Fleetwood Corporation FWD Buy $7.38

Man. accommodation division remains key FY04 earnings volatility factor

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Expansion of FWD's caravan manufacturing capacity from 52/week in 1Q04 to 90/week by the end of 1Q05 remains on track, and when combined with continued buoyant demand for caravans underpins our earnings growth profile over the forecast period. With settlement of the $29m caravan parks sale expected on 15 Jul 04, we see further upside potential to our forecasts through utilisation of the funds for bolt-on acquisitions or large-scale accommodation contracts, however note that in the short-term, the timing of any new man. accommodation contracts offers volatility to our forecasts. Nonetheless we continue to recommend FWD as a preferred small-cap stock given the caravan operations offer a strong long-term earnings growth profile on a market PER.

- **Forecasts assume Caravan Park sale complete at start of FY05**; FWD announced the sale of its Caravan Parks division to Aspen Group (ASX: APZ) on 1 Apr 04, conditional on APZ raising funding. The subsequent APZ prospectus was released on 23 Apr 04, with settlement date for the caravan parks expected on 15 Jul 04 (our forecasts have been adjusted to assume this date compared to our expectation of settlement at the end of 1H05). Importantly, we have made no assumptions for the use of the $29m proceeds beyond a cash return, with utilisation for a bolt-on acquisition or large-scale accommodation contract offering upside to our forecasts.
- **Caravan production ramp-up on track**; At the FY03 AGM on 31 Oct 04 mgt announced the planned expansion of caravan production facilities at both Coromal (Perth) and Windsor (Melbourne) from 52 caravans/week to 90 caravans/week within 12 months. This expansion remains on track with the new Windsor facility already gearing up and operation of the new Coromal facility on schedule to commence by 1 Jul 04. Our forecasts assume this production ramp-up timeframe is achieved (assuming an average of 80 caravans/week in FY05 and 90 in FY06), however we have made only modest assumptions for the potential economies-of-scale benefits.
- **Manufactured accommodation division the key short-term earnings volatility factor;** The key short-term earnings volatility factor remains activity in the Fleetwood Portables operation. We remain comfortable with our forecasts for the Manufactured Accommodation division (that assume ~11% EBIT growth in FY05), however note the potential impact of a major new contract win such as the planned BHP Ravensthorpe nickel project.

Company Information

Price			$7.38
Target Price (12 month)			$8.50
Difference			**+ 15%**
Shares (diluted)	47.3M	Market cap.	$349M
High/low (12 month)	$7.80/$3.38	Monthly turnover	$9.9M

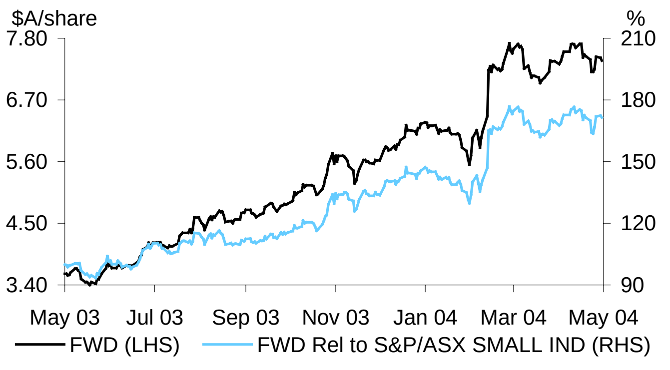
Earnings Summary

Year ending Jun	2003	2004F	2005F	2006F
NPAT (reported) (A$M)	11.2	21.1	25.6	30.5
BBY adj NPAT (A$M)	12.6	22.9	27.4	32.3
EPS (¢)	31.4	48.9	58.1	68.6
PER	23.5 x	15.1 x	12.7 x	10.8 x
EPS Growth	34%	56%	19%	18%
EV / EBITDA	14.9 x	8.9 x	7.2 x	6.1 x
CFPS (¢)	33.6	70.6	77.8	85.6
Price / CF	22.0 x	10.5 x	9.5 x	8.6 x
Dividend (¢)	14.0	20.0	24.0	28.0
Yield	1.9%	2.7%	3.3%	3.8%
Franking	100%	100%	100%	100%
NTA per share	$1.22	$1.58	$2.12	$2.60

