

Silver Chef Limited

19th of August 2010

GICS: Capital Goods

GOGETTA TO GROW?

COMPANY DESCRIPTION

Silver Chef Limited [SIV:ASX] provides B2B equipment rental (financing) for hospitality and other commercial equipment. Silver Chef rentals are conducted through a network of dealers and operates under the following brands; SilverChef, which finances hospitality assets, and GoGetta, which concentrates on the broader commercial assets market.

Initiating coverage

Event

- **FY10 Earnings upgrade:** Silver Chef Limited has recently increased the FY10 profit outlook to 28 cents per share.
- **Change in management structure:** As of July 1, 2010 Charles Gregory became CEO replacing founder Allan English who will become Non-Executive Chairman.

Our View

- **Demand fueled growth:** Silver Chef's business model differs from the traditional financing options, and offers various benefits to potential clients. Based on our 2011 forecast, the Australian economy will grow at an increased pace, which will result in stronger demand from the hospitality and broader commercial equipment rental market.
- **Good risk controls:** Silver Chef's business model is structured to deliver annuity style revenue providing revenue visibility. The company is selective in terms of approvals of new rentals, and has various ongoing risk control processes in place to limit bad debts and late payments.
- **High dividend yield:** Having doubled the interim dividend to 8 cents, we are forecasting grossed up dividend yield of 8.5% for FY10 (based on \$3.03 share price).
- **GoGetta needs to be proven:** Whilst GoGetta has performing notably well since its establishment in 2008. We believe the new business division is still relatively unproven, and we believe will require further deliverable profitable growth to re-evaluate Silver Chef's valuation.

Valuation | Recommendation

We initiate our coverage of Silver Chef Limited with a HOLD rating. The recent strong performance of Silver Chef's share price has removed part of the upside to our valuation. Our DCF and Relative Valuation methodologies give an average value of \$3.27. This represents a premium of 8% over the current market price of \$3.03.

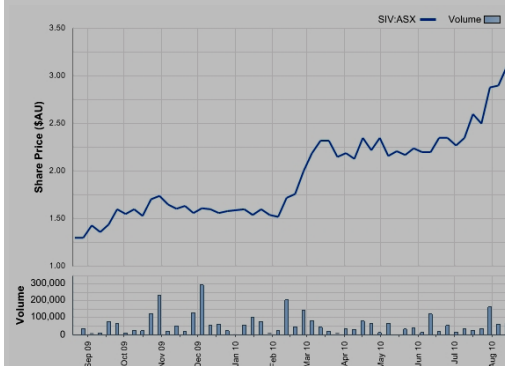
SIV

HOLD

Price Objective: **\$3.27**

Last traded	A\$	3.03
Market Cap	A\$m	65.9
Nº of Shares	m	21.8
EPS 2009A	¢	0.17
EPS 2010F	¢	0.28
PE 2009A	x	13.3
EV/EBITDA 2009A	x	4.6
DPS 2009A	¢	14.00
Div Yield	%	5.48%
Sales 2009A	\$'m	35.2
Sales 2010F	\$'m	48.0
EBITDA 2009A	\$'m	23.2
EBITDA 2010F	\$'m	32.3
NPAT 2009A	\$'m	3.6
NPAT 2010F	\$'m	5.2

Share Price | 3 Year



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IMPORTANT DISCLOSURE INFORMATION AT THE END OF THIS REPORT

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COMPANY PROFILE

COMPANY BACKGROUND

Silver Chef offers a unique approach to equipment financing through long-term rent solutions and operates within two divisions, SilverChef and GoGetta. Silver Chef has been in the equipment rental business for the last 24 years, concentrating mainly on the hospitality sector through the SilverChef brand. The GoGetta brand, was introduced in 2008 to enter the non-hospitality assets market. Distribution of finance is conducted entirely through a network of third party equipment dealers, which currently consists of over 400 dealers across Australia. The equipment dealers are incentivised to promote SilverChef's products thereby allowing them to maintain the full retail-selling price, rather than trying to sell equipment at a discount to reach sales targets.

Silver Chef is based in Brisbane, and as such, the largest proportion of revenue still comes from Queensland. Currently Silver Chef has 70 employees, and plans modest employee increases of two people per year over the next few years.

TRUSTED AND FAVOURED BY INDEPENDENT DISTRIBUTORS

Microequities conducted independent anonymous calls to randomly selected Silver Chef distributors. All of the eight contacted had nominated SilverChef as the most appropriate funding method for anyone considering purchasing hospitality equipment.

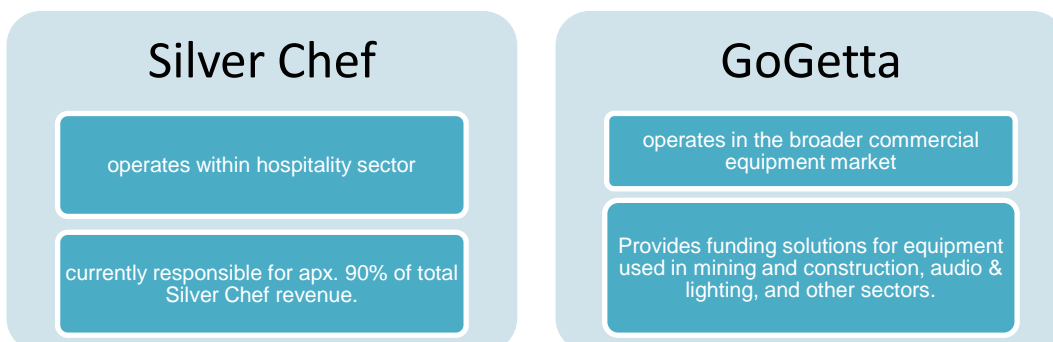
GoGetta, introduced in 2008, was a strategic growth initiative for Silver Chef. The GoGetta business concentrates on non-hospitality asset financing, and while it has only contributed 2% to Silver Chef Ltd's operating revenue in FY09, we expect this figure to increase to 8% in FY10. The SilverChef brand, which concentrates on financing hospitality assets has an average contract size of \$10k, compared to GoGetta's average contract size of \$20k, and has been growing at an average annual rate of 1.1k contracts per year.

