

GUD Holdings Limited

More positive heading into FY10



Wilson HTM
INVESTMENT GROUP

28 July 2009

\$7.35

HOLD

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Price Performance



Security/Capital Details

ASX Code	GUD
Market Cap	\$452 M
Issued Shares	61.5 M
Avg Mth T'over	5.07 M
12 Mth High – Low	\$7.94 - \$3.58

Key Data/Ratios – FY 2010

EBITDA / Sales	15.6%
EBIT / Sales	13.5%
Net Debt / Equity	50.7%
Interest Cover	9.1 x
ROE	30.0%
EPS Growth	5.5%
NTA / Share	\$ 0.93
12 Mth Price Target	\$ 7.30

Recommendation

We retain a HOLD rating. Our 12 month target is \$7.30 p/share.

GUD's FY09 profit result was 4% above our forecast, and reflects a solid performance in a difficult trading environment. We have increased our 12 month price target to \$7.30 p/share (from \$6.60 p/share), supported by the more favourable earnings outlook for FY10. We have increased our FY10 NPAT forecasts by 16% (EPS growth of 6%). GUD is a well managed business, with strong brands. The recent share price strength is validated by the improved outlook, but we would prefer to BUY below \$7.00 p/share.

Key Points

- **FY09 result.** FY09 normalised NPAT of \$37.4M, was 4% above our forecast of \$36.1M. NPAT for the continuing operations (ie. ex-Victa) was down a modest 1%. This is a sound result in a difficult environment for GUD.
- The final DPS of 33 cents takes the FY09 DPS to 60 cents (pcp: 68 cents).
- **Divisional earnings.** On a continuing business basis, EBIT was down 4%. Key features included (a) **Consumer** (\$29.9M -9%), with sales +4% but offset by margin pressure in Sunbeam, (b) **Water** (\$15.0M, +11%), with sales depressed at -10% but EBIT growth assisted by cost reductions, (c) **Filtration** (\$19.3M, -1%), with 10% sales growth offsetting FX related pressures on margins. Security Products (\$1.3M, -49%), with the business impacted by de-stocking by customers. Refer overleaf for further details.
- **WHTM view.** GUD has posted a solid FY09 earnings performance, particularly given the difficult trading environment, albeit divisional contributions were mixed. We share management's positive view on the outlook, and expect earnings growth to be underpinned by: (a) relatively stable demand for its products, and (b) margin improvements from cost reductions and more favourable pricing on imported product.
- **Balance sheet.** FY09 net debt of \$90.6M includes \$14.1M of new equity raised under the recent Share Purchase Plan (SPP), and is after funding the \$18.2M purchase of 19.4% in Breville Group. GUD recently refinanced its \$80M working capital bill facility to July 2012, while its \$100M core debt facility is not due for renewal until July 2011. GUD's balance sheet position remains healthy, with current ND/E of 69% and FY10 interest cover of 9.1x.
- **Earnings outlook.** We have increased our FY10 NPAT forecasts by 16%. Our forecasts provide revised EPS growth of 6% in each of FY10 and FY11, with the potential for further upside persisting.
- **Recommendation.** The improved outlook for earnings has validated the recent strength in GUD's share price. We set a revised 12 month price target at \$7.30 p/share (FY10 EV/EBITDA 8.0x, implied PER 10.7x). GUD is well managed and we remain attracted to its strong portfolio of consumer and industrial brands. We retain a HOLD at current prices, but endorse GUD as a BUY on any pull-back below \$7.00 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 %
2009a	34.8	65.4	-8.6	11.3	9.2	7.5	60.0	8.1	100
2010e	41.5	68.9	5.5	10.7	8.5	7.0	62.0	8.4	100
2011e	44.6	73.3	6.3	10.0	8.2	6.5	64.0	8.7	100
2012e	46.9	76.1	3.9	9.7	8.3	6.4	66.0	9.0	0

Earnings outlook

A summary of the FY09 result and our forecasts are detailed in the table below.

