

06<sup>th</sup> October 2010

# Silver Chef Limited

New Price Objective \$3.74

GICS: Capital Goods

## Growth delivered

Update report

### Event

- **FY10 figures:** Silver Chef Limited [ASX:SIV] has recently released its FY10 Annual Report. The FY10 figures came in line with our expectations: FY10 rental revenue up 40.7% to \$49.1m (compared to our forecasted \$48.0m), FY10 EBITDA up 39% to \$31.9m (compared to our forecasted \$32.3m) and FY10 NPAT up 53% to \$5.5m (compared to our forecasted \$5.2m).

### Our View

- **Growth in rental assets:** Silver Chef Limited continues to experience strong growth in assets under management, with hospitality assets growing 17% YoY to \$90.4m and GoGetta rental assets growing at 143.1% to \$19.1m. We are forecasting further growth in assets to \$101m AUM for Silver Chef's hospitality assets and \$25m for GoGetta assets.
- **GoGetta brand beginning to deliver results:** As the GoGetta brand celebrates its third year of operations; it is beginning to attain significant annual growth in assets under management. (FY08: \$1.3m; FY09: \$7.9m; FY10: \$19.1m). We are forecasting GoGetta assets to grow by 30% in FY11 to \$25m.
- **FY11 trends:** Based on our expectations for growth of the Australian economy and increase in entrepreneurial activity in FY11, we expect continued strength in growth in both hospitality and non-hospitality assets. In terms of geographic sectors, we believe that demand for asset funding in Western Australia would be outperforming the other states, as the resource boom would trigger the increased need for both hospitality (increase in restaurants, cafés) and non-hospitality assets (transport/heavy machinery and mining equipment).

### Valuation | Recommendation

We have kept our HOLD recommendation for Silver Chef Limited. Our DCF and Relative Valuation methodologies give an average value of \$3.74, which represents a premium of 26.7% over the current market price of \$2.95.

# SIV

# BUY

Price Objective:

## \$3.74

Last traded	A\$	2.95
Market Cap	A\$m	66.5
Nº of Shares	m	22.5
EPS 2010A	¢	24.4
EPS 2011F	¢	36.8
PE 2010A	x	12.1
EV/EBITDA 2010A	x	3.4
DPS 2010A	¢	18.00
Div Yield	%	6.1%
Sales 2010A	\$'m	49.4
Sales 2011F	\$'m	58.3
EBITDA 2010A	\$'m	31.9
EBITDA 2011F	\$'m	40.0
NPAT 2010A	\$'m	5.5
NPAT 2011F	\$'m	8.3

### Share Price | 3 Year



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## GROWTH IN RENTAL ASSETS

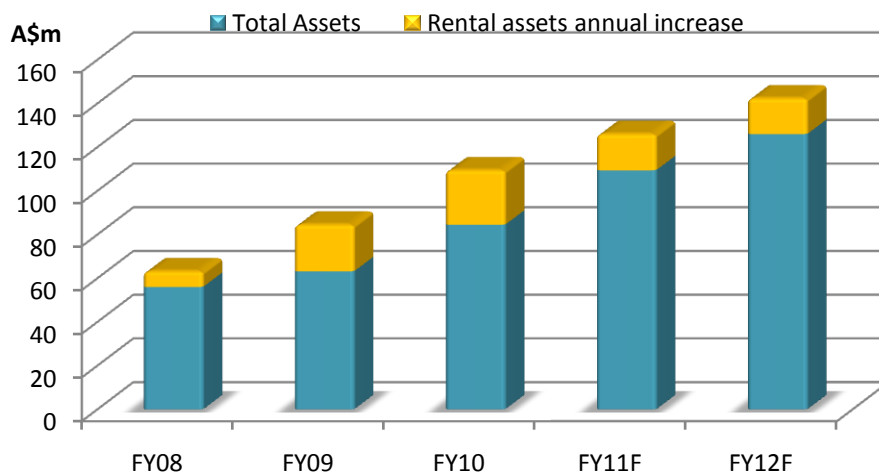
Silver Chef Limited's total assets grew by \$25m in FY10, compared to a \$21m increase in FY09. Our rental assets growth forecast for FY11-FY12 presents a relatively conservative growth scenario. However, given GoGetta's recent performance, we believe there is significant upside potential if the GoGetta division is able to deliver at the same pace as in FY09-FY10.