Silver Chef operates two divisions:

-Silver Chef – hospitality equipment

-GoGetta –non-hospitality equipment

Silver Chef has been in the equipment rental business for the last 24 years, concentrating mainly on the hospitality sector



BUSINESS OVERVIEW

SILVERCHEF BUSINESS

SilverChef helps businesses fund their equipment needs using the Rent-Try-Buy® solution. This keeps their options open and preserves their cash to grow in order to achieve their business potential. Silver Chef has offered the Rent-Try-Buy® solution for 24 years and the Company believes it is unrivalled in terms of the flexibility and options it delivers to business owners.

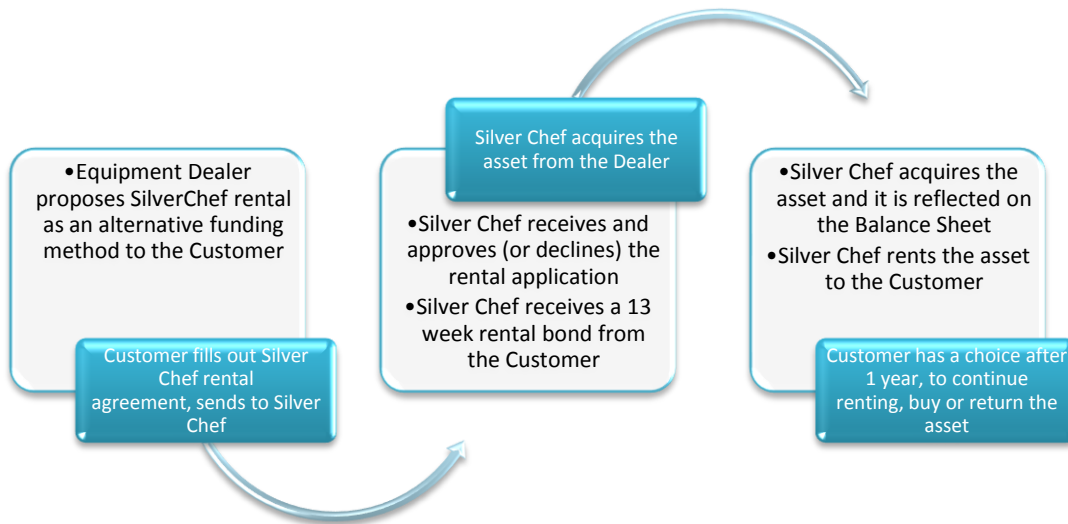
KEY FACTS:

Average contract: <ul style="list-style-type: none">• \$10,000	Average contract duration: <ul style="list-style-type: none">• 29 months	Current customers: <ul style="list-style-type: none">• 8,000 (Microequities 2010 estimate)	Largest client as % of rental pool: <ul style="list-style-type: none">• <1%
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The Rent Try Buy® solution by Silver Chef targets small business owners operating in the hospitality sector, ie. cafés, restaurants, and take-aways, etc. With a minimum rental contract of 12 months, an upfront payment of a 13-week security bond, and weekly rental payments. Silver Chef has an active monitoring system of detecting delayed payments. The advantages of using Silver Chef's Rent - Try - Buy® solution over owning the asset outright are:

- Renting for 12 months is less initial capital intensive compared purchasing the asset outright, and allows the customer to try out the asset before deciding to rent it further or buy it from Silver Chef after the expiry of the first year rental contract.
 - o If the customer decides to purchase the asset after the first year, Silver Chef's will rebate 75% of the first year rental fee to go towards the original purchase price. In other words, if the asset cost \$10,000, first year rental fee would be \$6,000, so a 75% rebate of \$6,000 would give a final purchase price after the end of the first year of $\$5,500 = (\$10,000 - (75\% * \$6,000))$.
 - o If the customer decides to continue renting the asset, Silver Chef will offer a discounted weekly rental price for the second year.
- Renting the asset is an off-balance sheet item for the customer, and therefore does not create a liability on the balance sheet, as opposed to financing the asset with a loan or lease.

SILVER CHEF’S BUSINESS MODEL IS SUMMARISED BELOW:

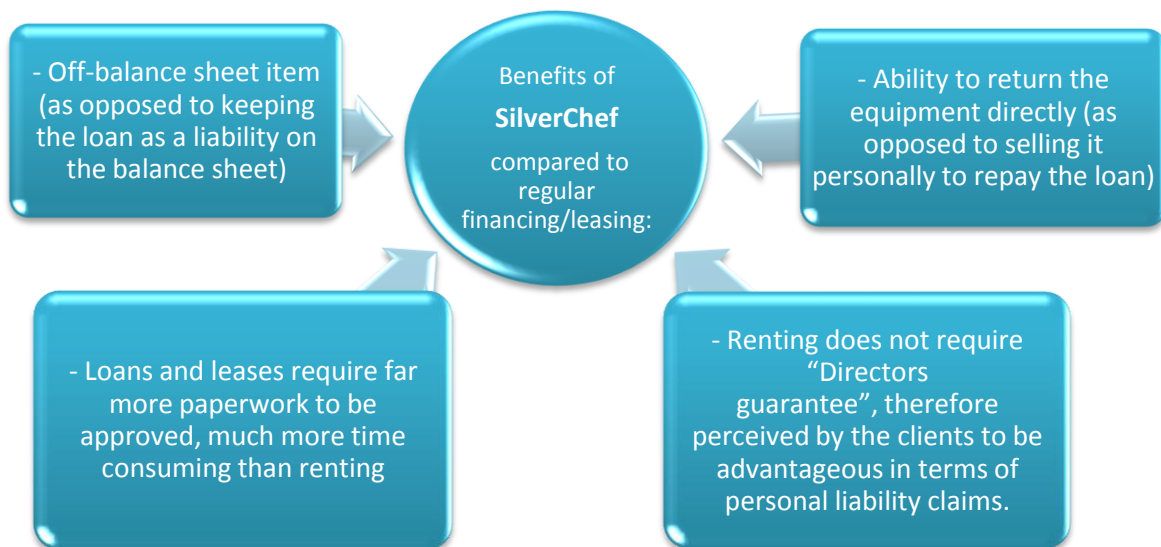


All assets undergo an approval process, with higher value assets requiring higher level of management approval

Every potential asset rental application is subjected to the approval process, with higher value assets requiring higher level of management approval. With the largest client representing less than one percent of the total rental assets, and with 95% of the assets earning income, SilverChef places great effort into minimizing bad debts and late payments as well as decreasing dormant inventory.

