UBS

Global Equity Research

Australia

Auto Parts

UBS Investment Research

GUD Holdings Limited

12-month rating	Buy *Prior: Neutral*
12m price target	A$6.50/US$5.07 *Unchanged*
Price	A$6.12/US$4.78

RIC: GUD.AX BBG: GUD AU

29 May 2009

Plugging in on the cheap

■ Strategic investment in Breville

GUD have acquired a 19.4% stake in Breville for $18.1m (72c/share), labelling the move as a 'strategic investment' with a seemingly passive role to play. GUD's dividend share of $1.6m/p.a. (consensus est.) should result in minor EPS accretion outcome – management have guided to 'broadly EPS neutral'. GUD's acquisition price equates to a PE of 6-7x in FY10 according to consensus estimates.

■ Adjusting earnings for SPP / investment

We have adjusted our earnings for the $14m raised via an SPP (we had assumed $10m was raised at the time of announcement). Our underlying EBIT est. of $59m remains unchanged. We have not included a DRP in our assumptions but see the likelihood of one being implemented as high.

■ Consolidating branded appliance strength on the cheap – move to Buy

Sunbeam has a market share of c.23% vs Breville's just shy of 20% in Aust small appliances. While GUD have 'no current intentions' to acquire further shares in BRG, a move on the business funded cheaply via SPP is viewed as shrewd strategically, clearly strengthening GUD's market power. While our valuation remains unchanged, GUD has underperformed the ASX/Small Ords by 22% over the past month - as the long-term value of this acquisition is digested we expect this will reverse, accordingly we move to a Buy rating.

■ Valuation: unchanged at $6.50

Our SOTP valuation remains unchanged.

Highlights (A$m)	06/07	06/08	06/09E	06/10E	06/11E
Revenues	524.0	535.1	461.9	456.2	466.8
EBIT (UBS)	60.2	68.9	59.0	54.6	60.4
Net Income (UBS)	35.9	41.9	33.0	35.0	39.4
EPS (UBS, A$)	0.60	0.70	0.56	0.58	0.65
Net DPS (UBS, A$)	0.61	0.65	0.56	0.52	0.59
Profitability & Valuation	**5-yr hist av.**	**06/08**	**06/09E**	**06/10E**	**06/11E**
EBIT margin %	13.9	12.9	12.8	12.0	12.9
ROIC (EBIT) %	34.1	31.7	28.4	26.3	30.1
EV/EBITDA (core) x	6.8	8.5	6.4	6.9	5.8
PE (UBS) x	11.0	14.3	10.9	10.6	9.4
Net dividend yield %	6.7	6.5	9.2	8.5	9.6

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$6.12 on 29 May 2009 18:42 EST

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Trading data (local/US$)

52-wk range	A$8.93-3.58/US$8.56-2.28
Market cap.	A$0.35bn/US$0.28bn
Shares o/s	57.8m (ORD)
Free float	100%
Avg. daily volume ('000)	192
Avg. daily value (A$m)	1.2

Balance sheet data 06/09E

Shareholders' equity	A$0.13bn
P/BV (UBS)	2.8x
Net Cash (debt)	(A$0.10bn)

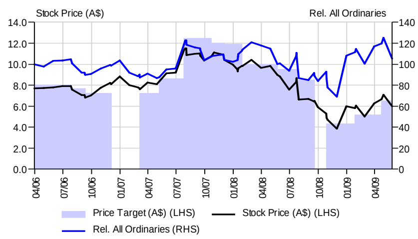
Forecast returns

Forecast price appreciation	+6.2%
Forecast dividend yield	12.1%
Forecast stock return	+18.3%
Market return assumption	8.1%
Forecast excess return	+10.2%

EPS (UBS, A$)

	06/09E			06/08
	From	To	Cons.	Actual
H1	0.29	0.29	-	0.39
H2E	0.28	0.28	-	0.31
06/09E	0.57	0.56	*0.61*	
06/10E	0.58	0.58	*0.60*	

Performance (A$)



Source: UBS

www.ubs.com/investmentresearch

Combining two iconic brands?