Total rental assets grew by 30% in FY10 to:

\$90.4m in hospitality assets

\$19.1m in GoGetta assets

Figure 1: Annual growth in rental assets under management



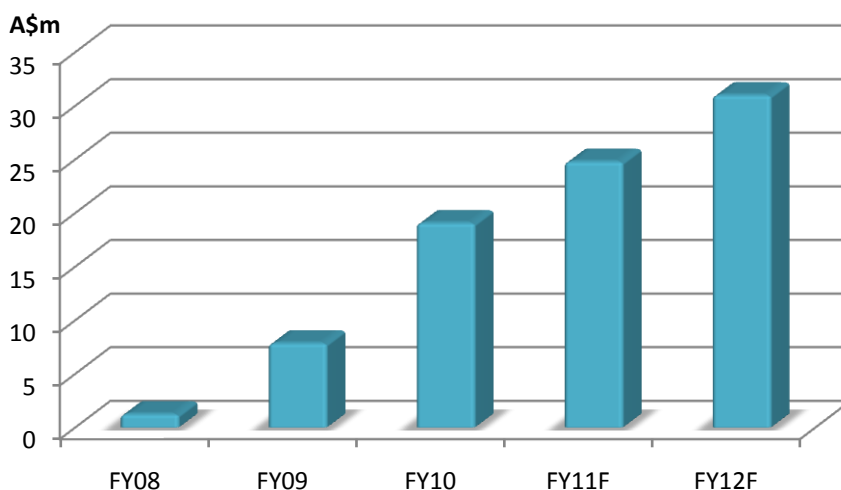
Source: Company data FY08-FY10, Microequities forecasts FY11-FY12

## GOGETTA PERFORMANCE FY08-FY10

In FY10 GoGetta division introduced its own branding – “Rent.Grow.Own”, and began targeting assets in the 10-20k region in order to increase number of assets under management and thereby decrease individual asset risk. Decreasing the asset levels also helped in targeting a wider scope of businesses, such as gyms (gym equipment and security surveillance equipment), construction (heavy machinery) and mobile homes (trailers).

GoGetta has experienced continuous asset growth from beginning operations in FY08:

Figure 2: GoGetta rental assets under management in A\$m



FY08: \$1.3m

FY09: \$7.9m

FY10: \$19.1m

FY11F: \$25m

FY12F: \$31m

Source: Company data FY07-FY10, Microequities forecasts FY11-FY12

## CHANGE IN FORECAST AND FY11-12 THEMES

Given current economic situation, we expect entrepreneurial activity to increase, especially in Western Australia and Queensland, which will benefit most from the continued resource boom. Due to increasing financing costs with traditional sources (bank loans, etc) we believe more start-ups will seek alternative options such as renting or leasing.

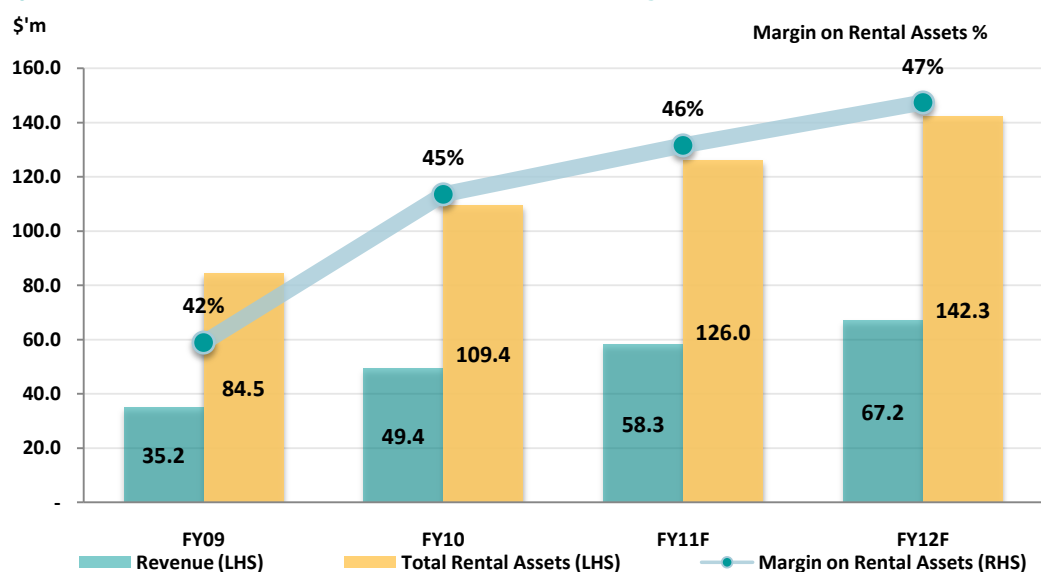
We have not altered significantly our view on Silver Chef Limited's growth in FY11-FY12. Although our model assumes a more conservative scenario, we believe that the GoGetta division must show stable and consecutive growth prior to revaluation.