Financial summary

Y/e: 30 June		FY07	FY08	FY08	FY09	% Chg	FY10e	FY11e	FY12e
			Reported	Ex-Victa					
						Ex-Victa			
Sales revenue	\$M	518.7	534.9	469.0	468.3	0%	484.3	504.4	525.6
- growth	%	12%	3%	n/a	-12%	n/a	3%	4%	4%
Divisional EBIT:									
- Consumer	\$M	25.6	38.4	33.0	29.9	-9%	32.6	34.5	36.3
- Automotive	\$M	16.9	19.4	19.4	19.3	-1%	19.8	20.5	21.3
- Water	\$M	19.1	13.5	13.5	15.0	11%	15.8	17.2	18.6
- Security	\$M	2.3	2.5	2.5	1.3	-49%	1.7	1.8	1.9
- Unallocated	\$M	-3.7	-5.4	-5.4	-4.7	-12%	-4.8	-4.8	-5.0
Trading EBIT	\$M	60.2	68.4	63.0	60.8	-4%	65.2	69.2	73.1
- growth	%	-5%	14%	n/a	-11%	n/a	7%	6%	6%
NPAT (normalised)	\$M	36.2	42.0	37.8	37.4	-1%	41.5	44.6	46.9
- growth	%	-10%	16%	n/a	-11%	n/a	11%	8%	5%
Significant items	\$M	-2.5	-4.6	-4.6	-2.6	-43%	0.0	0.0	0.0
NPAT (reported)		33.6	37.4	33.3	34.8	5%	41.5	44.6	46.9
EPS (normalised)	cps	60.3	70.2	63.4	64.5	2%	68.1	72.5	76.1
- growth	%	-10%	16%	n/a	-8%	n/a	6%	6%	5%
DPS	cps	61.0	68.0	68.0	60.0	-12%	62.0	64.0	66.0
- payout ratio	%	101%	95%	n/a	95%	n/a	92%	88%	87%
Earnings multiples:									
- EV / EBITA	x	8.9	7.4	8.1	8.8	n/a	8.1	7.5	7.0
- PER (Cash EPS)	x	12.2	10.5	11.6	11.4	n/a	10.8	10.1	9.7
- Yield	%	8.3	9.3	9.3	8.2	n/a	8.4	8.7	9.0

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

Key points:

- **FY09 result.** GUD's FY09 normalised NPAT of \$37.4M reflects growth of -1% on a continuing operations basis (ie. excluding the 30 June 2008 sale of *Victa*). Reported NPAT was \$34.8M after deducting the 1H09 costs associated with GUD's restructure of its interest rate hedging instruments (ie. revaluation and settlement costs). At the trading level, FY09 EBIT was \$60.8M (-4%).
- **Revised earnings.** We have increased our NPAT forecasts by 16% for FY10 and 17% for FY11. Our revised forecasts provide compound EPS growth of 6% in each of FY10 and FY11, and we qualify that these forecasts may prove conservative.
- Our revised forecasts are supported by GUD's guidance of "...*improved financial performance in FY10*". Underpinning our expectation of improved earnings are the benefits of: (a) a relatively stable demand for its products, and (b) margin improvements from cost reduction initiatives and more favourable pricing on imported product (notably from 1 July 2009).
- **Investment risks.** The main investments risks are focused on: (a) domestic consumer spending trends, and (b) managing profit margins, particularly in light of the recent and prospective FX rate volatility.

GUD Holdings Limited (GUD : \$7.35)

INVESTMENT FUNDAMENTALS

Yr Ending June	2008A	2009A	2010E	2011E	2012E
EPS Reported (c)	62.8	60.0	68.1	72.5	76.1
EPS Normalised (c)	71.5	65.4	68.9	73.3	76.1
EPS Growth (%)	N/A	-8.6%	5.5%	6.3%	3.9%
PER Normalised (x)	10.3	11.3	10.7	10.0	9.7
DPS (c)	68.0	60.0	62.0	64.0	66.0
Payout (%)	108.2%	100.1%	91.0%	88.3%	86.7%
Yield (%)	9.3%	8.1%	8.4%	8.7%	9.0%
Franking (%)	100%	100%	100%	100%	0%

VALUATION DATA

Yr Ending June	2008A	2009A	2010E	2011E	2012E
EV / EBITA (x)	7.4	8.7	8.0	7.4	7.0
EV / EBITDA (x)	6.3	7.5	7.0	6.5	6.4
CFPS (c)	97.8	79.9	86.0	89.2	88.5
Price / CF	7.5	9.2	8.5	8.2	8.3
Book Value / Share (\$)	2.1	2.2	2.4	2.4	2.6
Price / Book (x)	3.5	3.4	3.1	3.0	2.9

PROFIT & LOSS (\$m)

