 68.0 | 70.0 |
| Payout (%) | **108.6%** | **108.2%** | **103.0%** | **98.6%** | **94.0%** |
| **Yield (%)** | 10.3% | 11.5% | 11.4% | 11.5% | 11.8% |
| Franking (%) | 100% | 100% | 100% | 100% | 100% |

## VALUATION DATA

| Yr Ending June | 2007A | 2008A | 2009E | 2010E | 2011E |
|---|---|---|---|---|---|
| EV / EBITA (x) | 7.4 | 6.2 | 6.7 | 6.4 | 1.1 |
| EV / EBITDA (x) | 6.2 | 5.3 | 5.8 | 5.6 | 1.0 |
| CFPS (c) | 76.0 | 97.8 | 89.9 | 87.8 | 92.5 |
| **Price / CF** | **7.8** | **6.1** | **6.6** | **6.8** | **6.4** |
| Book Value / Share ($) | 2.3 | 2.1 | 1.9 | 1.9 | |
| **Price / Book (x)** | **2.6** | **2.9** | **3.1** | **3.1** | |

## PROFIT & LOSS ($m)

| Yr Ending June | 2007A | 2008A | 2009E | 2010E | 2011E |
|---|---|---|---|---|---|
| Sales Revenue | 518.7 | 534.9 | 484.9 | 500.9 | 521.8 |
| EBITDA | 73.1 | 81.5 | 74.6 | 76.7 | 80.5 |
| Depreciation | 12.3 | 12.0 | 10.2 | 9.8 | 9.5 |
| **EBITA** | **60.7** | **69.5** | **64.5** | **66.8** | **71.0** |
| Amortisation | 0.5 | 0.6 | 0.6 | 0.5 | 0.5 |
| **EBIT** | **60.2** | **68.9** | **63.9** | **66.3** | **70.5** |
| Net Interest Expense | 9.0 | 9.5 | 9.2 | 9.3 | 9.0 |
| **Pre-tax Profit** | **51.3** | **59.4** | **54.7** | **57.0** | **61.5** |
| Tax | 15.1 | 17.5 | 16.5 | 17.1 | 18.5 |
| 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** | **39.9** | **43.1** |
| Abn's / Extraord's | -2.5 | -4.6 | 0.0 | 0.0 | 0.0 |
| Reported Net Profit | 33.6 | 37.4 | 38.2 | 39.9 | 43.1 |
| | | | | | |
| Revenue Growth (%) | N/A | 3.1% | -9.4% | 3.3% | 4.2% |
| EBIT Growth (%) | N/A | 14.4% | -7.3% | 3.8% | 6.4% |
| NPAT Growth (%) | N/A | 16.0% | -9.0% | 4.5% | 7.9% |

## PROFITABILITY RATIOS

| Yr Ending June | 2007A | 2008A | 2009E | 2010E | 2011E |
|---|---|---|---|---|---|
| **EBIT / Sales (%)** | **11.6%** | **12.9%** | **13.2%** | **13.2%** | **13.5%** |
| ROA (%) | N/A | 23.9% | 23.8% | 24.8% | 26.0% |
| **ROE (%)** | **N/A** | **32.4%** | **33.1%** | **36.2%** | **38.4%** |
| ROFE (%) | N/A | 31.6% | 31.7% | 33.8% | 36.5% |

## 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 | 262.0 |
| EBIT | 38.3 | 30.6 | 30.4 | 33.5 | 31.4 |
| **Net Profit** | **17.6** | **19.8** | **17.4** | **20.8** | **18.3** |
| 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 | 26.6 | 32.7 |
| Receivables | 67.7 | 65.9 | 65.8 | 67.9 | 70.8 |
| Inventories | 95.7 | 81.4 | 81.8 | 84.5 | 88.0 |
| Other | 4.9 | 4.2 | 4.5 | 4.7 | 4.9 |
| **Current Assets** | **186.0** | **184.7** | **176.7** | **183.7** | **196.4** |
| 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** | **295.3** | **306.2** |
| | | | | | |
| Current Payables | 55.4 | 45.1 | 45.9 | 47.4 | 49.4 |
| 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 | 25.1 | 30.8 |
| **Total Liabilities** | **185.0** | **182.2** | **181.0** | **184.8** | **192.5** |
| | | | | | |
| 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 | 39.7 | 42.9 |
| Minorities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total Equity** | **139.3** | **120.1** | **109.9** | **110.5** | **113.7** |
| | | | | | |
| **Total Funds Employed** | **234.0** | **206.3** | **199.6** | **196.2** | **193.3** |

## LIQUIDITY & LEVERAGE RATIOS

| Yr Ending June | 2007A | 2008A | 2009E | 2010E | 2011E |
|---|---|---|---|---|---|
| Net Debt (Cash) ($m) | 94.7 | 86.2 | 89.7 | 85.7 | 79.6 |
| **Net Debt / Equity (%)** | **68.0%** | **71.8%** | **81.6%** | **77.6%** | **70.0%** |
| Interest Cover (x) | 6.7 | 7.3 | 7.0 | 7.2 | 7.9 |
| **Debt / CashFlow (x)** | **2.5** | **2.0** | **2.2** | **2.2** | **2.1** |

## CASHFLOW ($m)

| Yr Ending June | 2007A | 2008A | 2009E | 2010E | 2011E |
|---|---|---|---|---|---|
| EBIT | 60.2 | 68.9 | 63.9 | 66.3 | 70.5 |
| 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 | -13.7 |
| Dec / (Inc) W'kg Cap | -14.2 | 5.8 | 0.6 | -3.4 | -4.4 |
| Other | 11.5 | -6.4 | 0.0 | 0.0 | 0.0 |
| **Operating Cash Flow** | **45.5** | **58.2** | **52.0** | **50.8** | **53.5** |
| | | | | | |
| 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 | -39.3 | -39.9 |
| Other Fin. Flows | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Financing Cash Flow** | **5.1** | **-48.1** | **-53.3** | **-41.3** | **-39.9** |
| | | | | | |
| **Net Cash Flow** | **6.2** | **15.7** | **-8.5** | **2.0** | **6.1** |

*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 19,750 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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