

UBS Investment Research

GUD Holdings Limited

Currency has margins under the pump

Well managed, but facing an unprecedented currency headwind

While GUD indicated 1Q09 u/l sales are in line with pcp in their recent AGM statement, unprecedented currency movements and very low consumer conviction have us cut our forecasts and valuation going into the key consumer sales season. With stock turn just above 4x/year and hedging through to early cal. '09 interim results will mask a lot of the pain, however we now assume GUD will have to share a proportion of the A\$ burden in ongoing supply negotiations.

NPAT cut by 22% in FY09E, 26% in FY10E

Our new forecasts assume EBIT margins fall from 12.3% in 2H08 to 11.4% in 1H09/10.9% in 2H09. Lowering our u/l consumer revenue growth assumption from +1.5% to -2% has us cut NPAT by 22% in FY09.

Different this cycle

Post Victa GUD has a solid balance sheet, diverse suite of brands and invests in new product development and multi-origin sourcing for the longer term. However the restructuring from manufacturing to procurement in most ranges has left margins more at the mercy of currency swings. Trading on 9x FY09E PE, GUD trades at a 10% discount to the emerging company's avg; our Neutral rating remains.

Valuation: price target cut to \$4.30

Our valuation is based on sum of the parts. As a cross check our DCF suggests significant upside potential on a longer term view.

Highlights (A\$m)	06/07	06/08	06/09E	06/10E	06/11E
Revenues	524.0	535.1	454.0	446.1	456.1
EBIT (UBS)	60.2	68.9	50.5	50.7	60.6
Net Income (UBS)	35.9	41.9	31.5	31.8	38.8
EPS (UBS, A\$)	0.60	0.70	0.53	0.53	0.65
Net DPS (UBS, A\$)	0.61	0.65	0.54	0.55	0.67
Profitability & Valuation	5-yr hist av.	06/08	06/09E	06/10E	06/11E
EBIT margin %	13.9	12.9	11.1	11.4	13.3
ROIC (EBIT) %	34.1	31.7	27.0	29.8	36.1
EV/EBITDA (core) x	6.8	8.5	5.9	5.9	4.7
PE (UBS) x	11.0	14.3	9.3	9.2	7.6
Net dividend yield %	6.7	6.5	11.0	11.2	13.7

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\$4.90 on 28 Oct 2008 17:42 EST

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Global Equity Research

Australia

Auto Parts

12-month rating **Neutral**
Unchanged

12m price target **A\$4.30/US\$2.61**
Prior:A\$8.50/US\$5.16

Price **A\$4.90/US\$2.98**

RIC: GUD.AX BBG: GUD AU

28 October 2008

Trading data (local/US\$)

52-wk range	A\$11.10-4.90/US\$10.30-3.02
Market cap.	A\$0.28bn/US\$0.17bn
Shares o/s	57.8m (ORD)
Free float	100%
Avg. daily volume ('000)	287
Avg. daily value (A\$m)	1.8

Balance sheet data 06/09E

Shareholders' equity	A\$0.12bn
P/BV (UBS)	2.3x
Net Cash (debt)	(A\$0.06bn)

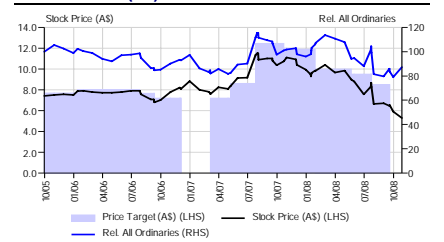
Forecast returns

Forecast price appreciation	-12.2%
Forecast dividend yield	15.7%
Forecast stock return	+3.5%
Market return assumption	9.0%
Forecast excess return	-5.5%

EPS (UBS, A\$)

	06/09E		Cons.	06/08
	From	To		Actual
H1E	-	-	-	0.39
H2E	-	-	-	0.31
06/09E	0.68	0.53	0.65	
06/10E	0.72	0.53	0.68	

Performance (A\$)