Yr Ending June	2008A	2009A	2010E	2011E	2012E
Sales Revenue	534.9	468.3	484.3	504.4	525.6
EBITDA	81.5	71.4	75.5	79.1	79.6
Depreciation	12.0	10.1	9.7	9.4	6.5
EBITA	69.5	61.3	65.7	69.7	73.1
Amortisation	0.6	0.5	0.5	0.5	0.0
EBIT	68.9	60.8	65.2	69.2	73.1
Net Interest Expense	9.5	7.7	7.2	6.6	6.2
Pre-tax Profit	59.4	53.1	58.1	62.6	66.9
Tax	17.5	15.7	16.6	18.0	20.1
Tax rate (%)	29.4%	29.5%	28.6%	28.8%	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	42.0	37.4	41.5	44.6	46.9
Abn's / Extraord's	-4.6	-2.6	0.0	0.0	0.0
Reported Net Profit	37.4	34.8	41.5	44.6	46.9
Revenue Growth (%)	N/A	-12.5%	3.4%	4.1%	4.2%
EBIT Growth (%)	N/A	-11.8%	7.3%	6.1%	5.6%
NPAT Growth (%)	N/A	-10.8%	10.8%	7.6%	5.0%

PROFITABILITY RATIOS

Yr Ending June	2008A	2009A	2010E	2011E	2012E
EBIT / Sales (%)	12.9%	13.0%	13.5%	13.7%	13.9%
ROA (%)	N/A	21.8%	22.7%	24.1%	25.1%
ROE (%)	N/A	29.7%	30.0%	30.2%	30.4%
ROFE (%)	N/A	28.6%	29.9%	32.1%	33.9%

BALANCE SHEET (\$m)

Yr Ending June	2008A	2009A	2010E	2011E	2012E
Cash	33.1	16.2	21.4	20.0	18.9
Receivables	65.9	62.3	64.5	67.1	69.9
Inventories	81.4	82.7	85.5	89.0	92.8
Other	4.2	6.6	4.7	4.9	5.0
Current Assets	184.7	167.8	176.0	181.0	186.7
Net PPE	20.2	19.6	21.2	22.5	23.5
Investments	0.0	0.0	0.0	0.0	0.0
Intangibles	92.2	91.6	87.3	79.8	79.8
Other	5.2	24.5	24.5	24.5	24.5
Non-current Assets	117.6	135.7	132.9	126.8	127.8
Total Assets	302.3	303.4	308.9	307.8	314.5
Current Payables	45.1	44.3	45.8	47.7	49.7
Current Debt	0.5	0.5	0.5	0.5	0.5
Non-Current Debt	118.8	106.4	94.4	84.4	76.4
Provisions	0.0	0.0	0.0	0.0	0.0
Other	17.8	21.2	23.5	24.6	30.4
Total Liabilities	182.2	172.3	164.0	157.1	156.9
Equity	80.7	94.5	103.7	103.7	103.7
Reserves	-0.8	-0.9	-0.9	-0.9	-0.9
Retained Profits	40.3	37.5	42.0	47.9	54.7
Minorities	0.0	0.0	0.0	0.0	0.0
Total Equity	120.1	131.1	144.9	150.7	157.6
Total Funds Employed	206.3	221.7	218.4	215.6	215.5

LIQUIDITY & LEVERAGE RATIOS

Yr Ending June	2008A	2009A	2010E	2011E	2012E
Net Debt (Cash) (\$m)	86.2	90.6	73.5	64.9	57.9
Net Debt / Equity (%)	71.8%	69.1%	50.7%	43.0%	36.7%
Interest Cover (x)	7.3	7.9	9.1	10.5	11.9
Debt / CashFlow (x)	2.1	2.3	1.8	1.5	1.4

CASHFLOW (\$m)

Yr Ending June	2008A	2009A	2010E	2011E	2012E
EBIT	68.9	60.8	65.2	69.2	73.1
Dep'n and Amort'n	12.6	10.6	10.2	9.9	6.5
Net Int Rec'd (Paid)	-9.5	-7.7	-7.2	-6.6	-6.2
Tax Paid	-13.3	-10.8	-12.5	-13.3	-14.4
Dec / (Inc) W'kg Cap	5.8	1.5	-3.4	-4.3	-4.6
Other	-6.4	-8.1	0.0	0.0	0.0
Operating Cash Flow	58.2	46.4	52.3	54.9	54.5
Capital Expenditure	-6.4	-9.5	-7.5	-7.5	-7.5
Asset Sales	0.0	0.0	0.0	0.0	0.0
Investments	12.1	-18.2	0.0	0.0	0.0
Other Inv. Flows	0.0	0.0	0.0	0.0	0.0
Investing Cash Flow	5.6	-27.7	-7.5	-7.5	-7.5
Equity Raised	-17.8	13.9	9.2	0.0	0.0
Inc / (Dec) in Loans	8.0	-11.9	-12.0	-10.0	-8.0
Dividends Paid	-38.3	-37.6	-36.9	-38.8	-40.0
Other Fin. Flows	0.0	0.0	0.0	0.0	0.0
Financing Cash Flow	-48.1	-35.6	-39.7	-48.8	-48.0
Net Cash Flow	15.7	-16.9	5.2	-1.4	-1.0

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