Figure 3: Microequities Forecast FY11-FY12

		FY10A	FY11F	FY12F
<b>Revenue</b>	\$'m	<b>49.4</b>	<b>58.3</b>	<b>67.2</b>
<b>% Chg YoY</b>	%	40%	18%	15%
<b>EBITDA</b>	\$'m	<b>31.9</b>	<b>40.0</b>	<b>46.5</b>
<b>% Chg YoY</b>	%	39%	25%	16%
<b>EBIT</b>	\$'m	<b>10.5</b>	<b>15.6</b>	<b>18.4</b>
<b>% Chg YoY</b>	%	15%	16%	15%
<b>NPAT</b>	\$'m	<b>5.5</b>	<b>8.3</b>	<b>9.5</b>

Source: Company data FY10, Microequities estimates FY11-FY12

Figure 4: FY09-FY12 Revenue, total rental assets and margin on rental assets



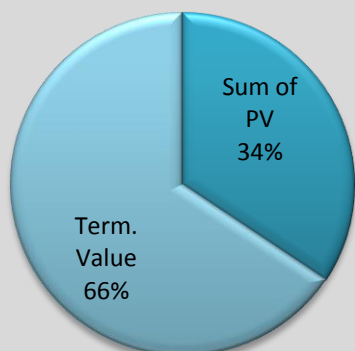
Source: Company data FY08-FY10, Microequities estimates FY11-FY12

# VALUATION | RECOMMENDATION

## DCF Valuation

Our DCF model provides us with a \$3.44 valuation for SIV. Based on our expectation for further growth in both hospitality and non-hospitality assets driven by an expanding domestic economy. We forecast FY11 revenue to grow by 18% to \$58.3m. Looking into FY12, we estimate total revenue growth at 15% YoY to \$67.2m.

## DCF Valuation Breakup



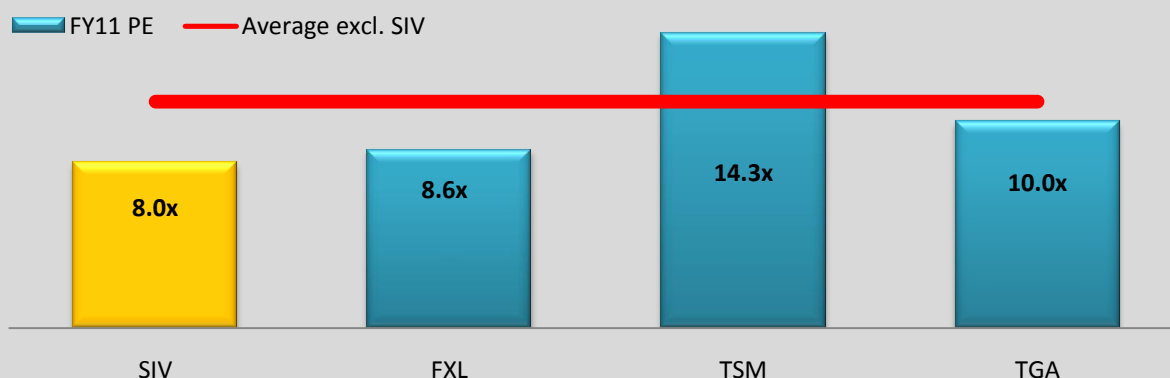
### Key assumptions

Equity Beta:	1.84	Debt:	\$42.8m
Risk free rate:	4.92%	K <sub>d</sub> (1-tax):	5.25%
Return on Equity:	18.7%	WACC:	10.07%
LT Growth Rate:	1.0%		

## Relative Valuation

We have decided against using EV/EBITDA multiples for relative valuation of SIV's share 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 FY11 PE is 11x, which compared to SIV's PE of 8.0x gives us a discount of 27% relative to peers and an implied price of \$4.03.

