

# GUD Holdings Limited

GUD ... Holding up well in FY09



Wilson HTM  
INVESTMENT GROUP

22 May 2009

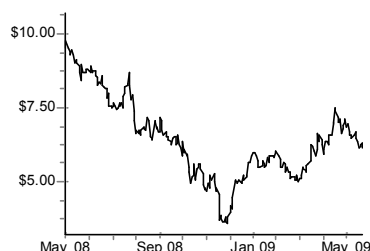
\$6.20

Hold

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## Price Performance



## Security/Capital Details

ASX Code	GUD
Market Cap	\$400 M
Issued Shares	60.0 M
Avg Mth T'over	5.07 M
12 Mth High – Low	\$9.51 - \$3.58

## Key Data/Ratios – FY 2009

EBITDA / Sales	15.4%
EBIT / Sales	13.0%
Net Debt / Equity	56.0%
Interest Cover	6.9 x
ROE	28.7%
EPS Growth	-11.9%
NTA / Share	\$ 0.73
12 Mth Price Target	\$ 6.60

## Recommendation

We retain a **HOLD** rating, but increase our 12 month price target to **\$6.60 p/share** (previously **\$5.80 p/share**). We prefer to **BUY** below **\$6.00 p/share**. Recent updates from GUD Holdings ('GUD') provide us with confidence that the business is tracking to plan, and we remain comfortable with our earnings forecasts for the operating businesses (ie. unchanged). The trading environment remains challenging, however GUD is proving to be 'weathering' the current climate relatively well. We view GUD as being slightly undervalued relative to our 12 month target of **\$6.60 p/share (FY10 EV/EBITDA 8.0x, implied PER 11x)**. **HOLD** retained, **BUY** below **\$6.00 p/share**.

## Key Points

- **Update.** Following GUD's recent trading update, plus recent comments from management, GUD appears to be trading to plan so far in FY09. On a YTD basis for the nine months to March, sales for GUD's continuing business were -1% with trading EBIT of -4% and Trading NPAT of -3%. This is a relatively encouraging update in light of the difficult economic environment.
- Specifically, GUD's Consumer Division has proved resilient, with Sunbeam and Oates performing well despite the challenging environment. Water Products is delivering an improved performance in 2H09 (ie. improved domestic demand/export sales), and Automotive is also performing relatively well. Margins in 2H09 appear to be holding up quite well, with some price increases, progressive cost reductions from suppliers (~10%) and general cost controls largely offsetting a ~25% decline in AUD/USD FX rates.
- **Equity raising.** GUD has closed its Share Purchase Plan (SPP) and we have assumed it raised \$14M in new equity (ie. 2.3M shares at \$6.07 p/share). Under the plan, eligible shareholders had the opportunity to subscribe for up to \$15,000 of new GUD shares.
- **WHTM view.** Overall, GUD appears to be tracking to plan and earnings, while down marginally for continuing businesses (ie. EBIT -4%), have proved relatively resilient in light of the challenging trading conditions.
- **Earnings outlook.** There are no material changes to our previous earnings forecasts, with underlying earnings on a YTD basis tracking broadly in-line with our FY09 forecasts ie. sales growth of -2% (YTD: -1%) and trading EBIT of -6% (YTD: -4%). Our underlying trading EBIT forecasts provide growth of -6% in FY09 and -3% in FY10. We have included the impact of the SPP (and also assumed a DRP applies to the next two dividends). The combined impact of these equity raising initiatives is to reduce our previous EPS forecasts by 2% in FY10 (ie. modest dilution).
- **Balance sheet.** GUD has refinanced its \$80M working capital bill facility for three years to July 2012. Its \$100M core debt facility is not due for renewal until July 2011. Gearing remains comfortable, with FY09 ND/E of 56%, and interest cover of 7.0x.
- **Investment risks.** The main risks relate to: (a) domestic consumer spending patterns, and (b) the ability to pass on higher import prices (ie. ↓ AUD/USD FX rate) via increased selling prices, and cost controls (both underway).
- **Recommendation.** We retain a **HOLD** rating. **BUY** below **\$6.00 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	8.7	6.3	5.5	68.0	11.0	100
2009e	33.5	63.0	-11.9	9.8	7.9	6.3	58.0	9.3	100
2010e	35.2	58.8	-6.6	10.5	7.7	6.4	58.0	9.4	100
2011e	37.3	61.6	4.6	10.1	7.9	0.8	58.0	9.4	100

