

Silver Chef Limited

29th March 2011

New Price Objective \$4.05

GICS: Capital Goods

GOGETTA GETS GOING

Update report

Event

▪ **HY11 figures:** Silver Chef Limited [ASX:SIV] has recently released its HY11 figures. The HY11 figures came in line with our expectations: HY11 rental revenue of \$30.0m (compared to our forecast \$30.6m), HY11 EBITDA of \$19.5m (compared to our forecast \$20.1m)

Our View

- **Growth in rental assets:** Silver Chef Limited continues to experience strong growth in Assets Under Management (AUM), with hospitality assets growing 17% YoY to \$90.4m and GoGetta rental assets growing at 143.1% to \$19.1m. We have increased our AUM growth forecast for FY11 from \$101m to \$113m for Silver Chef's hospitality assets and have kept our initial forecast of \$25m for GoGetta assets.
- **GoGetta first half revenue endorses our FY11 AUM growth expectation and the FY11 forecast:** The GoGetta business revenue grew significantly, with HY11 results of \$5.9m vs. \$3.2m in HY10. The growth in revenue comes in line with our initial forecast and in line with the FY11 Assets Under Management forecast. We are forecasting GoGetta AUM to grow by 30% in FY11 to \$25m. (FY08: \$1.3m; FY09: \$7.9m; FY10: \$19.1m).
- **FY11 trends:** Despite international shocks, The Australian economy continues to gain traction post GFC, and we believe businesses will be ready for expansion/refurbishment activities, as well as additional start-up activity. Therefore, we expect continued strength in growth in both hospitality and non-hospitality assets and thereby have upgraded our forecast for FY11 figures.

Valuation | Recommendation

We have kept our BUY recommendation for Silver Chef Limited, and raised our Price Objective from \$3.75 to \$4.05, which represents a 22.4% premium over the closing price of \$3.31 on 28th March 2011.

SIV

BUY

Price Objective:

\$4.05

Last traded	A\$	3.31
Market Cap	A\$m	74.6
N ^o of Shares	m	22.5
EPS 2010A	¢	24.4
EPS 2011F	¢	31.7
PE 2010A	x	13.6
EV/EBITDA 2010A	x	3.6
DPS FY11F	¢	18.00
Div Yield	%	5.7%
Sales 2010A	\$'m	49.4
Sales 2011F	\$'m	63.6
EBITDA 2010A	\$'m	31.9
EBITDA 2011F	\$'m	42.7
NPAT 2010A	\$'m	5.5
NPAT 2011F	\$'m	7.2

Share Price | 3 Year



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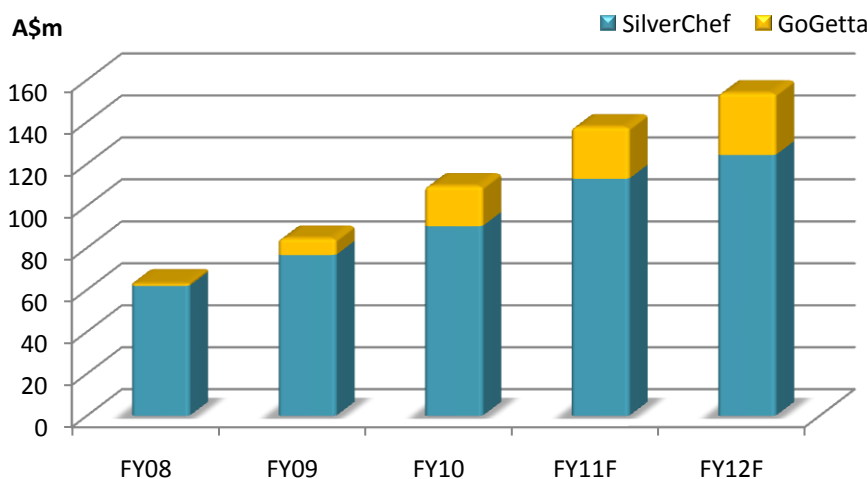
IMPORTANT DISCLOSURE INFORMATION AT THE END OF THIS REPORT

GROWTH IN RENTAL ASSETS

Silver Chef Limited’s rental asset purchases grew by 40.8% to \$36.8m in HY11 over HY10. 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 maintain current growth rates beyond HY11.