As the equipment dealer network is the main sales point for SilverChef, a dealer incentive scheme has been active, appraising those dealers which have reached a certain targeted contract level. Another notable scheme is the customer retention/satisfaction scheme, which originates with a service satisfaction survey, results of which are followed up and in a case of unsatisfactory results; various methods are used to improve the customer satisfaction in relation to the SilverChef service.

Silver Chef has an active equipment dealer incentive scheme, which further develops long-term commitment by the dealers



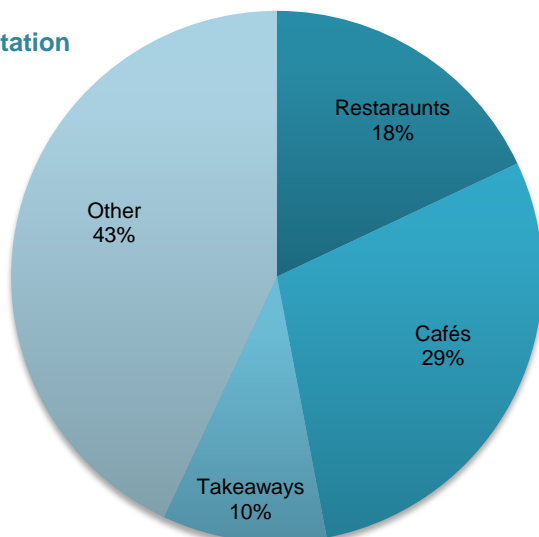
OUTLOOK FOR 2010

Silver Chef’s management has provided EPS guidance of 28 cps for FY10. Underpinning management’s guidance is robust demand growth and the implementation of existing initiatives such as the Dealer Incentive Program continuing to deliver strong results, the SilverChef division is forecasting a 20% growth in rental revenue over FY10, which is in line with our expectations.

Silver Chef’s management has increased earnings per share guidance for FY10 to 28cps.

CUSTOMERS

Customer segmentation



Largest proportion of revenue traditionally comes from Queensland, which is where Silver Chef is headquartered

Silver Chef’s business model of renting assets as an alternative to other forms of asset financing is generally used by start-ups in the hospitality industry, who are cautious about the initial outlay of spending on the asset, and prefer to try it prior to owning it. However, Silver Chef also has some larger and well-known customers using the Rent-Try-Buy® solution, these include:



We see Western Australia as under-represented and see the region as a potential for future expansion by Silver Chef

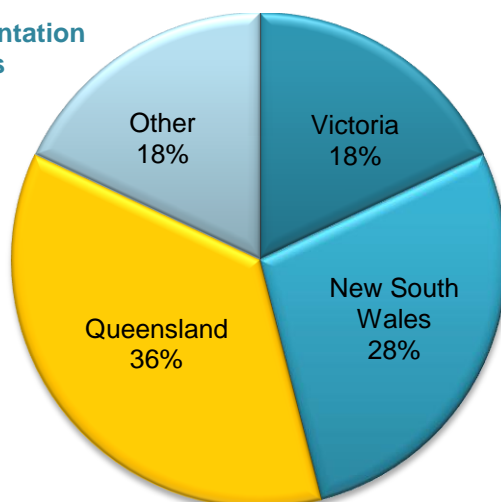
Source: Company filings

Cafés, restaurants and take-away businesses represent 57% of revenue for Silver Chef, and this figure has been decreasing over the years as Silver Chef has opted to diversify its reliance on

these sectors. With the GoGetta business focusing on non-hospitality sector, Silver Chef should have a more diversified customer base in the years ahead.

Restaurants, cafés and takeaways represent 57% of SilverChef's customers

Geographic segmentation of customers



Source: Company filings

EXPANSION: GO SOUTH, GO WEST

SilverChef's geographic distribution shows a historical bias towards the eastern states, with a large proportion of revenue coming from the company's home state of Queensland. Silver Chef's management has indicated that they have recently appointed a regional sales manager for South Australia and Tasmania, in order to develop the sales in these regions. Victoria has become a larger revenue driver in recent years, and we believe it to be a future growth opportunity for SilverChef, as it has the third largest hospitality sector by revenue in Australia (19%, compared to 23% in QLD, and 37% in NSW based on ABS data).

In our view, the composition of Silver Chef's geographical market represents a market opportunity. Its strong position in QLD is contrast with lower sales to the much larger populated states of NSW and VIC. This under representation across the eastern seaboard signals there is still substantial scope for growth in Silver Chef's core rental business, in addition to attaining further market share.

We also note Western Australia is under-represented and is a potential future growth market. (WA represents approximately 9% of hospitality sector revenue in Australia, ABS data).

Some of Silver Chef's Rent - Try - Buy® larger customers are:

- Nando's
- Subway
- Domino's Pizza
- Coffee club
- Outback Jacks
- Big Dad's pies

GoGETTA BUSINESS

In April 2008, Silver Chef diversified the Rent-Try-Buy® solution to supply the broader commercial equipment market through a new brand – GoGetta Equipment Funding. GoGetta targets higher value assets, previously at an average of A\$40,000, which is currently being reduced to an average of A\$20,000 per asset.

When approving GoGetta rental applications, one of the main criteria in the evaluation process is the dependability on that asset by the customer renting it. Silver Chef focuses highly on assets that are vital (mission critical) to running the business, which significantly reduces the risk of late payments.