## Peer group FY11 PE summary (on 05-Oct-2010)



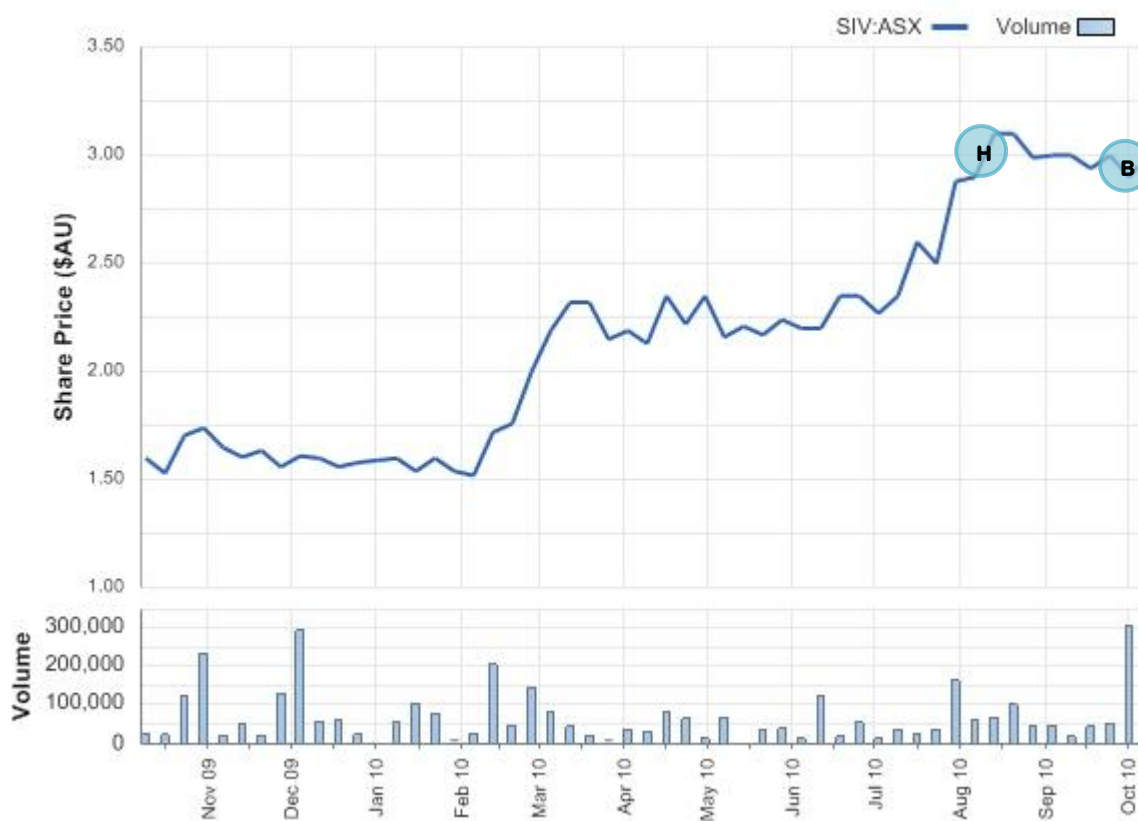
\* Source Microequities, Microequities forecasts and consensus estimates

## Investment Opinion

We are upgrading our Silver Chef Limited recommendation to BUY, and increasing the target price to \$3.74, based on a DCF valuation of \$3.44 and a relative PE valuation of \$4.03. Our model assumes a conservative growth forecast in GoGetta over the next few years. However, if management can continue to deliver consecutive results, this will provide a catalyst for a revaluation of Silver Chef and a realignment of our base assumptions in our DCF model.

## PRICE OBJECTIVE & RECOMMENDATION HISTORY

Changes to recommendations and/or price objectives			
Date	Recommendation	Price at time of Rec.	Price Objective
06/10/2010	BUY	\$2.95	\$3.74↑
18/08/2010	HOLD	\$3.03	\$3.27