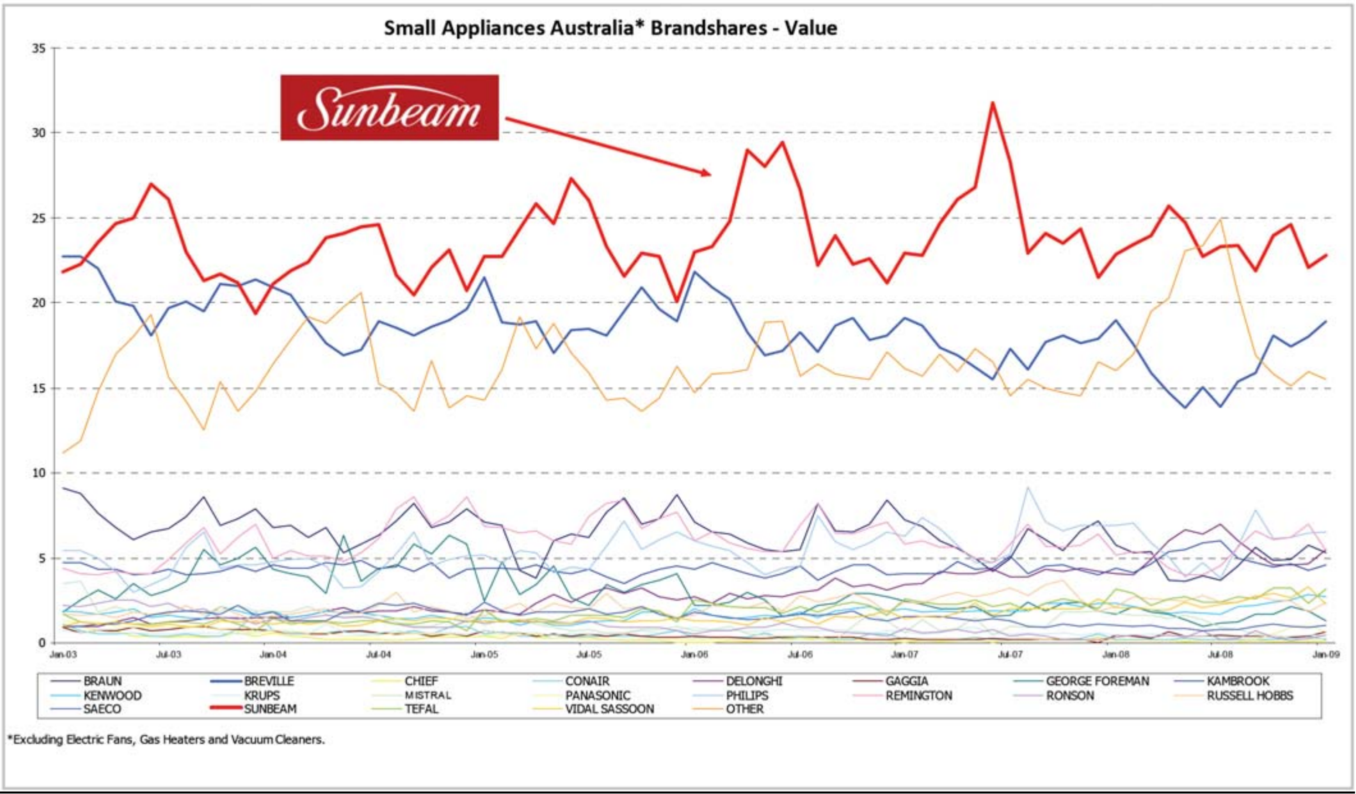
- GUD have acquired a 19.4% stake in Breville Group (BRG) at 72c/share for a total of $18.1m in cash. The acquisition follows on from GUD's recent share purchase plan that raised $14m.

- **Right price for a quality branded franchise:** According to consensus estimates Breville is expected to have an EPS of 12.0c and declare a dividend of 6.3c in FY10 – implying GUD's stake was acquired at an FY10 PE of 6x, dividend yield of 8.8% or an multiple of 5.2x EV/EBITDA. Very attractive multiples considering Breville's solid product development pipeline and impressive Australian revenue growth (up 3.7% u/l for 1H09 vs pcp). International earnings has been impacted by weak broader economic conditions, but ***even discounting the international business (c.1/3 of EBIT) the multiples look cheap.***

  Market share for Breville small appliances has been in the 15-20% range over the past year (vs Sunbeam at c.23%), by far the strongest number two player in Australia. We would expect little regulatory issue with bring the brands together in the long run given broad fragmentation beyond the number 1 and 2 players in the space.