GoGetta average contract size decreased from \$40k to \$20k in order to drive increased volume and decrease contractual risk exposure.

KEY FACTS:

Average contract:	Typical asset	Current customers:	Revenue Growth FY10E
<ul style="list-style-type: none"> • ≈\$20,000 	<ul style="list-style-type: none"> • trailer (caravan) • gym equipment • construction assets 	<ul style="list-style-type: none"> • 160 (Microequities 2010 estimate) 	<ul style="list-style-type: none"> • >200% (Microequities 2010 estimate)

OUTLOOK FOR 2010

The GoGetta division is expected to provide strong growth in 2010 – an estimated increase of over 300% in rental revenue according to Silver Chef management guidance. The strategy of focusing on high-value assets has been gradually transformed to a focus on assets with an average value that is lower than previously expected. Having lower value assets allows better risk measures and increased diversification of assets under management. MicroEquities is more conservative in our GoGetta revenue expectation with FY10 YoY increase of 200%. Our lower expectation comes from a gradual decrease in average contract size, which will produce a slightly lower revenue figure, then the one previously guided by management.

The GoGetta brand, which is a relatively new business for Silver Chef has yet to find the perfect portfolio asset mix in order to achieve long-term growth objectives. As hospitality assets are Silver Chef's traditional market, the GoGetta brand does not fit the management's historical core expertise in its proven asset competency. We have therefore taken a conservative view on the growth potential of this business. Before we re-evaluate our model base assumption Silver Chef will need to prove it can successfully scale up the GoGetta business. Whilst we acknowledge the strategic sense in branching out beyond Silver Chef's historical core asset base (hospitality business assets), we remain prudently conservative on our assumptions for the growth of this business. Successful traction on the GoGetta business would however provide a catalyst for a shift in the value of the stock.

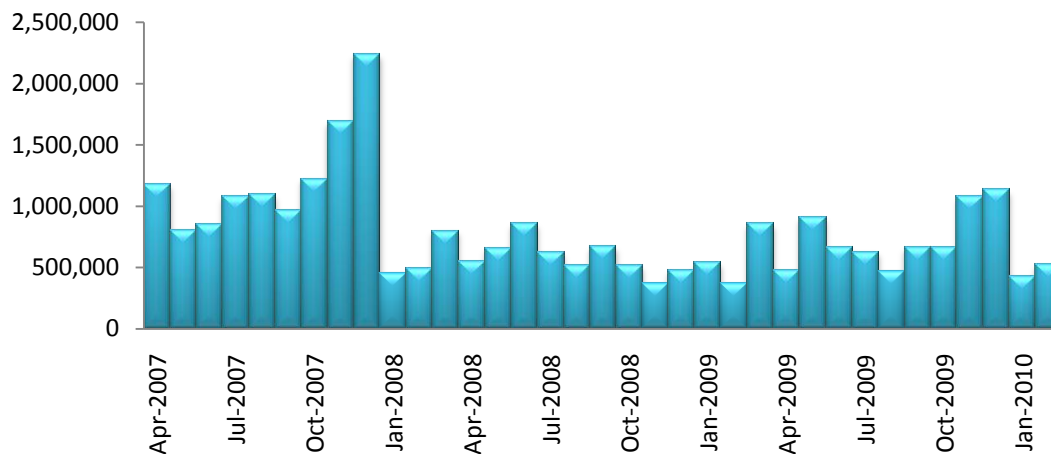
Silver Chef further develops its GoGetta division, which is focused on non-hospitality commercial equipment rental

MARKET OVERVIEW

Silver Chef provides an alternative to the traditional financing options that are available such as loans and leasing. As mentioned above, Silver Chef's business model for financing of equipment stands out among other financing providers, and does not have direct competitors with a similar business model. Based on Silver Chef management estimates Silver Chef currently represents approximately a 6% market share of the retail-hospitality lending segment.

Silver Chef currently represents approximately 6% of the retail-hospitality lending segment

Retail Trade Financing Monthly



Retail trade financing has been picking up, but has not yet reached the 2007 levels

Source: Australian Bureau of Statistics in million A\$

As the retail trade financing monthly chart shows, events of the Global Financial Crisis heavily influenced the landscape of the retail financing industry, by both decreasing the amount of loans written and the amount lent. However, since the second half of 2009 the financing market has gathered pace, but had not yet reached the 2007 levels.

Since most equipment rented is used for customer related services, such as in the hospitality sector, Silver Chef's business model heavily depends on underlying demand and growth of the hospitality industry. As the economy expands, more equipment is rented to support the growth in end customer demand. In order to diversify market exposure, Silver Chef has been expanding its GoGetta division, which focuses primarily on non-hospitality commercial equipment, and it is expected to annually become a larger part of the company's revenue stream.

Silver Chef has been expanding its GoGetta division to diversify revenue streams from hospitality sector assets

MARKET GROWTH AND INDUSTRY OUTLOOK

The retail trade and financing sectors have been picking up following the Global Financial Crisis. Based on the cafés, restaurants and takeaway turnover in the second half of 2009 it is possible to notice that there was a significant positive turn in the market, with projected further growth.

YoY annualized change in %	Annualized change Apr07-Apr10	Projected 2011 Change	Projected 2012 Change	Projected 2013 Change
Cafés, Restaurants and Takeaway food services turnover	+5.6%	+6%	+7%	+7%
Household final consumption expenditure for hospitality services	+6.6%	+6%	+7%	+7%
Commercial equipment sales growth	+3.4%	+4%	+5%	+6%
Commercial lending growth	+0.4%	+1%	+2%	+3%
Commercial equipment lease	-2.1%	+2%	+2%	+3%
Plant and Equipment	+8.9%	+10%	+10%	+11%
Wholesale Finance	+3.4%	+4%	+4%	+5%

We expect the hospitality industry to outperform the GDP growth rate in the next 3-5 years.