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

## FINANCIAL SUMMARY

PROFIT & LOSS	2010A	2011F	2012F	KEY RATIOS	2010A	2011F	2012F
Revenue	49.4	58.3	67.2	Sales	49.4	58.3	67.2
Expense	-41.8	-46.4	-53.6	% Chg YoY	40%	18%	15%
+ Net Interest Expense	3.0	3.8	4.8	Price/Sales	1.3x	1.1x	1.0x
+ Depreciation & Amortisation	21.4	24.4	28.1	<b>EPS (cents)</b>	<b>24.4</b>	<b>36.8</b>	<b>42.1</b>
<b>EBITDA</b>	<b>31.9</b>	<b>40.0</b>	<b>46.5</b>	% Chg YoY	53%	51%	15%
% Chg YoY	39%	25%	16%	<b>P/E</b>	<b>12.1x</b>	<b>8.0x</b>	<b>7.0x</b>
<b>EBITDA MARGIN</b>	<b>65%</b>	<b>69%</b>	<b>69%</b>	Enterprise Value	107.8	108.1	108.6
Depreciation & Amortisation	-21.4	-24.4	-28.1	<b>EV/EBIT</b>	<b>10.3x</b>	<b>6.9x</b>	<b>5.9x</b>
<b>EBIT</b>	<b>10.5</b>	<b>15.6</b>	<b>18.4</b>	<b>EV/EBITDA</b>	<b>3.4x</b>	<b>2.7x</b>	<b>2.3x</b>
<b>EBIT Margin</b>	<b>21%</b>	<b>27%</b>	<b>27%</b>	DPS	18.00¢	22.00¢	26.00¢
Net Interest Expense	-3.0	-3.8	-4.8	Dividend Yield	6.1%	7.5%	8.8%
Profit Before Tax	7.5	11.8	13.6	ROE	21%	20%	17%
Tax	-2.0	-3.6	-4.1	Debt to Equity	172%	181%	182%
<b>NPAT</b>	<b>5.5</b>	<b>8.3</b>	<b>9.5</b>				
BALANCE SHEET	2010A	2011F	2012F	CASH FLOW STATEMENT	2010A	2011F	2012F
Cash & cash equivalents	1.4	7.9	15.1	EBITDA	31.9	40.0	46.5
Trade and other receivables	3.7	4.5	5.5	Decre./(Incr.) in work. Cap	-3.0	-2.0	-1.9
Inventories	.0	.0	.0	Net Int. (Paid)/Rec	-3.0	-3.8	-4.8
Other Current Assets	2.0	.6	-2.8	Taxes Paid	-2.0	-3.6	-4.1
<b>Total Current Assets</b>	<b>7.1</b>	<b>13.0</b>	<b>17.8</b>	Incr/(decr) in provisions	0.0	-0.1	0.0
Other financial assets	2.3	2.8	2.9	Other Op. Cash items	0.0	0.0	0.0
Trade and other receivables	.0	.0	.0	<b>Cash from Operations</b>	<b>23.9</b>	<b>30.5</b>	<b>35.7</b>
Property, Plant & Equipment	73.5	89.7	105.7	CAPEX	-37.7	-40.7	-44.1
Intangible assets	.5	.9	.8	Other Inv. Cash Flows	0.0	0.0	0.0
Deferred tax assets	2.2	2.5	2.7	Loans to/from other ent.	0.0	0.0	0.0
Other Non-Current Assets	1.0	3.6	10.4	<b>Cash Flow From Invst.</b>	<b>-37.7</b>	<b>-40.7</b>	<b>-44.1</b>
<b>Total Non-Current Assets</b>	<b>79.6</b>	<b>99.4</b>	<b>122.5</b>	Incr/(Decr) in Equity	10.7	14.8	13.8
<b>TOTAL ASSETS</b>	<b>86.6</b>	<b>112.5</b>	<b>140.3</b>	Incr/(Decr) in Debt	0.7	6.8	7.6
Trade and other payables	15.7	18.6	24.4	Ord, Dividend paid	-2.2	-5.0	-5.9
Borrowings	.1	.6	.8	Preferred dividends	0.0	0.0	0.0
Current tax liabilities	.0	.0	.0	Other Fin. Cash Flow	0.0	0.0	0.0
Other Current Liabilities	2.2	3.7	4.3	<b>Cash Flow From Fin</b>	<b>9.3</b>	<b>16.6</b>	<b>15.6</b>
<b>Total Current Liabilities</b>	<b>18.0</b>	<b>22.9</b>	<b>29.5</b>				
Trade and other payables	.0	.0	.0	<b>Net Incr/(Dcr) in cash</b>	<b>-4.5</b>	<b>6.5</b>	<b>7.2</b>
Borrowings	42.7	49.0	56.4				
Provisions	.1	.0	.0				
Deferred tax liabilities	.0	.0	.0				
Other Non-Current Liabilities	.0	.0	.0				
<b>Total Non-Current Liabilities</b>	<b>42.8</b>	<b>49.0</b>	<b>56.4</b>				
<b>TOTAL LIABILITIES</b>	<b>60.8</b>	<b>71.9</b>	<b>85.9</b>				
<b>NET ASSETS</b>	<b>25.8</b>	<b>40.6</b>	<b>54.4</b>				

\*MICROEQUITIES FORECASTS FY11-12

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### Recommendation Guide

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

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