

GUD Holdings Limited

Holding steady in 1H09



Wilson HTM
INVESTMENT GROUP

28 January 2009

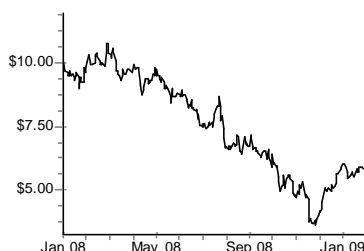
\$5.80

HOLD

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Price Performance



Security/Capital Details

ASX Code	GUD
Market Cap	\$338 M
Issued Shares	57.9 M
Avg Mth T'over	5.07 M
12 Mth High – Low	\$10.80 - \$3.58

Key Data/Ratios – FY 2009

EBITDA / Sales	15.4%
EBIT / Sales	13.0%
Net Debt / Equity	89.6%
Interest Cover	6.5 x
ROE	31.2%
EPS Growth	-12.3%
PEG Ratio	-0.82 x
NTA / Share	\$ 0.35
12 Mth Price Target	\$ 5.80

Recommendation

We retain a HOLD rating. Our 12 month target is \$5.80 p/share.

GUD has confirmed a respectable 1H09 result, with underlying earnings essentially steady on the pcp. We are encouraged by the delivery of stable earnings from both the Consumer (*Sunbeam* and *Oates*) and Water Divisions. While this trend is reported to have continued into January 2009, we balance this with the increasingly uncertain outlook for consumer demand. GUD offers a reasonable degree of earnings diversification across its various brands however caution is warranted. HOLD retained.

Key Points

- **Sound 1H09 result.** 1H09 normalised EBIT of \$32.6M and NPAT of \$19.5M were modestly below our forecasts (ie. by 2% and 3% respectively). EBIT was 15% lower than pcp and primarily attributed to the divestment of *Victa* (on 30 June 2008). Reported NPAT was \$16.9M after deducting a \$2.6M (post tax) mark-to-market adjustment of interest rate hedging facilities.
- The interim DPS of 27 cents (pcp: 30 cents) reflects a payout of 80%.
- At the Divisional level there were no major surprises, with relatively flat EBIT contributions from Consumer (\$16.3M) and Water (\$8.4M). We are encouraged by slightly higher margins in Consumer (assisted by *Oates* restructure). Automotive EBIT was \$10.2M (-4%), while the small Security business disappointed with EBIT down \$0.7M to \$0.5M (impacted by a weak building sector and margin pressure from the lower AUD/USD FX rate).
- **Balance sheet.** 1H09 net debt of \$123M was \$15M higher than pcp. Cash flow is seasonally skewed to the 2H given the timing of working capital flows, but is likely to be more skewed this year given the increased cost of current inventory holdings, and lower payables. GUD has forecast FY09 net debt of ~\$100M. Interest cover remains sound (FY09e: 6.5x), and we remain comfortable with the cash flow profile and short and long-term debt structure.
- **Earnings outlook.** The steady start to FY09 and indications of good trading in January 2009 provide encouragement. Regardless, caution is warranted given GUD's reliance upon consumer and commercial spending patterns in its two largest divisions (ie. Consumer and Water respectively). We have revised down our FY09 EPS forecast by 7%. This reflects a 6% reduction to underlying EBIT (ie. excludes *Victa* divestment) compared with FY08.
- **Recommendation.** GUD is well managed and has a strong portfolio of consumer and industrial brands. Regardless, the softening domestic economic environment, and the expected medium-term pressures on profit margins associated with a weaker AUD/USD FX rate (ie. +2H09), provide an outlook of ongoing earnings uncertainty. At current prices, GUD appears good value, however we are unable to identify a clear catalyst for re-rating within the near-term, hence the retention of our HOLD rating. We endorse a 12 month price target of \$5.80 p/share (FY09 EV/EBITA 7.2X, implied PER 9.4x), previously \$6.20 p/share.

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	8.1	5.9	5.2	68.0	11.7	100
2009e	33.1	62.7	-12.3	9.3	7.5	6.2	60.0	10.3	100
2010e	34.3	60.2	-4.1	9.6	7.0	6.2	60.0	10.3	100
2011e	36.4	63.8	6.1	9.1	7.1	1.2	60.0	10.3	100

Earnings outlook

A summary of the 1H09 result and our forecasts is detailed in the table below.

