GUD Holdings Limited

Trading well so far in FY10

13 January 2010

$9.47

Hold

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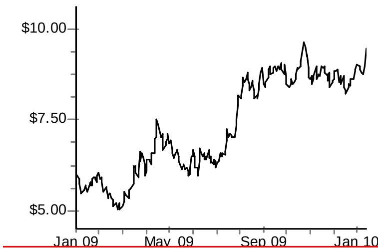
Price Performance



Security/Capital Details

ASX Code	GUD
Market Cap	$582 M
Issued Shares	61.4 M
Avg Mth T'over	4.16 M
12 Mth High – Low	$9.62 - $5.02

Key Data/Ratios – FY 2010

EBITDA / Sales	16.0%
EBIT / Sales	13.9%
Net Debt / Equity	49.3%
Interest Cover	10.0 x
ROE	31.4%
EPS Growth	10.7%
NTA / Share	$ 0.95
12 Mth Price Target	$ 9.50

Recommendation

We moderate our investment rating to HOLD (from BUY) following recent share price gains (1-Mth: +16%). Our revised 12 month target is $9.50 p/share (previously $9.10), and we endorse a BUY rating below $9.10 p/sh.

GUD has confirmed a good start to FY10, confirming 1H10 EBIT growth of +10%, and FY10 EBIT guidance of +5% to +12% growth. We have upgraded our EBIT forecast by 4% for FY10, and cite the potential for further upside. GUD has a portfolio of strong brands and is well managed. Recent share price gains prompt our revised HOLD rating (BUY below $9.10 p/share).

Key Points

- **Trading update**. GUD has confirmed good trading results so far in FY10, disclosing that: (a) 1H10 EBIT growth will exceed 10% on the pcp, and (b) FY10 EBIT is expected to be $64M - $68M (ie. +5% - 12% on FY09). GUD will release its 1H10 result to the ASX on Wednesday 27 January 2010.
- **WHTM view**. GUD's trading update confirms a good start to FY10 and an increased level of confidence in the earnings outlook for the balance of the year. While divisional commentary was not provided, we believe good underlying results from the Consumer Division (*Sunbeam* and *Oates*), and a strong recovery from the Water Products Division, are the key drivers to the positive trading results and outlook. While there has been a range of positive contributors to the positive trading performance (ie. include fiscal and monetary policy stimulus), we retain confidence in the delivery of sustained positive earnings results for GUD.
- **Earnings forecasts**. We forecast 1H10 EBIT of $36.8M (+13%), and have increased our FY10 EBIT forecast by 4% to $67.8M (ie. top end of GUD's guidance range of $64M - $68M). We view GUD's guidance as conservative, and believe the potential exists for additional upside (ie. 5% - 7%) to our existing FY10 and FY11 earnings forecasts. Refer details overleaf.
- **Breville takeover update**. While GUD extended its takeover offer for Breville (to 5 February 2010), this has been done to allow full consideration of the ACCC's reasons for opposing the proposed acquisition (note: the ACCC is due to release full details in late January 2010). We retain the view that GUD is likely to have no practical choice other than to withdraw its takeover offer.
- **Investment risks.** The key risks for GUD relate to the general economic and consumer environment, including the event of any significant increase in interest rates and/or lower AUD/USD FX rate.
- **Valuation**. We have increased our 12 month target to $9.50 p/share (from $9.10 p/share). Our share price target reflects a FY11 EV/EBITA multiple of 9.0x, which is in-line with the WHTM Small Industrials market. Our price target implies a FY11 PER of 12.5x.
- **Recommendation**. Following recent share price gains (1-Mth: +16%), we moderate our investment rating to a HOLD (from BUY). We remain attracted to GUD's portfolio of consumer and industrial brands, its strong management team, and the potential for further earnings upgrades. While we moderate to a HOLD rating, we endorse GUD as a BUY below $9.10 p/share.

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	-7.9	14.5	11.9	9.3	60.0	6.3	100
2010e	43.5	72.4	10.7	13.1	10.6	8.4	62.0	6.6	100
2011e	46.5	76.5	5.8	12.4	10.2	7.9	64.0	6.8	100
2012e	48.4	78.8	3.0	12.0	10.4	7.8	66.0	7.0	0

Earnings outlook

We have upgraded our EBIT forecasts by 5% for 1H10 and by 4% for FY10 and 3% for FY11.

A summary of our revised earnings forecasts are detailed in the table below.