- **Passive… for now:** GUD management have indicated that they have no intention to up their stake in the near term. S Lew Custodians continue to own 30.5% of BRG.

Chart 1: Sunbeam market share



Source: GUD

Change in valuation

- **Earnings broadly unchanged.** We have left our underlying earnings broadly unchanged, but the acquisition is about much more than a PE arbitrage. GUD and Sunbeam in particular has shown to be exceptionally resilient through recent f/x volatility and economic downturn, with smart currency hedging combined with prudent price rises defending margins. While today's acquisition only gains a board seat (potentially) and dividends in theory, the longer term strategic benefits in both procurement and customer negotiations are clear going forward.

- **GUD has underperformed the market materially over the past month** finalising its SPP process. While we were expecting acquisitions more bolt-on in nature, BRG holds exceptional long term prospects and we expect the business to return to a market PE premium as investors digest the significance of the transaction – accordingly we move to a BUY recommendation.

- We have left our core sum of the parts valuation unchanged, but valued the BRG stake at book (clearly conservative) and adjusted our share count/debt for the full SPP.

- As a cross check our DCF valuation gives a current valuation of $7.00 using a WACC of 10.5% (beta 1.3, risk free rate of 6% and 30% long term debt/equity). We use explicit forecasts to 2012, a 2.5% growth rate to 2015 and a 2% terminal growth rate thereafter.

Table 1: GUD sum of the parts valuation

	FY09e EBIT $m	EBIT Multiple x	Value ($m)
Consumer Products	30.7	8.0	245.9
Automotive	17.8	7.0	124.9
Water Products	14.3	8.0	114.2
Security Products	1.0	6.5	6.6
Unallocated	-4.9	5.0	-24.5
BRG			18.1
-	-	-	-
Firm Value			488
Avg Debt ($m) FY09/10			-95
Equity Valuation			393
SOP: Value per Share			6.45

Source: UBSe

GUD Holdings (GUD.AX)

MARKET INFORMATION

Rating:	**Buy**
Price (as of 29-May-09): (A$)	6.12
Price Target (12 months): (A$)	**6.50**
Shares outstanding: (m)	57.8
Market Capital (A$ m):	354.0
Avg. daily turnover (A$ m):	1.2
Year end:	June
Website:	www.gud.com.au
Major Shareholders:	Perpetual, Invesco

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.

INVESTMENT SUMMARY

(A$ m)	2008	2009E	2010E	2011E
Net profit [reported]	37.4	33.0	35.0	39.4
Net profit [adjusted]	41.9	33.0	35.0	39.4
EPS [reported]	0.63	0.56	0.58	0.66
EPS [adjusted, diluted]	**0.70**	**0.56**	**0.58**	**0.65**
EPS Growth (%)	16.7	(20.0)	3.6	12.5
PER [adjusted]* (x)	**14.3**	**10.9**	**10.6**	**9.4**
Dividend	0.65	0.56	0.52	0.59
Payout ratio, [EPS adj.] (%)	*93*	*100*	*89*	*90*
Dividend Yield [Net]* (%)	**6.5**	**9.2**	**8.5**	**9.6**
Shares [period-avg, basic] (m)	59.9	57.8	57.8	57.8
Book value per share	*2.07*	*2.22*	*2.28*	*2.34*
Price to Book (x)*	*4.8*	*2.8*	*2.7*	*2.6*
Equity Free Cash Flow Yield (%)	*12.5*	*8.2*	*13.1*	*11.1*
Franking (%)	100	100	100	100

KEY RATIOS

	2008	2009E	2010E	2011E
Profitability (%)				
Revenue growth	*2.1*	*(13.7)*	*(1.2)*	*2.3*
EBITDA margin	*15.2*	*15.1*	*14.4*	*15.4*
EBIT margin	*12.9*	*12.8*	*12.0*	*12.9*
Effective tax rate	*28.6*	*29.5*	*29.5*	*29.5*
Return on Inv Cap (post-tax)	*22.4*	*20.0*	*18.5*	*21.2*
Return on Equity	*32.3*	*26.0*	*25.9*	*28.4*
Capital Structure				
Net Debt / EBITDA (x)	*1.1*	*1.4*	*1.5*	*1.2*
Net Debt / Common equity (%)	*71.8*	*78.2*	*63.6*	*58.1*
Net Debt / Core EV (x)*	*0.1*	*0.2*	*0.2*	*0.2*
Capex / Depreciation (x)	*0.6*	*0.6*	*0.6*	*0.6*
EBIT / Net Interest (x)	*7.3*	*4.8*	*11.2*	*13.3*