Financial summary

Y/e: 30 June		FY07	1H08	FY08	1H09	FY09e	FY10e	FY11e
Sales revenue	\$M	518.7	285.3	534.9	237.3	458.5	456.5	471.1
- growth	%	12%	7%	3%	-17%	-14%	0%	3%
Divisional EBIT:								
- Consumer	\$M	25.6	20.9	38.3	16.3	30.0	27.2	28.1
- Automotive	\$M	16.9	10.2	19.4	9.8	18.4	18.1	18.7
- Water	\$M	19.1	8.5	13.5	8.4	14.9	15.9	17.3
- Security	\$M	2.3	1.2	2.5	0.5	1.2	1.7	1.8
- Unallocated	\$M	-3.7	-2.5	-4.8	-2.4	-4.9	-5.1	-5.3
Trading EBIT	\$M	60.2	38.3	68.9	32.6	59.7	57.9	60.7
- growth	%	-5%	31%	14%	-15%	-13%	-3%	5%
NPAT (normalised)	\$M	36.2	23.5	42.0	19.5	35.7	34.3	36.4
- growth	%	-10%	36%	16%	-17%	-15%	-4%	6%
Significant items	\$M	-2.5	-5.9	-4.6	-2.6	-2.6	0.0	0.0
NPAT (reported)		33.6	17.6	37.4	16.9	33.1	34.3	36.4
EPS (normalised)	cents	60.3	39.2	70.2	33.8	61.7	59.2	62.9
- growth	%	-10%	36%	16%	-14%	-12%	-4%	6%
DPS	cents	61.0	30.0	68.0	27.0	60.0	60.0	60.0
- payout ratio	%	101%	76%	95%	80%	97%	101%	95%
Earnings multiples:								
- EV / EBITA	x	7.3	n/a	6.1	0.0	7.2	7.4	7.0
- PER (pre g'will)	x	9.6	n/a	8.3	0.0	9.4	9.8	9.2
- Yield	%	10.5	n/a	11.7	0.0	10.3	10.3	10.3

Source: GUD & WHTM

Key points:

- 1H09 result.** 1H09 earnings were broadly in line-with our forecast, with EBIT of \$32.6M (WHTM est: \$33.4M). Key features included steady performances from Consumer Products (*Sunbeam* and *Oates Clean*) and the Water products Division (ie. profit recovery held back by adverse weather conditions). Filtration was marginally lower, while Security disappointed (weaker housing market, margin pressure from lower AUD/USD).
- Revised earnings.** We have revised down our normalised EPS forecasts by 7% for FY09 and 10% for FY10. The revisions essentially reflect the adoption of modestly more conservative sales and margin forecasts across the Group, notable for *Sunbeam*, and the Water and Security Divisions. Our revised forecasts assume underlying EBIT growth of -6% in FY09 and -3% in FY10.
- Investment risks.** The main near-term risks to earnings relate to domestic consumer spending patterns and also GUD's ability to pass on higher import prices (following lower AUD/USD FX rate) via increased selling prices and cost controls (both underway). We have assumed some margin contraction in late FY09 and into FY10 resulting from the delayed impact of inventory of the lower AUD/USD FX rate, the 'run-off' of favourable hedging facilities (in late 2H09), partially offset by price increases across GUD's product portfolio.
- DPS forecasts.** We have assumed a lower total DPS of \$0.60 (pcp: \$0.68), and expect this level of dividend income to be maintained over the forecast period.

GUD Holdings Limited (GUD : \$5.80)

INVESTMENT FUNDAMENTALS

Yr Ending June	2007A	2008A	2009E	2010E	2011E
EPS Reported (c)	56.2	62.8	57.2	59.2	62.9
EPS Normalised (c)	61.1	71.5	62.7	60.2	63.8
EPS Growth (%)	N/A	16.8%	-12.4%	-4.1%	6.3%
PER Normalised (x)	9.5	8.1	9.3	9.6	9.1
DPS (c)	61.0	68.0	60.0	60.0	60.0
Payout (%)	108.6%	108.2%	104.9%	101.3%	95.3%
Yield (%)	10.5%	11.7%	10.3%	10.3%	10.3%
Franking (%)	100%	100%	100%	100%	100%

VALUATION DATA

Yr Ending June	2007A	2008A	2009E	2010E	2011E
EV / EBITA (x)	7.3	6.1	7.2	7.3	1.4
EV / EBITDA (x)	6.1	5.2	6.2	6.2	1.2
CFPS (c)	66.6	97.8	77.7	82.5	81.3
Price / CF	8.7	5.9	7.5	7.0	7.1
Book Value / Share (\$)	2.3	2.1	1.9	1.9	
Price / Book (x)	2.5	2.8	3.1	3.1	

PROFIT & LOSS (\$m)