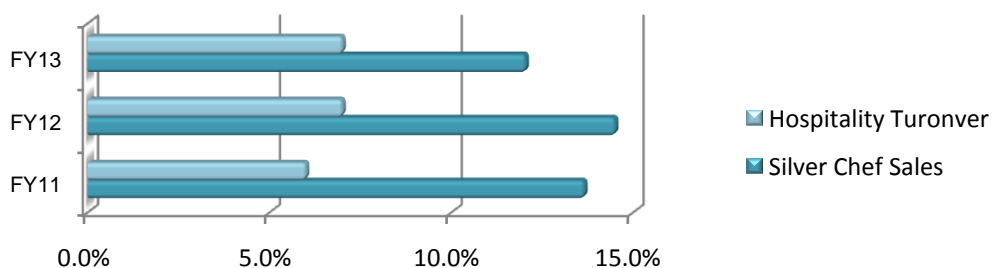
Source: Australian Bureau of Statistics Apr-07 to Apr10; MicroEquities estimates 2011-2013

As the Australian economy emerged from the Global Financial Crisis, both hospitality and retail trade sector recovered at better than historical growth rates. We estimate hospitality retail to remain robust with 6% annual growth. We believe this estimate will be attainable given the Australian economy is expected to grow at a faster rate during FY11. We believe faster rates of economic growth will lead to increased demand for financing, with both an increase in volume of transactions and transaction value.

As Australian economy emerges from the Global Financial Crisis, consumer related services and especially hospitality industry will grow at increased rates.

SILVER CHEF TO GROW MARKET SHARE

Our revenue growth forecasts for Silver Chef for FY10-13 reflect a scenario of stable economic growth and further gains in market share by Silver Chef particularly outside of its home Queensland market.



*FY11-13 Microequities forecasts

INVESTMENT CASE

Call to market positioning	Silver Chef's call to market is uniquely focused on lending equipment in contrast to the traditional leasing plans or loans. Renting provides customers with the advantageous flexibility of being able to fully deduct the payments as expenses, thus driving the real price of rent down.
Strong dealer network and brand image	Sales are conducted through a network of dealers, who based on our market research prefer Silver Chef funding and advise it to clients. Dealers are paid full retail price, which is a benefit to them since they do not have to sell at a discount, and can use per month cost of rental vs. full cost as a part of the sales pitch.
Strong cash flow risk management	Silver Chef takes an upfront 13-week bond, and additionally monitors weekly rentals. Largest customer accounts for less than 1% of rental income, and average bad debt levels have been less than 1.6% of rental income over the last five years.
Shift to larger commercial funding through GoGetta	GoGetta assets have made up 30% of assets acquired by Silver Chef in the last quarter. We estimate GoGetta to make up 8% of Silver Chef's revenue in 2010. Since GoGetta average asset is significantly larger than Rent-Try-Buy, the larger commercial assets will provide a much higher revenue base going forward.
Long term experience	Silver Chef's management team has been actively involved in the business for over two decades and Silver Chef's business model has a consistent record of profitability.
High Dividend Yield	Silver Chef's business model has been tested with time and Global Financial Crisis. Current forecast grossed up dividend yield is 8.5% for FY10.
Customer Retention Programs	Silver Chef focuses highly on the satisfaction of current customers, both in terms of continuation of business (further rentals) and possible commercial (word of mouth advertising). Silver Chef has an active customer retention and satisfaction program.
Management's compensation scheme	Part of management's compensation scheme is directly linked to the bad debts ratio, there is a strong incentive for management to keep bad debts low and avoid risky rentals.
Annuity style income	Silver Chef offers annuity style income; weekly payments are constantly monitored to prevent late payment or default.

RISK ANALYSIS

We have identified some of the following investment risks pertaining to the investment case:

(Note: list is not exhaustive):



Competition from other lenders offering other financing options

Potential customers have various funding options, such as loans from a bank; redraw on their mortgage or loans from other lender. As economic conditions improve, banks and other lenders will compete for lending in order to grow their loan portfolios. However, due to the difference in business model, and benefit of renting over borrowing, dealers propose Silver Chef's rent-try-buy option over leasing and loans.



Interest Rate and Funding risk

Silver Chef's business model heavily depends on the cost of funding the assets, and as interest rates rise, so does the cost of funding. Currently, a \$30 million debt facility is hedged with CBA at 6.46% until 2011, and an additional \$44.7 million funding facility that is unhedged.



Key persons risk due to CEO succession

Although the succession planning has been in progress for the last two years, significant key person risk is always present once a long-time CEO steps down. The risk however is not very significant, as Allan English will move to a non-executive Chairman role and will continue to be involved with Silver Chef. Charles Gregory, who has replaced Allan English as CEO on July 1, 2010, has significant managerial experience in ASX listed companies, and has been the CFO of Flight Centre prior to joining Silver Chef.



Significant capital expenditure requirements

Due to the nature of Silver Chef's business, capital expenditure is a large considerable factor in modeling future financial performance. As the GoGetta brand develops, larger capital expenditure is expected and will significantly impact the Free Cash Flow.



GoGetta business risk and equipment mix

Due to the nature of Silver Chef's business, capital expenditure is a large considerable factor in modeling future financial performance. As the GoGetta brand develops, larger capital expenditure is expected and will significantly impact the Free Cash Flow.



Dependence on the dealer network

As dealers are responsible for sales of assets and indirectly of Silver Chef's funding option, Silver Chef is highly dependant on the dealer network and dealer loyalty. As the dealer's main compensation for sale of the asset through Silver Chef is being able to sell at full retail price, Silver Chef would have to constantly monitor the satisfaction of dealers in order not to lose their main sales force.



Dependence on strong retail products demand and growth

Since Silver Chef's funding is presently mainly hospitality related retail products, a slowdown in economic growth and decrease in demand for hospitality and retail will impact Silver Chef's revenue.



Risk of first year start-ups collapse

Although Silver Chef receives a 13-week bond upfront and monitors rent cash flows, first year start-ups who fail within one year might add cash flow risks, and risk of inability to re-sell the asset to a new customer.