PROFIT AND LOSS

(A$ m)	2008	2009E	2010E	2011E
Revenue	535.1	461.9	456.2	466.8
EBITDA [adjusted]	**81.5**	**69.7**	**65.5**	**71.7**
Depreciation & Amortisation	(12.6)	(10.7)	(10.9)	(11.3)
EBIT [adjusted]	**68.9**	**59.0**	**54.6**	**60.4**
Net interest	(9.5)	(12.2)	(4.9)	(4.5)
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**	**46.8**	**49.7**	**55.9**
Tax on pre-abnormal profit	(17.5)	(13.8)	(14.7)	(16.5)
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**	**33.0**	**35.0**	**39.4**
Abnormal Gain/(Loss) after Tax	(4.6)	0.0	0.0	0.0
Net Profit [reported]	**37.4**	**33.0**	**35.0**	**39.4**

PROFIT AND LOSS [HALF YEAR]

(A$ m)	1H 08	2H 08	1H 09	2H 09E
Revenue	285.8	249.1	237.5	224.4
EBITDA [adjusted]	**44.8**	**36.7**	**37.8**	**31.9**
Depreciation & Amortisation	(6.5)	(6.1)	(5.2)	(5.5)
EBIT [adjusted]	**38.3**	**30.6**	**32.6**	**26.4**
Net interest	(4.7)	(4.5)	(8.8)	(3.5)
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**	**23.8**	**22.9**
Tax on pre-abnormal profit	(10.2)	(7.4)	(7.0)	(6.9)
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**	**16.9**	**16.1**
Abnormal Gain/(Loss) after Tax	(5.9)	0.0	0.0	0.0
Net Profit [reported]	**17.5**	**18.7**	**16.9**	**16.1**

BALANCE SHEET

(A$ m)	2008	2009E	2010E	2011E
Cash & equivalents	33.1	17.7	17.7	17.7
Accounts receivable	65.9	76.0	67.6	69.1
Inventory	81.4	81.8	80.8	82.7
Fixed assets	20.2	20.6	22.1	23.3
Intangibles	92.2	92.8	87.4	82.0
Investments	4.7	22.8	22.8	22.8
Other assets	4.7	4.9	4.9	4.9
Total Assets	**302.3**	**316.6**	**303.2**	**302.5**
Accounts payable	45.1	48.3	48.1	48.6
Short & long term debt	119.3	121.9	104.8	99.6
Provisions & other	17.8	13.3	13.3	13.3
Preferred securities	0.0	0.0	0.0	0.0
Total liabs & pref shares	**182.2**	**183.4**	**166.2**	**161.6**
Minorities	0.0	0.0	0.0	0.0
Common equity	120.1	133.1	136.9	140.9
Total liabilities & equity	**302.3**	**316.6**	**303.1**	**302.4**
Net cash / (debt)	**(86.2)**	**(104.1)**	**(87.1)**	**(81.9)**

ENTERPRISE VALUE*

(A$ m)	2008	2009E	2010E	2011E
Market capital	601.4	354.0	354.0	354.0
Net debt / (cash) [avg]	90.4	95.1	95.1	84.5
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**	**449.1**	**449.1**	**438.4**
(Non-core assets)	0.0	0.0	0.0	(22.8)
Core Enterprise Value	**691.8**	**449.1**	**449.1**	**415.6**
Core EV Ratios				
EV / Sales	*1.3*	*1.0*	*1.0*	*0.9*
EV / EBITDA	*8.5*	*6.4*	*6.9*	*5.8*
EV / EBIT	*10.0*	*7.6*	*8.2*	*6.9*
EV / OpFCF [post-tax]	*9.3*	*8.1*	*6.6*	*6.7*
EV / Invested Capital	*3.2*	*2.2*	*2.2*	*2.1*