Yr Ending June	2007A	2008A	2009E	2010E	2011E
Sales Revenue	518.7	534.9	458.5	456.5	471.1
EBITDA	73.1	81.5	70.5	68.3	70.8
Depreciation	12.3	12.0	10.3	9.9	9.6
EBITA	60.7	69.5	60.2	58.4	61.2
Amortisation	0.5	0.6	0.6	0.5	0.5
EBIT	60.2	68.9	59.7	57.9	60.7
Net Interest Expense	9.0	9.5	9.2	9.3	9.0
Pre-tax Profit	51.3	59.4	50.5	48.6	51.7
Tax	15.1	17.5	14.8	14.3	15.3
Tax rate (%)	29.5%	29.4%	29.3%	29.5%	29.6%
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	35.7	34.3	36.4
Abn's / Extraord's	-2.5	-4.6	-2.6	0.0	0.0
Reported Net Profit	33.6	37.4	33.1	34.3	36.4
Revenue Growth (%)	N/A	3.1%	-14.3%	-0.4%	3.2%
EBIT Growth (%)	N/A	14.4%	-13.4%	-3.0%	4.9%
NPAT Growth (%)	N/A	16.0%	-14.9%	-4.0%	6.3%

PROFITABILITY RATIOS

Yr Ending June	2007A	2008A	2009E	2010E	2011E
EBIT / Sales (%)	11.6%	12.9%	13.0%	12.7%	12.9%
ROA (%)	N/A	23.9%	22.1%	21.7%	22.7%
ROE (%)	N/A	32.4%	31.2%	31.8%	33.6%
ROFE (%)	N/A	31.6%	29.2%	29.0%	31.1%

INTERIMS (\$m)

Half Yr	Dec 07	Jun 08	Dec 08	Jun 09	Dec 09
Yr Ending June	1H A	2H A	1H A	2H E	1H E
Sales Revenue	285.3	249.6	237.3	221.1	238.6
EBIT	38.3	30.6	32.6	27.1	28.4
Net Profit	17.6	19.8	16.9	16.2	16.4
EBIT / Sales (%)	13.4%	12.3%	13.7%	12.2%	11.9%

BALANCE SHEET (\$m)

Yr Ending June	2007A	2008A	2009E	2010E	2011E
Cash	17.7	33.1	17.6	21.1	25.9
Receivables	67.7	65.9	64.5	64.2	66.3
Inventories	95.7	81.4	83.8	83.4	86.1
Other	4.9	4.2	4.5	4.7	4.9
Current Assets	186.0	184.7	170.4	173.4	183.2
Net PPE	30.4	20.2	23.3	24.7	25.8
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	115.9	113.1	111.2
Total Assets	324.2	302.3	286.2	286.5	294.3
Current Payables	55.4	45.1	43.6	43.5	44.8
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	20.3	23.3	28.0
Total Liabilities	185.0	182.2	178.3	179.0	185.1
Equity	98.4	80.7	71.7	71.7	71.7
Reserves	-0.4	-0.8	0.5	0.5	0.5
Retained Profits	41.2	40.3	35.8	35.3	37.0
Minorities	0.0	0.0	0.0	0.0	0.0
Total Equity	139.3	120.1	107.9	107.5	109.2
Total Funds Employed	234.0	206.3	204.6	198.7	195.6

LIQUIDITY & LEVERAGE RATIOS

Yr Ending June	2007A	2008A	2009E	2010E	2011E
Net Debt (Cash) (\$m)	94.7	86.2	96.7	91.2	86.4
Net Debt / Equity (%)	68.0%	71.8%	89.6%	84.9%	79.1%
Interest Cover (x)	6.7	7.3	6.5	6.2	6.8
Debt / CashFlow (x)	2.8	2.1	2.5	2.4	2.4

CASHFLOW (\$m)

Yr Ending June	2007A	2008A	2009E	2010E	2011E
EBIT	60.2	68.9	59.7	57.9	60.7
Dep'n and Amort'n	12.8	12.6	10.8	10.5	10.1
Net Int Rec'd (Paid)	-9.0	-9.5	-9.2	-9.3	-9.0
Tax Paid	-15.9	-13.3	-14.0	-11.8	-11.5
Dec / (Inc) W'kg Cap	-14.2	5.8	-2.4	0.5	-3.3
Other	5.9	-6.4	0.0	0.0	0.0
Operating Cash Flow	39.9	58.2	45.0	47.7	47.0
Capital Expenditure	-7.2	-12.2	-8.9	-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	-8.9	-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	-37.6	-34.7	-34.7
Other Fin. Flows	0.0	0.0	0.0	0.0	0.0
Financing Cash Flow	5.1	-48.1	-51.6	-36.7	-34.7
Net Cash Flow	0.6	15.7	-15.5	3.5	4.8

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