COMPANY DIRECTORS

Andrew Kemp | Finance Committee Chairman (Non-executive) **829,816 shares** *Appointed 24 Feb 2005*

Has experience in chartered accounting with KPMG and Littlewoods, merchant banking and corporate advisory services with AFIC (an affiliate of ANZ Banking Group) and since 1987 with Huntington Group. He is currently a director of the following ASX listed companies: SCV Group Limited (appointed March 2004), Trojan Equity Limited (Chairman – appointed March 2005) and PTB Group Limited (appointed August 2006).

From 1st of July 2010, Andrew Kemp will be the Finance Committee Chairman.

Bede King | Non Executive Director **45,823 shares** *Appointed 07 Mar 2005*

Bede King is a partner of Tobin King Lateef, Solicitors & Notaries. He is a fellow of the Financial Services Institute of Australia. He is also a director of several un-listed companies and a member of various compliance committees for property, mortgage and equity funds. He is the former National Chairman of YHA Australia, having occupied that position for over 10 years.

Allan English | Chairman (Non-Executive) **9,363,706 shares** *Appointed 31 Jul 1990*

Allan is the founder of Silver Chef Limited. He has extensive experience in the hospitality industry with over 27 years in the equipment sales, service and rental sectors.

Charles Gregory | CEO **150,000 options** *Appointed 1st Jul 2008*

Extensive experience in the management, leadership and growth of large multi-national publicly listed companies both in Australia and overseas. He is responsible for the operations of Silver Chef Limited and developing and implementing various strategic initiatives for the Company.

Neil Burton | Company Secretary / CFO *Appointed 1st Feb 2007*

Neil is a member of CPA Australia and Chartered Secretaries Australia and has held senior financial positions with other public companies. His most recent was Chief Financial Officer and Company Secretary with ASX listed HomeLeisure Limited.

OUTLOOK FY10 & FY11

Silver Chef has been increasing strides into hospitality rental market assets. Silver Chef offers an enhanced alternative to the usual financing option, due to the ability of the customer to deduct rental payments and trial the out the product without owning it. This business model is unique; replicating it directly would present significant barriers to entry, as Silver Chef has entrenched itself as a provider of choice through third party equipment dealers, who already have a well established relationship with Silver Chef Limited.

We have forecasted the GoGetta division to provide modest revenue growth for Silver Chef in the following years. Our current estimates are that GoGetta will represent 8% of revenue in FY2010. GoGetta average contract has been gradually decreased from an average of \$40k to approximately \$20k in 2010, in order to decrease the implied risk of having larger contracts on the balance sheet. Decreasing targeted average contract size also allows to increase the volume of contracts and target a broader array of sectors. Contractual risk is a significant concern for Silver Chef, which is mitigated via a diversification across sectors, a 13-week security bond, and having management approval for different asset values. We have assumed a 203% YoY growth for GoGetta in FY10.

Due to an expected increase in contracts for the GoGetta business, we expect EBITDA margins to increase significantly due to fact, that GoGetta's business is on average double the contract size compared to SilverChef, while expenses will stay relatively constant. An expansion into under-represented geographic markets will also play a role in increasing revenue, we expect significant increase in growth coming from Victoria, South Australia and Tasmania over the next few years as Silver Chef cements its presence in these states. We have accounted for the increase in geographic presence in both SilverChef and GoGetta brands, which can be seen through the YoY revenue increase accordingly. Our forecast can be seen as modest, as historically Silver Chef has been able to outperform expected revenue estimates, however due to market saturation and increased competition in the retail lending business, we have adopted a more reserved approach in order to account for these factors.

<i>Figures in A\$'mn</i>	FY09	FY10 (F)	FY11 (F)
Revenue	35.2	48.0	51.1
SilverChef	33.8	40.8	47.0
<i>growth YoY</i>	21.1%	21%	15%
<i>% of total Revenue</i>	96%	85%	92%
GoGetta	1.1	3.3	3.4
<i>growth YoY</i>		203%	3%
<i>% of total Revenue</i>	3%	7%	7%
Other	0.3	0.5	0.7
Expenses	-22.5	-27.5	-37.5
Margin	22%	22%	14%
EBITDA	23.2	32.3	37.6
EBIT	7.0	10.4	10.6
NPBT	3.9	7.4	8.1
NPAT	3.6	5.2	5.6

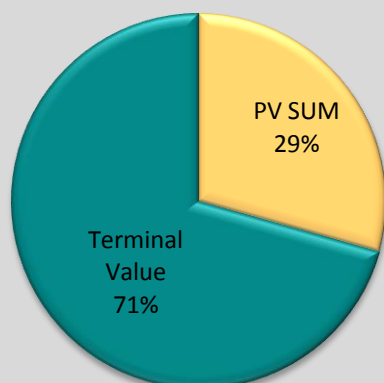
* FY10-11 Microequities forecasts

VALUATION | RECOMMENDATION

DCF Valuation

Our DCF model provides us with a \$3.64 valuation for SIV. We have used a fundamental BETA of 1.88, and a WACC of 7.59%. We forecast FY10 revenue to grow +36% to \$48.0 million. Looking into FY11, we estimate total revenue growth at 14% YoY to \$54.5.