## Earnings outlook

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

### Financial summary

Y/e: 30 June		FY07	FY08	FY08	1H09	2H09e	FY09e	FY10e	FY11e
		Reported		Ex-Victa					
<b>Sales revenue</b>	<b>\$M</b>	<b>518.7</b>	<b>534.9</b>	<b>469.0</b>	<b>237.3</b>	<b>221.1</b>	<b>458.5</b>	<b>456.5</b>	<b>471.1</b>
- growth	%	12%	3%	n/a	-17%	-11%	-14%	0%	3%
<b>Divisional EBIT:</b>									
- Consumer	\$M	25.6	38.3	32.9	16.3	13.7	30.0	27.2	28.1
- Automotive	\$M	16.9	19.4	19.4	9.8	8.6	18.4	18.1	18.7
- Water	\$M	19.1	13.5	13.5	8.4	6.5	14.9	15.9	17.3
- Security	\$M	2.3	2.5	2.5	0.5	0.9	1.4	1.7	1.8
- Unallocated	\$M	-3.7	-4.8	-4.8	-2.4	-2.6	-5.0	-5.1	-5.3
<b>Trading EBIT</b>	<b>\$M</b>	<b>60.2</b>	<b>68.9</b>	<b>63.5</b>	<b>32.6</b>	<b>27.1</b>	<b>59.7</b>	<b>57.9</b>	<b>60.7</b>
- growth	%	-5%	14%	n/a	-15%	-11%	-13%	-3%	5%
<b>NPAT (normalised)</b>	<b>\$M</b>	<b>36.2</b>	<b>42.0</b>	<b>38.2</b>	<b>19.5</b>	<b>16.6</b>	<b>36.1</b>	<b>35.2</b>	<b>37.3</b>
- growth	%	-10%	16%	n/a	-17%	-10%	-14%	-3%	6%
Significant items	\$M	-2.5	-4.6	-4.6	-2.6	0.0	-2.6	0.0	0.0
NPAT (reported)		33.6	37.4	33.7	16.9	16.6	33.5	35.2	37.3
<b>EPS (normalised)</b>	<b>cps</b>	<b>60.3</b>	<b>70.2</b>	<b>64.0</b>	<b>33.8</b>	<b>28.3</b>	<b>62.0</b>	<b>57.9</b>	<b>60.7</b>
- growth	%	-10%	16%	n/a	-14%	-9%	-12%	-7%	5%
DPS	cps	61.0	68.0	68.0	27.0	31.0	58.0	58.0	58.0
- payout ratio	%	101%	95%	n/a	80%	112%	95%	101%	96%
<b>Earnings multiples:</b>									
- EV / EBITA	x	7.7	6.5	7.0	n/a	n/a	7.5	7.6	7.1
- PER (Cash EPS)	x	10.3	8.8	9.7	n/a	n/a	10.0	10.7	10.2
- Yield	%	9.8	11.0	11.0	n/a	n/a	9.4	9.4	9.4

Source: GUD & WHTM. Note: forecasts assume DRP applies to 2H FY09 and 1H FY10 DPS. Victa sold 30/06/08.

### Key points:

- Our trading EBIT forecasts remain unchanged, and provide trading EBIT of \$59.7M (-6%) in FY09 and \$57.9M (-3%) in FY10.
- GUD's recent trading update and disclosure of YTD financial performance for the 9-months to March 2009 are broadly consistent with our forecasts. Specifically, YTD sales growth was -1% (WHTM FY09: -2%) and trading EBIT growth was -4% (WHTM FY09: -6%).
- Note: the financial statistics detailed above relate to GUD's earnings for its continuing businesses (ie. excludes contributions in FY08 for the now divested Victa business of sales of \$66M and EBIT of \$5.4M). On an adjusted basis, FY08 sales were \$469M and trading EBIT of \$63.5M.
- Our NPAT and EPS forecasts for now include GUD's share purchase plan (closed on 19 May 2009), which we have assumed raised \$14M (ie. 2.3M shares at \$6.07 p/share). We have also assumed the next two dividends provide entitlement to a dividend reinvestment program (DRP), and have assume a 25% 'take-up' under the DRP. The combined dilution on EPS associated with the SPP and DRP is assessed at -2% in FY10.
- For further details on our operating earnings assumptions for GUD, refer to previous page and also to WHTM report dated 28 January 2009.