CASH FLOW

(A$ m)	2008	2009E	2010E	2011E
Operating income [EBIT, UBS]	68.9	59.0	54.6	60.4
Depreciation & Amortisation	12.6	10.7	10.9	11.3
Net change in working capital	(0.6)	(7.3)	9.3	(2.9)
Other (operating)	0.0	0.0	0.0	0.0
Pre-tax op cash flow	**80.9**	**62.4**	**74.8**	**68.8**
Interest (paid) / received	(9.5)	(12.2)	(4.9)	(4.5)
Tax paid	(13.3)	(13.8)	(14.7)	(16.5)
Other	0.0	0.0	0.0	0.0
Operating cash flow	**58.2**	**36.4**	**55.3**	**47.8**
Capital expenditure	(8.0)	(6.8)	(6.8)	(6.8)
Free cash flow	**50.2**	**29.6**	**48.5**	**41.0**
Net (acquisitions) / disposals	11.4	(20.6)	(7.0)	(7.2)
Dividends paid (Common)	(38.4)	(33.7)	(31.9)	(35.5)
Shares issued/(repurchased)	0.0	0.0	0.0	0.0

DIVISIONAL BREAKDOWN

(A$ m)	2008	2009E	2010E	2011E
Total Revenue	**535.1**	**461.9**	**456.2**	**466.8**
Sunbeam Victa	312.5	248.4	244.7	250.1
Ryco Wesfil	71.5	74.3	75.5	76.2
Davey Pumps	137.4	126.4	123.8	128.2
Lock Focus	13.6	12.7	12.2	12.3
EBIT	**68.9**	**59.0**	**54.6**	**60.4**
Sunbeam Victa	38.3	30.7	28.1	29.8
Ryco Wesfil	19.4	17.8	15.8	18.3
Davey Pumps	13.5	14.3	14.6	16.0
Lock Focus	2.5	1.0	0.9	1.2
Adjustment	(4.8)	(4.9)	(4.9)	(4.9)

*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$6.12 on 29-May-2009*

■ 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

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UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage[1]	IB Services[2]
Buy	**Buy**	51%	36%
Neutral	**Hold/Neutral**	37%	31%
Sell	**Sell**	12%	22%
UBS Short-Term Rating	**Rating Category**	**Coverage[3]**	**IB Services[4]**
Buy	**Buy**	less than 1%	43%
Sell	**Sell**	less than 1%	36%

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 31 March 2009.

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.

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UBS Securities Australia Ltd: Lachlan Parker.

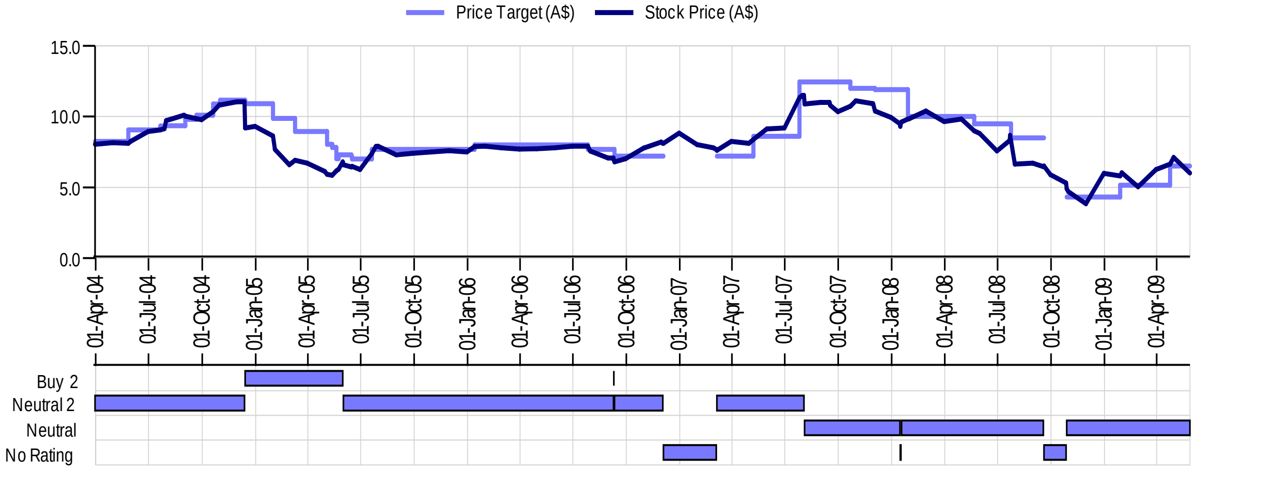
Company Disclosures

Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
GUD Holdings Limited	GUD.AX	Neutral	N/A	A$6.00	28 May 2009

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 28 May 2009

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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