DCF Valuation Breakup



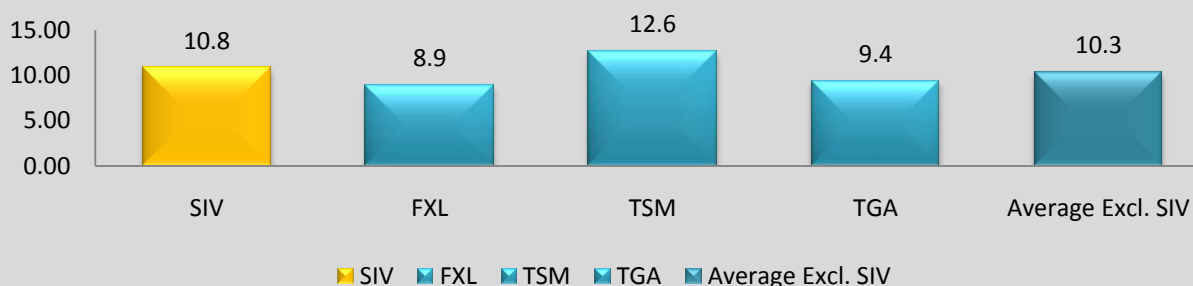
Key assumptions

Equity Beta:	1.88	Debt:	\$55.0m
Risk free rate:	4.92%	$K_d(1-\text{tax})$:	7.5%
Return on Equity:	18.7%	WACC:	7.46%
LT Growth Rate:	0.0%		

Relative Valuation

We have decided against using EV/EBITDA multiples for relative valuation of SIV's stock price. The reason is in the significant D&A component of EBITDA. As SIV's business model works through the acquisition of assets, which are rented out, but remain on SIV's balance sheet and generate high depreciation expenses. Due to the nature of this business model, it would be incorrect to compare peer EV/EBITDA figures, since SIV's value would be skewed due to the large depreciation component, and therefore we have chosen to use relative PE ratio. SIV's peers are FlexiGroup Ltd (FXL), ThinkSmart Ltd (TSM), and Thorn Group Ltd (TGA). The average PE is 9.8, which compared to SIV's PE of 10.8 gives us a premium of 4.9% relative to peers and an implied price of \$2.89.

Peer group FY10 PE summary (as at 17-AUG-2010)

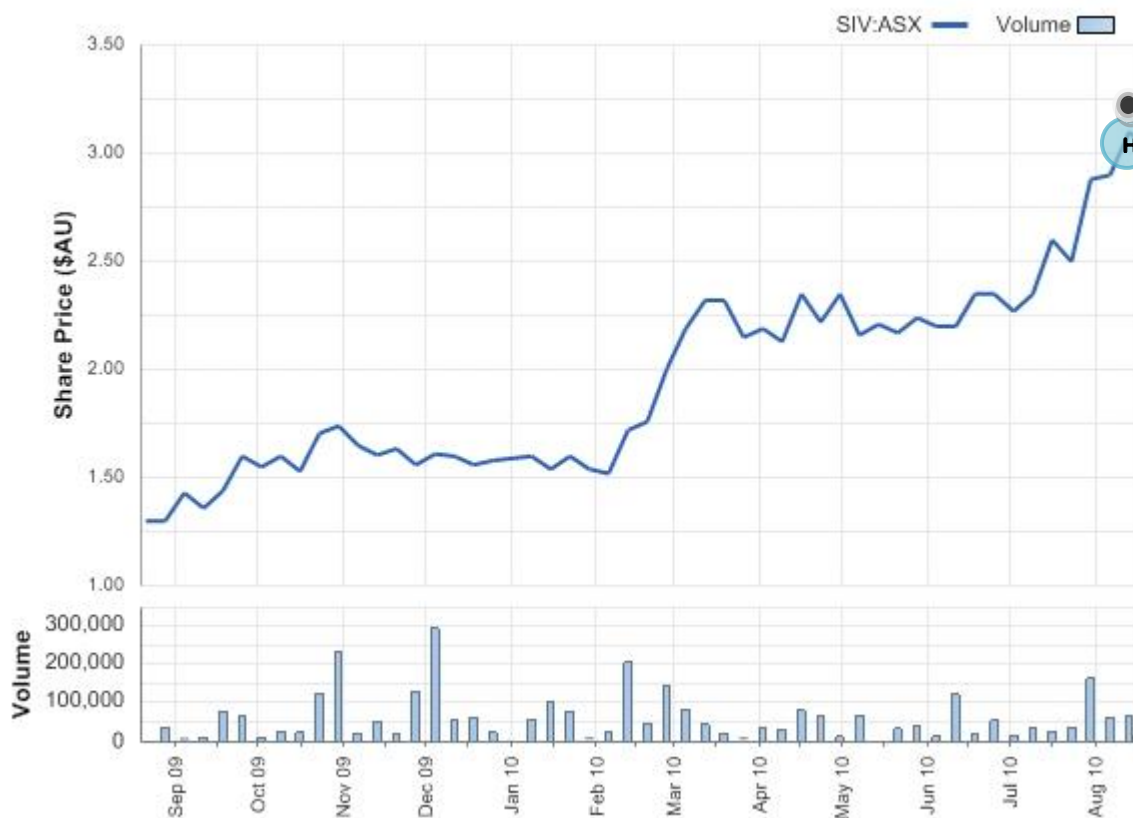


* Source Microequities, Microequities forecasts and consensus estimates

Investment Opinion

We are initiating coverage of Silver Chef Limited with a HOLD rating, and a target price of \$3.27, based on a DCF valuation of \$3.64 and a relative PE valuation of \$2.89. Our model assumes modest growth in GoGetta over the next few years, however if management shows traction in increasing GoGetta revenue, it will provide a catalyst for a revaluation of Silver Chef and a realignment of our base assumptions in our DCF model.

STOCK PRICE PERFORMANCE



Ratings: **SB** Strong Buy **B** Buy **H** Hold **S** Sell **SS** Strong Sell Target

TOP 10 SHAREHOLDERS

*as at 12 August 2009

Name	Shares held	% of Company
Tessana Pty Ltd <Allan English Family A/C>	8,242,200	51.69
Contemplator Pty Ltd <ARG Pension Fund A/C>	933,004	5.85
ANZ Nominees Limited <Cash Income A/C>	816,724	5.12
Huntington Group Pty Limited <S A/C>	306,591	1.92
Atkone Pty Ltd	286,690	1.8
Huntington Investment Services Pty Ltd <Huntington Investment A/C>	236,585	1.48
Stitching Pty Ltd <SSG Super Fund A/C>	224,605	1.41
De Gruyter Investments Pty Ltd <De Gruyter Family A/C>	213,586	1.34
Ruminator Pty Ltd	157,560	0.99
David Family Superannuation Fund Pty Ltd <David Family Super Fund A/C>	130,000	0.82