Source: UBS

www.ubs.com/investmentresearch

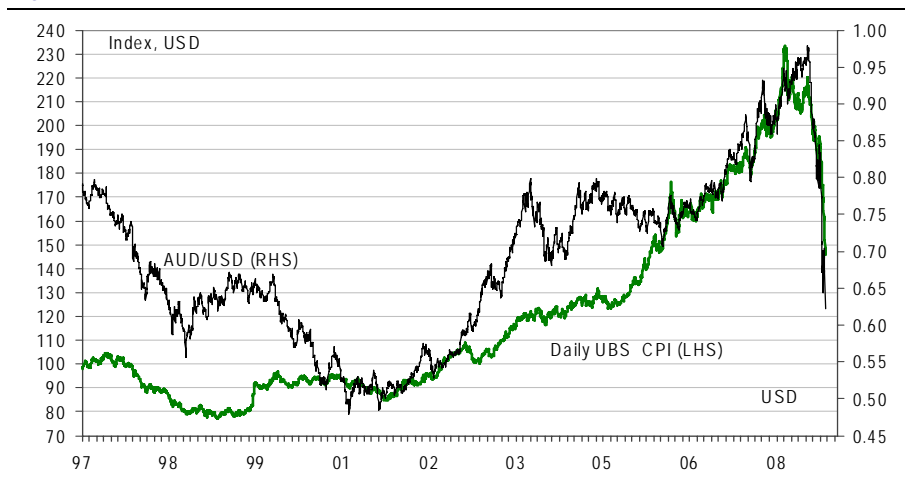
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ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 6.

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Different this cycle

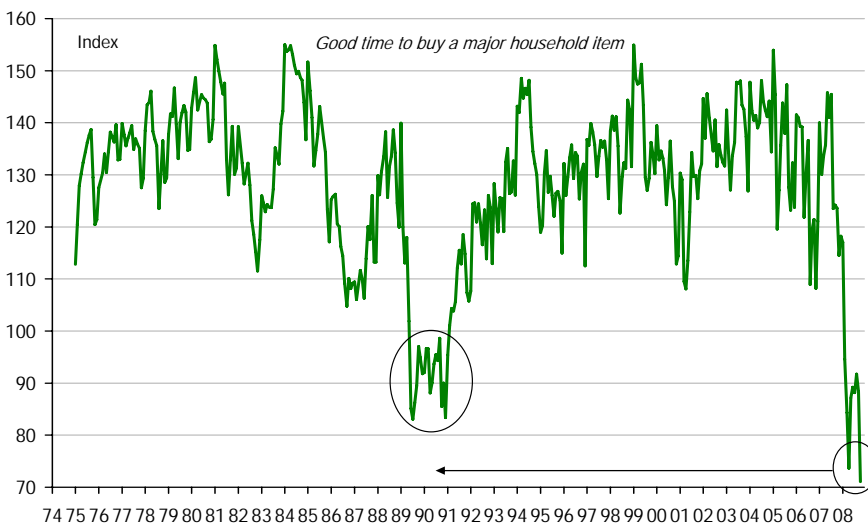
- GUD management have made sound decisions to position the business for a weaker retail environment - 1) volatile businesses have been exited (Vista), 2) marginal cost manufacturing was cut through product line restructuring (Oates), and 3) investment in new product development and ranges has been maintained to minimise consumer products direct sourcing.
- The move to pure importer status (albeit multi-origin to mitigate country risk) however has left the business exposed in what has been an unprecedented devaluation of the A\$. GUD stock turn is a little over 4x /year giving c.3 months grace on inventory, with existing currency hedges protecting through to early 2009 (at 90-94c). Post that period and going into the critical April/May negotiation period we expect GUD will have to absorb a proportion of the higher cost base to maintain market share. While we acknowledge the government consumer spending stimulus package will aid sentiment near term, employment rate risk could mitigate any 'feel good factor' in our view.