We have increases our AUM forecast from \$126m to \$138m on the basis of stronger rental asset purchases in FY11

Figure 1: Annual growth in rental assets under management



We forecast FY11 AUM of \$113m for SilverChef business and \$25m for GoGetta business.

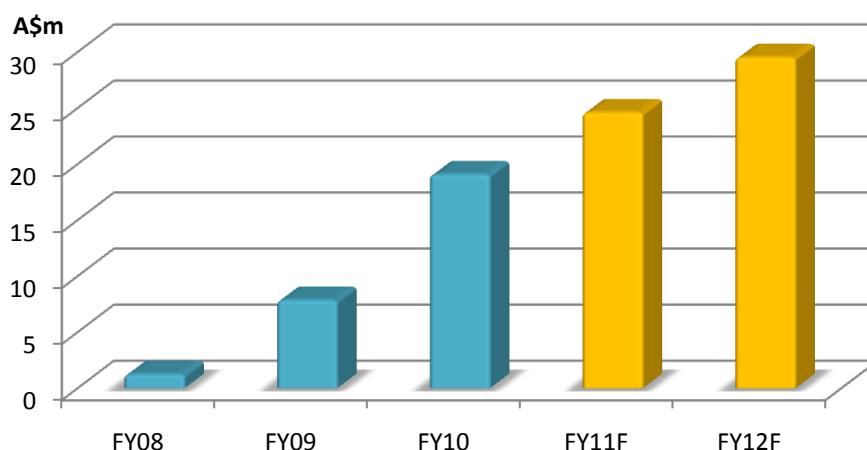
Source: Company data FY08-FY10, Microequities forecasts FY11-FY12

GOGETTA PERFORMANCE FY08-FY12F

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). We believe that non-hospitality side of the business offers significant potential, and forecast AUM growth to \$25m for FY11 and to \$30m in FY12. This essentially translates into revenue of \$11.3m in FY11 and \$13.9m in FY12.

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: \$30m

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

CHANGE IN FORECAST AND FY11-12 THEMES

Given current economic conditions, 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.

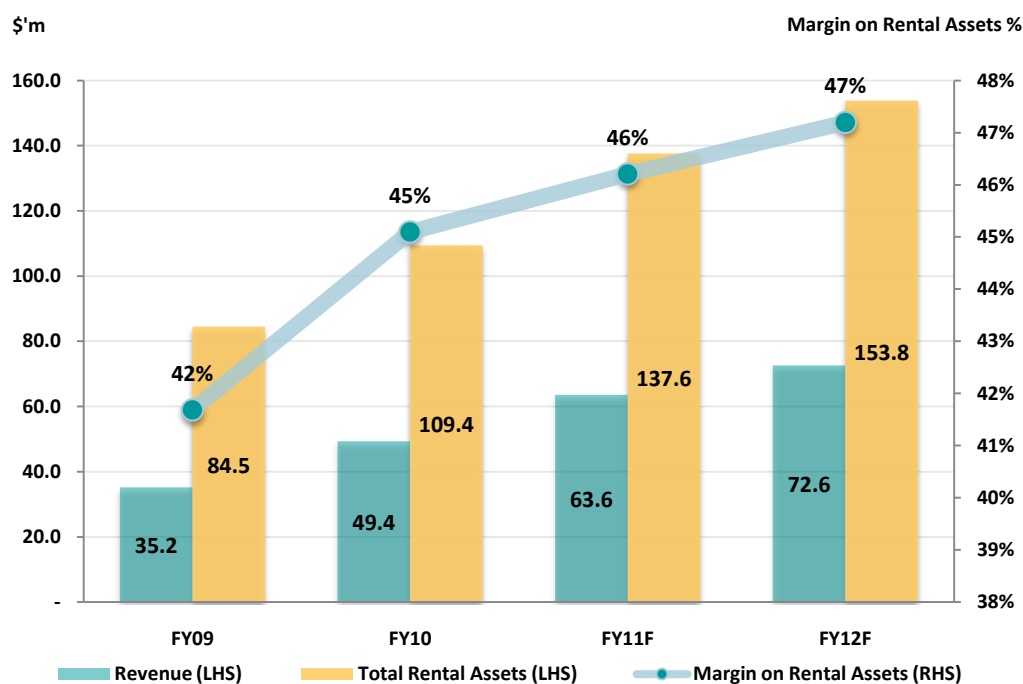
We have upgraded our FY11-FY12 revenue growth view of Silver Chef Limited. Furthermore, we have increased the operating and financing costs thus decreasing the FY11 & FY12 NPAT. Although our model assumes a more conservative scenario, we believe that the GoGetta division must show stable and consecutive growth prior to revaluation.