Earnings Forecast Changes

		2004F	2005F	2006F
NPAT (BBY adj)	Change (%)	0%	-2%	2%
EPS (BBY adj)	Change (%)	0%	-2%	2%

FWD versus Small Industrials Index



Fleetwood Corporation (FWD:$7.38)

Mkt cap: $349m **Buy**

Valuation data

Year ending Jun	2002	2003	2004F	2005F	2006F
EPS pre goodwill (¢)	**23.5**	**31.4**	**48.9**	**58.1**	**68.6**
P/E ratio	**31.4 x**	**23.5 x**	**15.1 x**	**12.7 x**	**10.8 x**
P/E relative *		147	105	101	85
EPS growth	**44%**	**34%**	**56%**	**19%**	**18%**
EPS pre abn's (¢)	19.9	28.0	45.1	54.3	64.8
P/E ratio	37.0 x	26.4 x	16.4 x	13.6 x	11.4 x
P/E relative *		165	114	108	90
EPS growth	57%	40%	61%	21%	19%
EV / EBIT	28.8 x	19.7 x	11.4 x	9.0 x	7.6 x
EV / EBITDA	**19.7 x**	**14.9 x**	**8.9 x**	**7.2 x**	**6.1 x**
CFPS (¢)	67.0	33.6	70.6	77.8	85.6
Price / CF	11.0 x	22.0 x	10.5 x	9.5 x	8.6 x
DPS (¢)	13.0	14.0	20.0	24.0	28.0
Yield	**1.8%**	**1.9%**	**2.7%**	**3.3%**	**3.8%**
Franking	100%	100%	100%	100%	100%
NTA per share	$0.72	$1.22	$1.58	$2.12	$2.60
Pr / NTA	10.2 x	6.1 x	4.7 x	3.5 x	2.8 x

Balance sheet ($M)

Year ending Jun	2002	2003	2004F	2005F	2006F
Cash	5.0	9.7	9.7	19.7	29.7
Receivables	19.7	29.3	33.6	43.3	47.9
Inventories	19.1	26.3	25.2	30.0	33.2
Other	0.0	0.0	0.0	0.0	0.0
Current assets	**43.8**	**65.3**	**68.5**	**92.9**	**110.7**
Net PPE	44.2	54.8	69.6	53.7	65.6
Investments	0.0	0.0	0.0	0.0	0.0
Goodwill	23.1	26.9	29.2	27.4	25.6
Other intangibles	0.0	0.0	0.0	0.0	0.0
Other	1.3	1.1	1.1	1.1	1.1
Non-current assets	**68.6**	**82.8**	**99.9**	**82.2**	**92.3**
Total assets	**112.4**	**148.1**	**168.4**	**175.1**	**203.1**
Debt	33.3	29.2	27.9	3.1	4.4
Provisions	11.4	7.7	9.1	10.9	16.4
Other	19.3	30.9	30.8	36.6	36.8
Total liabilities	**64.0**	**67.8**	**67.8**	**50.6**	**57.7**
Equity / reserves	43.4	66.2	66.2	66.2	66.2
Retained profits	5.0	14.1	34.4	58.3	79.2
Total s/h funds	**48.4**	**80.3**	**100.7**	**124.6**	**145.5**
Minorities	0.0	0.0	0.0	0.0	0.0
Total funds emp.	**112.4**	**148.1**	**168.5**	**175.2**	**203.1**

Profit and loss ($M)

Year ending Jun	2002	2003	2004F	2005F	2006F
Sales revenue	166.7	191.5	280.0	332.9	368.4
growth over pcp	*43%*	*15%*	*46%*	*19%*	*11%*
EBITDA	19.1	24.7	41.3	46.4	52.7
Dep'n and amort'n	4.6	4.7	7.2	7.9	8.1
EBITAg	**14.5**	**20.1**	**34.1**	**38.5**	**44.6**
Goodwill amortisation	1.4	1.4	1.8	1.8	1.8
EBIT	**13.1**	**18.7**	**32.3**	**36.7**	**42.8**
growth over pcp	*39%*	*42%*	*73%*	*14%*	*16%*
Net interest expense	1.9	2.1	1.7	(0.3)	(1.4)
Pre-tax profit	11.2	16.6	30.6	37.0	44.2
Tax	3.6	5.4	9.5	11.5	13.7
Effective tax rate	*32.4%*	*32.4%*	*31.0%*	*31.0%*	*31.0%*
Preference dividends	0.0	0.0	0.0	0.0	0.0
Minorities	0.0	0.0	0.0	0.0	0.0
BBY adjustments	1.4	1.4	1.8	1.8	1.8
BBY adj profit	**8.9**	**12.6**	**22.9**	**27.4**	**32.3**
Reported profit (pre abn)	7.6	11.2	21.1	25.6	30.5
One-off items (post tax)	0.0	0.0	0.0	6.3	0.0
Reported net profit	7.6	11.2	21.1	31.9	30.5