Figure 1: Aust \$ vs US\$/commodities price index



Source: UBSe

Chart 1: Consumer sentiment index – 'time to buy' at long term low



Source: Melbourne Institute/WBC consumer sentiment index

- **Cutting revenue growth assumptions and margins:** We have cut both our top line assumptions on an underlying basis and trimmed margins across most categories, now assuming a 2% fall in consumer products revenue. FY10 consumer revenue growth is cut from +3.5% to -3.0%. Our consumer margin assumptions are trimmed from 12.0% and 12.3% in FY09/10 to 10.0% and 10.2%.

Table 1: GUD breakdown

Divisional analysis	2008	1H09	2H09	2009	2010
Revenue from ordinary activities					
Consumer Products	312.5	128.3	113.2	241.5	234.3
Automotive	71.5	36.1	34.3	70.4	71.5
Water Products	137.4	70.0	59.2	129.1	127.8
Security Products	13.6	6.6	6.3	12.9	12.5
Total	534.9	241.0	213.0	454.0	446.1
Growth rate					
Consumer Products	8.7%			-2.0%	-3.0%
Automotive	4.3%			-1.5%	1.5%
Water Products	-7.7%			-6.0%	-1.0%
Security Products	-1.5%			-5.0%	-3.0%
Total	3.1%			-15.1%	-1.7%
EBIT by division					
Consumer Products	38.3	13.5	10.7	24.2	23.9
Automotive	19.4	9.0	7.9	16.9	17.9
Water Products	13.5	5.6	5.4	11.0	10.9
Security Products	2.5	1.2	1.2	2.4	2.0
Unallocated	-4.8	-2.0	-2.0	-3.9	-3.9
Total	68.9	27.4	23.1	50.5	50.7
EBIT margin by division					
Consumer Products	12.3%	10.5%	9.4%	10.0%	10.2%
Automotive	27.2%	25.0%	22.9%	24.0%	25.0%
Water Products	9.8%	8.0%	9.1%	8.5%	8.5%
Lock Focus	18.3%	18.5%	18.5%	18.5%	16.0%
Total	12.9%	11.4%	10.9%	11.1%	11.4%

Source: Company data, UBS estimates

Table 2: GUD – earnings changes

GUD Holdings Limited (A\$m)	Actual 2007	Actual 2008	New 2009E	Prev. 2009E	(%) Change	New 2010E	Prev. 2010E	(%) Change	New 2011E	Prev. 2011E	(%) Change
Revenues	524.0	535.1	454.0	484.9	(6.4)	446.1	500.8	(10.9)	456.1	516.2	(10.9)
EBITDA	73.0	81.5	60.4	73.9	(18.2)	60.3	77.4	(22.1)	70.8	80.9	(22.1)
EBIT	60.2	68.9	50.5	63.9	(21.0)	50.7	67.6	(25.0)	60.6	70.3	(25.0)
Net interest expense	(9.0)	(9.5)	(5.9)	(6.6)	(10.7)	(5.6)	(6.8)	(17.1)	(5.6)	(6.8)	(17.1)
PBT	47.7	52.4	44.7	57.4	(22.2)	45.1	60.8	(25.9)	55.0	63.5	(25.9)
Tax Expense	(14.1)	(15.0)	(13.2)	(16.9)	(22.2)	(13.3)	(17.9)	(25.9)	(16.2)	(18.7)	(25.9)
Net Profit (normalised)	35.9	41.9	31.5	40.5	(22.2)	31.8	42.9	(25.9)	38.8	44.8	(25.9)
Reported NPAT	33.6	37.4	31.5	40.5	(22.2)	31.8	42.9	(25.9)	38.8	44.8	(25.9)
EPS (pre-abnormals)	56.2	62.6	54.9	70.5	(22.2)	55.9	75.4	(25.9)	68.2	78.7	(25.9)
EPS (normalised)	60.0	70.2	54.9	70.5	(22.2)	55.9	75.4	(25.9)	68.2	78.7	(25.9)
DPS	61.0	65.0	54.0	70.0	(22.9)	55.0	75.0	(26.7)	67.0	78.0	(26.7)

Source: Company data, UBS estimates

- **Valuation cut to \$4.30:** In line with peers, we have cut comparable EBIT multiples used in our sum of the parts valuation. Consumer is cut to 6.5x from 8x (Pacific brands currently trades on 6.8x) with water products EBIT on 8x (previously 10x). Our DCF valuation however gives a notably higher valuation range (\$7.42 using a WACC of 12.5%, long term growth rate of 2% and assuming a long term 30% net debt/equity). While GUD remains a quality play in the sector, given near term macro risks and valuation at 9x earnings our Neutral rating remains.