FINANCIAL SUMMARY

PROFIT & LOSS	2008A	2009A	2010F	2011F
Revenue	30.7	35.2	48.0	51.1
Op. Expense	-8.5	-12.0	-15.7	-17.0
EBITDA	22.2	23.2	32.3	37.6
% Chg YoY	36%	-100%	39%	16%
% Margin	27%	22%	22%	19%
Depreciation & Amortisation	-14.7	-16.2	-21.8	-27.0
EBIT	7.5	7.0	10.4	10.6
% Margin	24%	20%	22%	19%
Net Interest Expense	-3.7	-3.1	-3.0	-2.8
PBT	3.8	3.9	7.4	7.8
Tax	-1.2	-3	-2.2	-2.3
NPAT	2.6	3.6	5.2	5.5
Extraordinary items	.0	.0	.0	.0
Normalised NPAT	2.6	3.6	5.2	5.5

BALANCE SHEET	2008A	2009A	2010F	2011F
Trade and other rec.	2.5	.5	4.6	4.2
Inventories	2.6	3.1	3.2	3.8
Other Current Assets	.0	.0	.0	.0
Total Current Assets	.1	.6	.0	.0
Other financial assets	5.2	4.2	7.9	8.0
Trade and other rec.	5.4	6.2	2.9	4.8
Property, Plant & Equip.	-	-	-	-
Intangible assets	41.4	57.4	68.0	77.7
Deferred tax assets	1.1	.8	.7	.8
Other Non-Current Assets	-	-	-	-
Total Non-Current Assets	.5	1.5	8.0	16.2
TOTAL ASSETS	48.3	65.8	79.6	99.4
Trade and other pay.	53.6	70.0	87.4	107.5
Borrowings	10.1	12.2	13.2	15.6
Current tax liabilities	2.2	.0	.0	.0
Other Cur. Liabilities	-	-	-	-
Total Current Liabilities	1.2	.5	4.0	.0
Trade and other pay.	13.5	12.8	17.3	15.6
Borrowings	-	-	-	-
Provisions	26.8	30.0	34.0	39.6
Deferred tax liabilities	-	-	-	-
Other Non-Cur. Liab.	-	-	-	-
Total Non-Cur. Liab.	.1	.1	.0	.0
TOTAL LIABILITIES	26.8	30.1	34.0	39.6
NET ASSETS	40.3	42.9	51.3	55.2

KEY RATIOS	2008A	2009A	2010F	2011F
Sales	37.2	35.2	48.0	51.1
% Chg YoY		(5%)	36%	7%
Price/Sales	1.8x	1.9x	1.4x	1.3x
EPS (cents)	\$ 0.12	\$0.17	\$0.24	\$0.26
% Chg YoY		36%	44%	9%
P/E	13.3x	13.3x	12.7x	9.3x
Enterprise Value	92.4	95.4	95.3	101.3
EV/EBIT	12.3x	13.6x	9.1x	9.6x
EV/EBITDA	4.2x	4.1x	3.0x	2.7x
DPS (cents)	10.00	14.00	18.00	22.0
Dividend Yield	3.3%	4.6%	7.3%	8.9%
ROE	20%	13%	14%	11%
Debt to Assets	54%	43%	39%	37%
Debt to Equity	219%	110%	94%	76%

CASH FLOW STATEMENT	2008A	2009A	2010F	2011F
EBITDA	\$22.15	\$23.20	\$32.26	\$37.56
Decre./(Incr.) in WC	-\$2.72	-\$2.68	\$2.86	\$2.73
Net Int. (Paid)/Rec	-\$3.70	-\$3.10	-\$3.05	-\$2.55
Taxes Paid	-\$1.16	-\$0.34	-\$2.22	-\$2.42
Incr/(decr) in provisions	\$0.00	\$0.00	\$0.00	\$0.00
Other Op. Cash items	\$0.00	\$0.00	\$0.00	\$0.00
Cash from Operations	\$14.57	\$17.08	\$29.85	\$35.32
CAPEX	-\$15.54	-\$32.16	-\$41.69	-\$46.74
Disposals/(Acquisitions)	-\$0.11	-\$0.28	\$9.21	\$10.16
Other Inv. Cash Flows	\$0.47	\$1.00	\$0.26	\$0.00
Loans to/from other ent.	\$0.00	\$0.00	\$0.00	\$0.00
Cash Flow From Invst.	-\$15.18	-\$31.44	-\$32.22	-\$36.58
Incr/(Decr) in Equity	\$2.45	\$1.90	\$6.41	\$0.00
Incr/(Decr) in Debt	-\$1.27	\$15.32	\$4.00	\$5.60
Ord, Dividend paid	-\$2.18	-\$3.05	-\$3.92	-\$4.79
Preferred dividends	\$0.00	\$0.00	\$0.00	\$0.00
Other Fin. Cash Flow	\$0.00	\$0.00	\$0.00	\$0.00
Cash Flow From Fin	-\$0.99	\$14.17	\$6.50	\$0.81
Net Incr/(Dcr) in cash	-\$1.60	-\$0.19	\$4.13	-\$0.44
Forx & Disc. Op.	\$0.00	\$0.00	\$0.00	\$0.00
Net Inc/(Decr) Cash	-\$1.60	-\$0.19	\$4.13	-\$0.44
Equity FCF	-\$0.97	-\$15.08	-\$11.84	-\$11.42

*MICROEQUITIES FORECASTS FY10-11

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Recommendation Guide

Recommendation	Market Price undervalued/overvalued to Microequities price objective
Strong Buy	Above 40%
Buy	20 to 40%
Hold	0 to 20%
Sell	0 to -20%
Strong Sell	Greater than 20%

Additional Voluntary Disclosure by Microequities*

Investment Banking	Staff Interest	Analyst personal Interest	Equity Stake By Microequities Associates	Disclosure to Company	Business Relationship
NO	NO	NO	NO	✓	✓

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