Earnings revisions

Y/e: 30 June		1H10e	2H10e	FY10e	FY11e	FY12e
EBIT - old	$M	35.0	30.2	65.2	69.2	73.1
EBIT - new	**$M**	**36.8**	**31.0**	**67.8**	**71.6**	**75.3**
- % chg	%	*5%*	*3%*	*4%*	*3%*	*3%*
- growth	%	13%	10%	11%	6%	5%
NPAT - old	$M	21.9	19.6	41.5	44.6	46.8
NPAT - new	**$M**	**23.4**	**20.2**	**43.5**	**46.5**	**48.4**
- % chg	*%*	*7%*	*3%*	*5%*	*4%*	*3%*
- growth	*%*	*20%*	*13%*	*16%*	*7%*	*4%*
EPS - old	$M	36.1	32.0	68.1	72.6	76.3
EPS - new	**$M**	**38.6**	**33.0**	**71.5**	**75.8**	**78.8**
- % chg	*%*	*7%*	*3%*	*6%*	*4%*	*3%*
- growth	*%*	*14%*	*7%*	*11%*	*6%*	*4%*

Source: Wilson HTM

Our revised earnings forecasts are detailed in the table below. We maintain the view that further upside potential exists (ie. +5% - 7%) to our EBIT forecasts for FY10 and FY11.

Financial summary

Y/e: 30 June		FY08 Ex-Victa	1H09	FY09	1H10e	2H10e	FY10e	FY11e	FY12e
Sales revenue	**$M**	**469.0**	**237.3**	**468.3**	**256.7**	**231.5**	**488.1**	**508.7**	**530.1**
- growth	*%*	*n/a*	*-17%*	*-12%*	*8%*	*0%*	*4%*	*4%*	*4%*
Divisional EBIT:									
- Consumer	$M	33.0	16.3	29.9	18.1	15.2	33.3	34.8	36.5
- Automotive	$M	19.4	9.8	19.3	10.1	9.8	19.8	20.5	21.3
- Water	$M	13.5	8.4	15.0	10.1	7.6	17.7	19.2	20.6
- Security	$M	2.5	0.5	1.3	0.9	0.8	1.8	1.8	1.9
- Unallocated	$M	-5.4	-2.4	-4.7	-2.4	-2.4	-4.8	-4.8	-5.0
Trading EBIT	$M	**63.0**	**32.6**	**60.8**	**36.8**	**31.0**	**67.8**	**71.6**	**75.3**
- growth	*%*	*n/a*	*-15%*	*-11%*	*13%*	*10%*	*11%*	*6%*	*5%*
NPAT (normalised)	$M	**37.9**	**19.5**	**37.4**	**23.4**	**20.2**	**43.5**	**46.5**	**48.4**
- growth	*%*	*n/a*	*-17%*	*-10%*	*20%*	*13%*	*16%*	*7%*	*4%*
Significant items	$M	-4.2	-2.6	-2.6	0.0	0.0	0.0	0.0	0.0
NPAT (reported)		33.7	16.9	34.8	23.4	20.2	43.5	46.5	48.4
EPS (normalised)	cps	**63.5**	**33.8**	**64.5**	**38.6**	**33.0**	**71.5**	**75.8**	**78.8**
- growth	*%*	*n/a*	*-14%*	*-7%*	*14%*	*7%*	*11%*	*6%*	*4%*
DPS	cps	68.0	27.0	60.0	28.0	34.0	62.0	64.0	66.0
Earnings multiples:									
- EV / EBITA	x	10.1	n/a	10.9	0.0	0.0	9.6	9.0	8.4
- PER (Cash EPS)	x	14.9	n/a	14.7	0.0	0.0	13.2	12.5	12.0
- Yield	%	7.2	n/a	6.3	0.0	0.0	6.5	6.8	7.0

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

GUD Holdings Limited (GUD : $9.47)

INVESTMENT FUNDAMENTALS

Yr Ending June	2008A	2009A	2010E	2011E	2012E
EPS Reported (c)	62.8	60.0	71.5	75.8	78.8
EPS Normalised (c)	**70.9**	**65.4**	**72.4**	**76.5**	**78.8**
EPS Growth (%)	N/A	-7.9%	10.7%	5.8%	3.0%
PER Normalised (x)	**13.4**	**14.5**	**13.1**	**12.4**	**12.0**
DPS (c)	68.0	60.0	62.0	64.0	66.0
Payout (%)	**108.2%**	**100.1%**	**86.7%**	**84.5%**	**83.7%**
Yield (%)	7.2%	6.3%	6.6%	6.8%	7.0%
Franking (%)	100%	100%	100%	100%	0%

VALUATION DATA

Yr Ending June	2008A	2009A	2010E	2011E	2012E
EV / EBITA (x)	9.2	10.8	9.6	8.9	8.4
EV / EBITDA (x)	7.8	9.3	8.4	7.9	7.8
CFPS (c)	97.8	79.9	89.5	92.5	91.2
Price / CF	**9.7**	**11.9**	**10.6**	**10.2**	**10.4**
Book Value / Share ($)	2.1	2.2	2.4	2.5	2.6
Price / Book (x)	**4.6**	**4.3**	**4.0**	**3.8**	**3.6**

PROFIT & LOSS ($m)