Table 3: GUD sum of the parts valuation

	FY09e EBIT \$m	EBIT Multiple x	Value (\$m)	Comment
Consumer Products	24.2	6.5	157	PBG on 6.8x EV/EBIT
Automotive	16.9	6.0	101	SUL on 8x PE, 7.2x EV/EBIT
Water Products	11.0	8.0	88	Weir trading on 5x FY08 PE, Pentair on 10.5x PE
Security Products	2.4	6.5	16	
Unallocated	-3.9	5.5	-21	
Firm Value	50.5	6.7	340.3	
Investments			0	
Less Debt (\$m)			-92.9	Avg June FY08 & June FY09
Equity Valuation			247.3	
Total Diluted Ord Shares (m)			57.8	
SOP: Value per Share			4.28	

Source: UBS estimates

GUD Holdings (GUD.AX)

MARKET INFORMATION

Rating:	Neutral
Price (as of 28-Oct-08): (A\$)	4.90
Price Target (12 months): (A\$)	4.30
Shares outstanding: (m)	57.8
Market Capital (A\$ m):	283.4
Avg. daily turnover (A\$ m):	1.8
Year end:	June
Website:	www.gud.com.au
Major Shareholders:	Perpetual, Invesco

INVESTMENT SUMMARY

(A\$ m)	2008	2009E	2010E	2011E
Net profit [reported]	37.4	31.5	31.8	38.8
Net profit [adjusted]	41.9	31.5	31.8	38.8
EPS [reported]	0.63	0.55	0.56	0.68
EPS [adjusted, diluted]	0.70	0.53	0.53	0.65
EPS Growth (%)	16.7	(24.9)	1.0	22.0
PER [adjusted]* (x)	14.3	9.3	9.2	7.6
Dividend	0.65	0.54	0.55	0.67
Payout ratio, [EPS adj.] (%)	93	98	98	98
Dividend Yield [Net]* (%)	6.5	11.0	11.2	13.7
Shares [period-avg, basic] (m)	59.9	57.8	57.8	57.8
Book value per share	2.07	2.12	2.13	2.14
Price to Book* (x)	4.8	2.3	2.3	2.3
Equity Free Cash Flow Yield (%)	15.6	15.8	12.3	13.3
Franking (%)	100	100	100	100

PROFIT AND LOSS

(A\$ m)	2008	2009E	2010E	2011E
Revenue	535.1	454.0	446.1	456.1
EBITDA [adjusted]	81.5	60.4	60.3	70.8
Depreciation & Amortisation	(12.6)	(9.9)	(9.6)	(10.2)
EBIT [adjusted]	68.9	50.5	50.7	60.6
Net interest	(9.5)	(5.9)	(5.6)	(5.6)
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]	59.5	44.7	45.1	55.0
Tax on pre-abnormal profit	(17.5)	(13.2)	(13.3)	(16.2)
Minority Interests	0.0	0.0	0.0	0.0
Dividends (preferred)	0.0	0.0	0.0	0.0
Net Profit [adjusted]	41.9	31.5	31.8	38.8
Abnormal Gain/(Loss) after Tax	(4.6)	0.0	0.0	0.0
Net Profit [reported]	37.4	31.5	31.8	38.8