Figure 3: Microequities Forecast FY11-FY12

Figures in A\$'mn	FY10	FY11 (F) OLD	FY11 (F) NEW	FY12 (F) OLD	FY12 (F) NEW
Revenue	49.4	58.3	63.6	67.2	73.1
change in %	40%	18%	29%	15%	15%
EBITDA	31.9	40.0	42.7	46.5	48.9
Margin	65%	69%	67%	69%	67%
EBIT	10.5	15.6	10.2	18.4	12.0
NPAT	5.5	8.3	7.2	9.5	8.4

Source: Company data FY10, Microequities estimates FY11-FY12

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



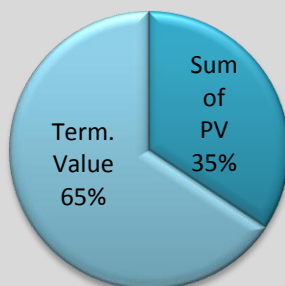
Source: Company data FY08-FY10, Microequities estimates FY11-FY12

VALUATION | RECOMMENDATION

DCF Valuation

Our DCF model provides us with a valuation of \$4.63 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 29% to \$63.6m. Looking into FY12, we estimate total revenue growth at 14%YoY to \$72.6m.

DCF Valuation Breakup



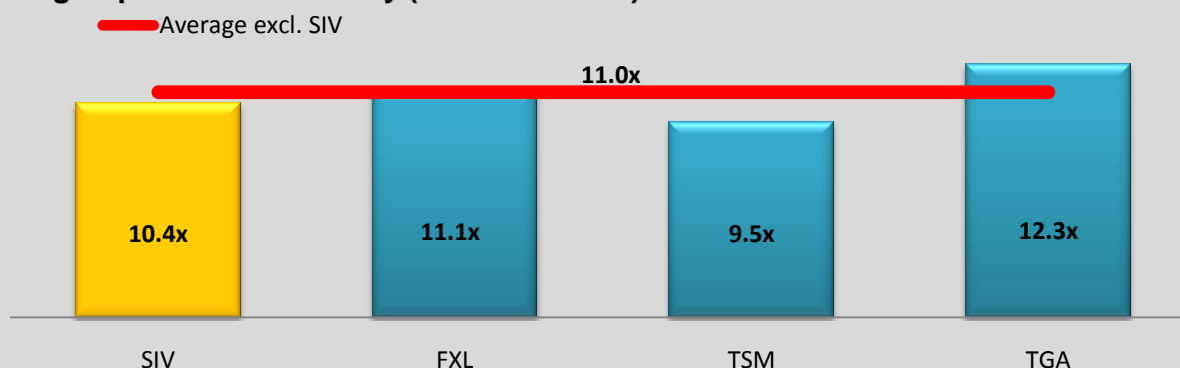
Key assumptions

Equity Beta:	1.52	Debt:	\$62.0m
Risk free rate:	5.51%	K _d (1-tax):	5.60%
Return on Equity:	16.9%	WACC:	11.76%
LT Growth Rate:	3.0%		

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 11.0x, which compared to SIV's PE of 10.4x gives us a discount of 5% relative to peers and an implied price of \$3.48.