## GUD Holdings Limited (GUD : \$6.20)

## INVESTMENT FUNDAMENTALS

Yr Ending June	2007A	2008A	2009E	2010E	2011E
EPS Reported (c)	56.2	62.8	57.5	58.0	60.7
<b>EPS Normalised (c)</b>	<b>61.1</b>	<b>71.5</b>	<b>63.0</b>	<b>58.8</b>	<b>61.6</b>
EPS Growth (%)	N/A	16.9%	-11.9%	-6.6%	4.6%
<b>PER Normalised (x)</b>	<b>10.1</b>	<b>8.7</b>	<b>9.8</b>	<b>10.5</b>	<b>10.1</b>
DPS (c)	61.0	68.0	58.0	58.0	58.0
Payout (%)	<b>108.6%</b>	<b>108.2%</b>	<b>100.8%</b>	<b>100.1%</b>	<b>95.5%</b>
Yield (%)	9.8%	11.0%	9.3%	9.4%	9.4%
Franking (%)	100%	100%	100%	100%	100%

## VALUATION DATA

Yr Ending June	2007A	2008A	2009E	2010E	2011E
EV / EBITA (x)	7.7	6.4	7.4	7.5	0.9
EV / EBITDA (x)	6.4	5.5	6.3	6.4	0.8
CFPS (c)	66.6	97.8	78.3	80.6	78.2
<b>Price / CF</b>	<b>9.3</b>	<b>6.3</b>	<b>7.9</b>	<b>7.7</b>	<b>7.9</b>
Book Value / Share (\$)	2.3	2.1	2.2	2.3	
<b>Price / Book (x)</b>	<b>2.7</b>	<b>3.0</b>	<b>2.8</b>	<b>2.7</b>	

## PROFIT &amp; 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	70.6	68.4	70.9
Depreciation	12.3	12.0	10.3	10.0	9.6
<b>EBITA</b>	<b>60.7</b>	<b>69.5</b>	<b>60.3</b>	<b>58.4</b>	<b>61.2</b>
Amortisation	0.5	0.6	0.6	0.5	0.5
<b>EBIT</b>	<b>60.2</b>	<b>68.9</b>	<b>59.7</b>	<b>57.9</b>	<b>60.7</b>
Net Interest Expense	9.0	9.5	8.7	8.0	7.8
<b>Pre-tax Profit</b>	<b>51.3</b>	<b>59.4</b>	<b>51.1</b>	<b>49.9</b>	<b>52.9</b>
Tax	15.1	17.5	15.0	14.7	15.7
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
<b>Net Profit</b>	<b>36.2</b>	<b>42.0</b>	<b>36.1</b>	<b>35.2</b>	<b>37.3</b>
Abn's / Extraord's	-2.5	-4.6	-2.6	0.0	0.0
Reported Net Profit	33.6	37.4	33.5	35.2	37.3
Revenue Growth (%)	N/A	3.1%	-14.3%	-0.4%	3.2%
EBIT Growth (%)	N/A	14.4%	-13.3%	-3.1%	4.9%
NPAT Growth (%)	N/A	16.0%	-13.9%	-2.6%	5.9%

## PROFITABILITY RATIOS

Yr Ending June	2007A	2008A	2009E	2010E	2011E
<b>EBIT / Sales (%)</b>	<b>11.6%</b>	<b>12.9%</b>	<b>13.0%</b>	<b>12.7%</b>	<b>12.9%</b>
ROA (%)	N/A	23.9%	22.2%	21.7%	22.8%
<b>ROE (%)</b>	<b>N/A</b>	<b>32.4%</b>	<b>28.7%</b>	<b>26.0%</b>	<b>26.5%</b>
ROFE (%)	N/A	31.6%	29.3%	29.0%	31.1%