BALANCE SHEET

(A\$ m)	2008	2009E	2010E	2011E
Cash & equivalents	33.1	17.7	17.7	17.7
Accounts receivable	65.9	58.5	57.5	58.8
Inventory	81.4	80.4	79.0	80.8
Fixed assets	20.2	14.8	17.4	19.6
Intangibles	92.2	80.0	74.6	69.2
Investments	4.7	4.7	4.7	4.7
Other assets	4.7	4.7	4.7	4.7
Total Assets	302.3	260.8	255.6	255.5
Accounts payable	45.1	48.4	47.5	47.4
Short & long term debt	119.3	73.7	69.0	68.2
Provisions & other	17.8	17.8	17.8	17.8
Preferred securities	0.0	0.0	0.0	0.0
Total liabs & pref shares	182.2	139.9	134.3	133.5
Minorities	0.0	0.0	0.0	0.0
Common equity	120.1	120.9	121.4	122.0
Total liabilities & equity	302.3	260.8	255.6	255.5
Net cash / (debt)	(86.2)	(56.0)	(51.3)	(50.5)

CASH FLOW

(A\$ m)	2008	2009E	2010E	2011E
Operating income [EBIT, UBS]	68.9	50.5	50.7	60.6
Depreciation & Amortisation	12.6	9.9	9.6	10.2
Net change in working capital	(0.6)	11.8	1.5	(3.1)
Other (operating)	0.0	0.0	0.0	0.0
Pre-tax op cash flow	80.9	72.2	61.8	67.7
Interest (paid) / received	(9.5)	(5.9)	(5.6)	(5.6)
Tax paid	(13.3)	(13.2)	(13.3)	(16.2)
Other	0.0	0.0	0.0	0.0
Operating cash flow	58.2	53.2	42.9	45.9
Capital expenditure	(8.0)	(6.8)	(6.8)	(6.8)
Free cash flow	50.2	46.4	36.1	39.1
Net (acquisitions) / disposals	11.4	16.0	(6.9)	(7.0)
Dividends paid (Common)	(38.4)	(30.7)	(31.3)	(38.1)
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\$4.90 on 28-Oct-2008

COMPANY DESCRIPTION

GUD Holdings (GUD) 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, Ryco filters, Davey pumps and Oates cleaning accessories. GUD was formed in 1940 and first listed in 1959.

KEY RATIOS

	2008	2009E	2010E	2011E
Profitability (%)				
Revenue growth	2.1	(15.2)	(1.7)	2.2
EBITDA margin	15.2	13.3	13.5	15.5
EBIT margin	12.9	11.1	11.4	13.3
Effective tax rate	28.6	29.5	29.5	29.5
Return on Inv Cap (post-tax)	22.4	19.1	21.1	25.5
Return on Equity	32.3	26.1	26.3	31.9
Capital Structure				
Net Debt / EBITDA (x)	1.1	1.2	1.2	0.7
Net Debt / Common equity (%)	71.8	46.3	42.2	41.4
Net Debt / Core EV* (x)	0.1	0.2	0.1	0.2
Capex / Depreciation (x)	0.6	0.7	0.7	0.7
EBIT / Net Interest (x)	7.3	8.6	9.0	10.9

PROFIT AND LOSS (HALF YEAR)

(A\$ m)	1H 08	2H 08	1H 09E	2H 09E
Revenue	285.8	249.1	241.0	213.0
EBITDA [adjusted]	44.8	36.7	32.3	28.1
Depreciation & Amortisation	(6.5)	(6.1)	(5.0)	(5.0)
EBIT [adjusted]	38.3	30.6	27.4	23.1
Net interest	(4.7)	(4.5)	(2.9)	(2.9)
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]	33.6	26.1	24.4	20.2
Tax on pre-abnormal profit	(10.2)	(7.4)	(7.2)	(6.0)
Minority Interests	0.0	0.0	0.0	0.0
Dividends (preferred)	0.0	0.0	0.0	0.0
Net Profit [adjusted]	23.5	18.7	17.2	14.3
Abnormal Gain/(Loss) after Tax	(5.9)	0.0	0.0	0.0
Net Profit [reported]	17.5	18.7	17.2	14.3