Yr Ending June	2008A	2009A	2010E	2011E	2012E
Sales Revenue	534.9	468.3	488.1	508.7	530.1
EBITDA	80.9	71.4	78.0	81.4	81.8
Depreciation	12.0	10.1	9.7	9.4	6.5
EBITA	**68.9**	**61.3**	**68.3**	**72.1**	**75.3**
Amortisation	0.6	0.5	0.5	0.5	0.0
EBIT	**68.3**	**60.8**	**67.8**	**71.6**	**75.3**
Net Interest Expense	9.3	7.7	6.8	6.2	6.2
Pre-tax Profit	**59.0**	**53.1**	**61.0**	**65.4**	**69.2**
Tax	17.3	15.7	17.5	18.8	20.7
Tax rate (%)	29.4%	29.5%	28.7%	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	**41.6**	**37.4**	**43.5**	**46.5**	**48.4**
Abn's / Extraord's	-4.2	-2.6	0.0	0.0	0.0
Reported Net Profit	37.4	34.8	43.5	46.5	48.4
Revenue Growth (%)	N/A	-12.5%	4.2%	4.2%	4.2%
EBIT Growth (%)	N/A	-11.0%	11.5%	5.6%	5.2%
NPAT Growth (%)	N/A	-10.1%	16.3%	7.0%	4.0%

PROFITABILITY RATIOS

Yr Ending June	2008A	2009A	2010E	2011E	2012E
EBIT / Sales (%)	**12.8%**	**13.0%**	**13.9%**	**14.1%**	**14.2%**
ROA (%)	N/A	21.8%	23.5%	24.8%	25.7%
ROE (%)	**N/A**	**29.7%**	**31.4%**	**31.0%**	**30.6%**
ROFE (%)	N/A	28.6%	31.0%	33.2%	35.0%

BALANCE SHEET ($m)

Yr Ending June	2008A	2009A	2010E	2011E	2012E
Cash	33.1	16.2	22.7	23.3	23.9
Receivables	65.9	62.3	65.0	67.7	70.5
Inventories	81.4	82.7	86.2	89.8	93.6
Other	4.2	6.6	4.7	4.9	5.0
Current Assets	**184.7**	**167.8**	**178.5**	**185.7**	**193.0**
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**	**311.5**	**312.5**	**320.8**
Current Payables	45.1	44.3	46.1	48.1	50.1
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	24.3	25.6	31.4
Total Liabilities	**182.2**	**172.3**	**165.3**	**158.5**	**158.3**
Equity	80.7	94.5	103.0	103.0	103.0
Reserves	-0.8	-0.9	-0.9	-0.9	-0.9
Retained Profits	40.3	37.5	44.1	52.0	60.4
Minorities	0.0	0.0	0.0	0.0	0.0
Total Equity	**120.1**	**131.1**	**146.2**	**154.0**	**162.5**
Total Funds Employed	**206.3**	**221.7**	**218.3**	**215.5**	**215.4**

LIQUIDITY & LEVERAGE RATIOS

Yr Ending June	2008A	2009A	2010E	2011E	2012E
Net Debt (Cash) ($m)	86.2	90.6	72.1	61.5	52.9
Net Debt / Equity (%)	**71.8%**	**69.1%**	**49.3%**	**39.9%**	**32.6%**
Interest Cover (x)	7.3	7.9	10.0	11.5	12.2
Debt / CashFlow (x)	**2.1**	**2.3**	**1.7**	**1.5**	**1.4**

CASHFLOW ($m)

Yr Ending June	2008A	2009A	2010E	2011E	2012E
EBIT	68.3	60.8	67.8	71.6	75.3
Dep'n and Amort'n	12.6	10.6	10.2	9.9	6.5
Net Int Rec'd (Paid)	-9.3	-7.7	-6.8	-6.2	-6.2
Tax Paid	-13.3	-10.8	-12.5	-14.0	-15.1
Dec / (Inc) W'kg Cap	5.8	1.5	-4.3	-4.4	-4.6
Other	-5.9	-8.1	0.0	0.0	0.0
Operating Cash Flow	**58.2**	**46.4**	**54.4**	**56.8**	**56.0**
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	8.5	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	-38.7	-39.9
Other Fin. Flows	0.0	0.0	0.0	0.0	0.0
Financing Cash Flow	**-48.1**	**-35.6**	**-40.4**	**-48.7**	**-47.9**
Net Cash Flow	**15.7**	**-16.9**	**6.5**	**0.6**	**0.6**

Recommendation Structure

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

Other definitions

CS Coverage Suspended. Wilson HTM Ltd has suspended coverage of this company.
NR Not Rated. The recommendation has been suspended temporarily. Such suspension is in line with Wilson HTM Investment Group Ltd policies in circumstances where Wilson HTM Corporate Finance Ltd is acting in an advisory capacity in a merger or strategic transaction involving the company and in certain other situations.

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