Peer group FY11 PE summary (on 28-Mar-2011)



* Source Microequities, Microequities forecasts and consensus estimates

Investment Opinion

We have kept our BUY recommendation for Silver Chef Limited and increased the target price to \$4.05, based on a DCF valuation of \$4.63 and a relative PE valuation of \$3.48. 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
29/03/2011	BUY	\$3.31	\$4.05↑
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	63.6	72.6	Sales	49.4	63.6	72.6
Expense	-41.8	-53.3	-60.6	% ChgYoY	40%	29%	14%
+ Net Interest Expense	3.0	5.0	5.9	Price/Sales	1.3x	1.3x	1.1x
+ Depreciation & Amortisation	21.4	27.5	30.8	EPS (cents)	24.4	31.7	37.1
EBITDA	31.9	42.7	48.6	% ChgYoY	53%	30%	17%
% ChgYoY	39%	34%	14%	P/E	12.1x	11.4x	9.7x
EBITDA MARGIN	65%	67%	67%	Enterprise Value	107.8	140.9	141.4
Depreciation & Amortisation	-21.4	-27.5	-30.8	EV/EBIT	10.3x	9.3x	7.9x
EBIT	10.5	15.2	17.8	EV/EBITDA	3.4x	3.3x	2.9x
EBIT Margin	21%	24%	25%	DPS	18.00¢	18.91¢	22.93¢
Net Interest Expense	-3.0	-5.0	-5.9	Dividend Yield	6.1%	5.2%	6.4%
Profit Before Tax	7.5	10.2	12.0	ROE	21%	32%	22%
Tax	-2.0	-3.1	-3.6	Debt to Equity	172%	227%	230%
NPAT	5.5	7.2	8.4				
BALANCE SHEET	2010A	2011F	2012F	CASH FLOW STATEMENT	2010A	2011F	2012F
Cash & cash equivalents	1.4	2.4	9.2	EBITDA	31.9	42.7	48.6
Trade and other receivables	3.7	4.9	5.9	Decre./(Incr.) in work. Cap	-3.0	-0.8	-0.8
Inventories	.0	.0	.0	Net Int. (Paid)/Rec	-3.0	-5.0	-5.9
Other Current Assets	2.0	1.8	1.8	Taxes Paid	-2.0	-3.1	-3.6
Total Current Assets	7.1	9.1	16.9	Incr/(decr) in provisions	0.0	0.0	0.0
Other financial assets	2.3	2.1	2.1	Other Op. Cash items	0.0	0.0	0.0
Trade and other receivables	.0	.0	.0	Cash from Operations	23.9	33.9	38.3
Property, Plant & Equipment	73.5	89.3	106.7	CAPEX	-37.7	-43.9	-48.7
Intangible assets	.5	.4	.4	Other Inv. Cash Flows	0.0	0.0	0.0
Deferred tax assets	2.2	2.9	2.9	Loans to/from other ent.	0.0	0.0	0.0
Other Non-Current Assets	1.0	.0	.0	Cash Flow From Invst.	-37.7	-43.9	-48.7
Total Non-Current Assets	79.6	94.7	112.0	Incr/(Decr) in Equity	10.7	2.0	0.0
TOTAL ASSETS	86.6	103.8	128.9	Incr/(Decr) in Debt	0.7	19.2	7.3
Trade and other payables	15.7	17.8	19.6	Ord, Dividend paid	-2.2	-4.3	-5.2
Borrowings	.1	.1	.1	Preferred dividends	0.0	0.0	0.0
Current tax liabilities	.0	1.4	1.8	Other Fin. Cash Flow	0.0	0.0	0.0
Other Current Liabilities	2.2	.3	.0	Cash Flow From Fin	9.3	16.9	2.1
Total Current Liabilities	18.0	19.6	21.4				
Trade and other payables	.0			Net Incr/(Dcr) in cash	-4.5	6.8	-8.2
Borrowings	42.7	61.9	69.2				
Provisions	.1	.1	.1				
Deferred tax liabilities	.0						
Other Non-Current Liabilities	.0						
Total Non-Current Liabilities	42.8	62.0	69.3				
TOTAL LIABILITIES	60.8	81.6	90.8				
NET ASSETS	25.8	22.2	38.1				

*MICROEQUITIES FORECASTS FY11-12

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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%

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