ENTERPRISE VALUE*

(A\$ m)	2008	2009E	2010E	2011E
Market capital	601.4	283.4	283.4	283.4
Net debt / (cash) [avg]	90.4	71.1	71.1	50.9
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	691.8	354.5	354.5	334.3
(Non-core assets)	0.0	0.0	0.0	(4.7)
Core Enterprise Value	691.8	354.5	354.5	329.6
Core EV Ratios				
EV / Sales	1.3	0.8	0.8	0.7
EV / EBITDA	8.5	5.9	5.9	4.7
EV / EBIT	10.0	7.0	7.0	5.4
EV / OpFCF [post-tax]	9.3	5.4	6.4	5.4
EV / Invested Capital	3.2	1.9	2.1	2.0

DIVISIONAL BREAKDOWN

(A\$ m)	2008	2009E	2010E	2011E
Total Revenue	535.1	454.0	446.1	456.1
Sunbeam Victa	312.5	241.5	234.3	239.4
Ryco Wesfil	71.5	70.4	71.5	72.2
Davey Pumps	137.4	129.1	127.8	132.3
Lock Focus	13.6	12.9	12.5	12.2
EBIT	68.9	50.5	50.7	60.6
Sunbeam Victa	38.3	24.2	23.9	29.9
Ryco Wesfil	19.4	16.9	17.9	19.9
Davey Pumps	13.5	11.0	10.9	12.6
Lock Focus	2.5	2.4	2.0	2.1
Adjustment	(4.8)	(3.9)	(3.9)	(3.9)

■ GUD Holdings Limited

GUD Holdings (GUD) 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, Ryco filters, Davey pumps and Oates 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

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

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UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage ¹	IB Services ²
Buy	Buy	56%	36%
Neutral	Hold/Neutral	35%	33%
Sell	Sell	8%	27%
UBS Short-Term Rating	Rating Category	Coverage ³	IB Services ⁴
Buy	Buy	less than 1%	32%
Sell	Sell	less than 1%	14%

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 30 September 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

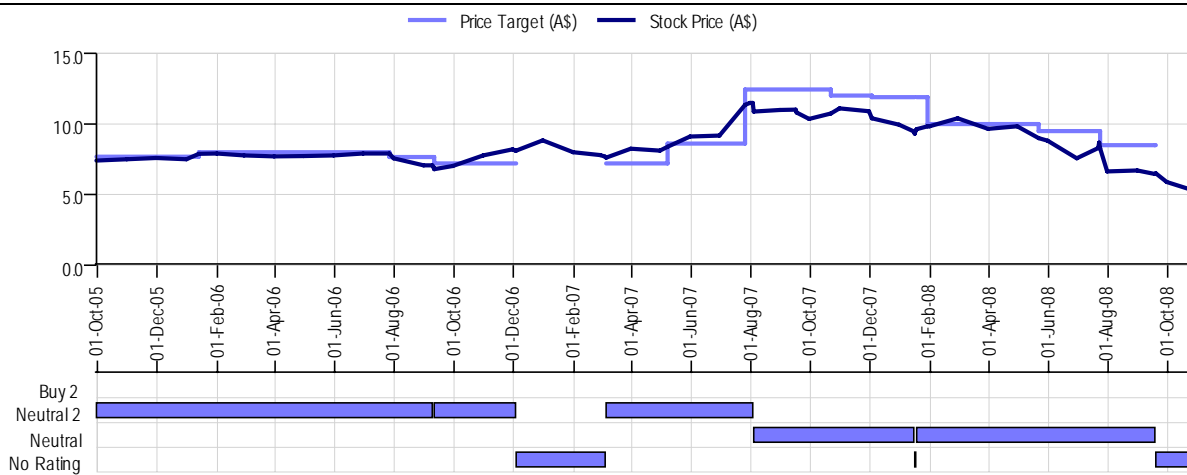
Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
GUD Holdings Limited	GUD.AX	Suspended	N/A	A\$5.30	27 Oct 2008

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

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 27 Oct 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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