Cashflow ($M)

Year ending Jun	2002	2003	2004F	2005F	2006F
EBIT	13.1	18.7	32.3	36.7	42.8
Net interest paid	(1.9)	(2.1)	(1.7)	0.3	1.4
Dep'n and amort'n	6.0	6.0	9.0	9.7	9.9
Tax paid	(0.9)	(6.8)	(5.4)	(9.5)	(11.5)
Gross cash from op'ns	**16.3**	**15.8**	**34.2**	**37.3**	**42.6**
(Inc) / dec in wk'g cap	6.2	(5.2)	(2.3)	(8.6)	(7.6)
Other	3.3	2.9	1.3	8.1	5.5
Operating cashflow	**25.8**	**13.6**	**33.2**	**36.8**	**40.5**
growth over pcp	*889%*	*-47%*	*145%*	*11%*	*10%*
Investing cashflows					
Capital expenditure	(14.8)	(16.3)	(27.0)	(28.0)	(25.0)
Asset sales	7.9	2.6	7.0	7.0	5.0
Investments	(2.5)	(7.5)	(7.1)	0.0	0.0
Divestments	0.0	0.1	0.0	29.0	0.0
Financing cashflows					
Equity raised	0.2	19.0	0.0	0.0	0.0
Dividends paid	(3.1)	(1.4)	(4.8)	(10.0)	(11.8)
Chg in loans	**(9.1)**	**(5.5)**	**(1.3)**	**(24.8)**	**1.3**
Other non-op flows	(8.9)	0.5	(1.4)	(0.1)	(0.1)
Net chg in cash	**4.4**	**4.7**	**0.0**	**10.0**	**10.0**

Ratio analysis

Year ending Jun	2002	2003	2004F	2005F	2006F
EBITDA / sales	11.5%	12.9%	14.7%	14.0%	14.3%
EBITAg / sales	8.7%	10.5%	12.2%	11.6%	12.1%
EBIT / sales	**7.9%**	**9.8%**	**11.5%**	**11.0%**	**11.6%**
Return on assets	12%	15%	22%	23%	26%
Return on equity	**19%**	**20%**	**25%**	**24%**	**24%**
Dividend payout ratio	55%	45%	41%	41%	41%
Net debt / (cash) ($M)	28.3	19.5	18.3	(16.5)	(25.3)
Debt / equity	69%	36%	28%	3%	3%
Net debt / equity	**58%**	**24%**	**18%**	**nmf**	**nmf**
Interest cover	6.8 x	9.0 x	19.0 x	nmf	nmf

Interims ($M)

Half yearly	1h02	2h02	1h03	2h03	1h04
Sales revenue	89.0	77.7	95.8	95.7	134.6
EBITDA	9.5	9.6	11.7	13.0	20.1
EBIT	**6.4**	**6.7**	**8.7**	**10.0**	**15.6**
BBY adj profit	**4.3**	**4.6**	**5.8**	**6.7**	**11.0**
Reported profit	3.6	3.9	5.2	6.1	10.1
EBIT / sales	7.2%	8.6%	9.1%	10.4%	11.6%
EPS (¢)	**11.4**	**12.1**	**15.1**	**16.3**	**23.7**
DPS (¢)	5.0	8.0	5.5	8.5	7.0
% of FY sales	53.4%	46.6%	50.0%	50.0%	48.1%
% of FY EBIT	48.9%	51.1%	46.6%	53.4%	48.3%

* Relative to BBY growth companies universe

Approved by TWG on 6/5/04 at 4:30pm