## INTERIMS (\$m)

Half Yr	Dec 07	Jun 08	Dec 08	Jun 09	Dec 09
<b>Yr Ending June</b>	<b>1H A</b>	<b>2H A</b>	<b>1H A</b>	<b>2H E</b>	<b>1H E</b>
Sales Revenue	285.3	249.6	237.3	221.1	238.6
EBIT	38.3	30.6	32.6	27.1	28.4
<b>Net Profit</b>	<b>17.6</b>	<b>19.8</b>	<b>16.9</b>	<b>16.6</b>	<b>17.1</b>
EBIT / Sales (%)	13.4%	12.3%	13.7%	12.3%	11.9%

## BALANCE SHEET (\$m)

Yr Ending June	2007A	2008A	2009E	2010E	2011E
Cash	17.7	33.1	40.9	54.0	58.9
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
<b>Current Assets</b>	<b>186.0</b>	<b>184.7</b>	<b>193.7</b>	<b>206.4</b>	<b>216.2</b>
Net PPE	30.4	20.2	23.3	24.7	25.7
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
<b>Non-current Assets</b>	<b>138.3</b>	<b>117.6</b>	<b>115.8</b>	<b>113.0</b>	<b>111.1</b>
<b>Total Assets</b>	<b>324.2</b>	<b>302.3</b>	<b>309.5</b>	<b>319.4</b>	<b>327.3</b>
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	20.5	23.7	28.5
<b>Total Liabilities</b>	<b>185.0</b>	<b>182.2</b>	<b>178.5</b>	<b>179.4</b>	<b>185.6</b>
Equity	98.4	80.7	94.4	103.1	103.1
Reserves	-0.4	-0.8	0.5	0.5	0.5
Retained Profits	41.2	40.3	36.2	36.4	38.0
Minorities	0.0	0.0	0.0	0.0	0.0
<b>Total Equity</b>	<b>139.3</b>	<b>120.1</b>	<b>131.1</b>	<b>140.0</b>	<b>141.7</b>
<b>Total Funds Employed</b>	<b>234.0</b>	<b>206.3</b>	<b>204.5</b>	<b>198.2</b>	<b>195.0</b>

## LIQUIDITY &amp; LEVERAGE RATIOS

Yr Ending June	2007A	2008A	2009E	2010E	2011E
Net Debt (Cash) (\$m)	94.7	86.2	73.4	58.2	53.4
<b>Net Debt / Equity (%)</b>	<b>68.0%</b>	<b>71.8%</b>	<b>56.0%</b>	<b>41.6%</b>	<b>37.7%</b>
Interest Cover (x)	6.7	7.3	6.9	7.3	7.8
<b>Debt / CashFlow (x)</b>	<b>2.8</b>	<b>2.1</b>	<b>2.5</b>	<b>2.3</b>	<b>2.3</b>

## 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	10.9	10.5	10.2
Net Int Rec'd (Paid)	-9.0	-9.5	-8.7	-8.0	-7.8
Tax Paid	-15.9	-13.3	-14.0	-12.0	-11.8
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
<b>Operating Cash Flow</b>	<b>39.9</b>	<b>58.2</b>	<b>45.6</b>	<b>48.9</b>	<b>48.0</b>
Capital Expenditure	-7.2	-6.4	-8.9	-7.5	-7.5
Asset Sales	0.0	0.0	0.0	0.0	0.0
Investments	-37.3	12.1	0.0	0.0	0.0
Other Inv. Flows	0.0	0.0	0.0	0.0	0.0
<b>Investing Cash Flow</b>	<b>-44.4</b>	<b>5.6</b>	<b>-8.9</b>	<b>-7.5</b>	<b>-7.5</b>
Equity Raised	0.0	-17.8	13.7	8.8	0.0
Inc / (Dec) in Loans	41.1	8.0	-5.0	-2.0	0.0
Dividends Paid	-35.9	-38.3	-37.6	-35.0	-35.6
Other Fin. Flows	0.0	0.0	0.0	0.0	0.0
<b>Financing Cash Flow</b>	<b>5.1</b>	<b>-48.1</b>	<b>-28.9</b>	<b>-28.3</b>	<b>-35.6</b>
<b>Net Cash Flow</b>	<b>0.6</b>	<b>15.7</b>	<b>7.8</b>	<b>13.1</b>	<b>4.9</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 4,400 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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