

29 June 2011

# Silver Chef

## Rebasing expectations

**Important:** The above recommendation has been made on a 12 month view and may not suit your investment needs or timeframe. The basis it is prepared on is summarised on the last page of this report. **PLEASE CONTACT YOUR ADVISER TO DISCUSS THIS GENERAL RECOMMENDATION BEFORE ACTING ON IT.**

**With FY11 nearly complete we've taken the opportunity to pull our FY11 forecasts back inline with guidance. We were hoping for a slightly better outcome however natural disasters have capped the upside. We continue to rate SIV highly given its unique market position and retain our Buy recommendation.**

**Chart 1 : Key financial data**

Price  
A\$3.41

Price Target  
A\$4.20

Market Cap  
A\$80m

SIV110629

**Key Forecasts**

	2009A	2010A	2011F	2012F	2013F
EBITDA (A\$m)	23.2	32.1	39.6	47.8	57.4
Net Profit After Tax (A\$m)	3.6	5.5	7.2	9.1	11.8
Net Profit After Tax growth (%)	36.4	53.2	30.5	27.3	28.9
EPS (¢) <sup>1</sup>	22.5	28.0	31.0	36.8	44.0
EPS Growth (%)	28.6	24.4	10.6	18.8	19.7
Dividend Per Share (¢)	14.0	18.0	18.6	22.1	26.4
Dividend Yield (%)	3.9	5.0	5.2	6.1	7.3
Normalised PE (x)	16.0	12.9	11.6	9.8	8.2
PE (x) at price target	18.7	15.0	13.6	11.4	9.6
EV/EBITDA (x)	4.4	3.5	3.2	2.9	2.9

1. Pre non-recurring items and post preference dividends

year to Jun, fully diluted

Accounting standard: IFRS

Source: Company data, RBS Morgans forecasts

Source: Company data; RBS Morgans estimates

year to Jun, fully diluted

**Still a small piece of a growing pie**

With a market share of around 1% we think that SIV remains small enough that double digit EPS growth can be comfortably achieved. Furthermore, we view SIV's business model as unique and valuable as it looks after an underserved market where we believe significant demand exists, however there is limited direct competition. Alternative funding arrangements exist but do not offer flexibility because traditional funders lack expertise in asset recycling. SIV's flexibility has historically led to strong growth, with the group now having in excess of 400 national dealers funding business critical assets to over 6,000 customers.

**Great corporate citizenship from founder Alan English**

In an act of philanthropy founder Allan English has transferred 1m of his own personal shares (and eventually half of his entire holdings) to the English Family Foundation which is a charitable organisation supporting entrepreneurs in developing countries in conjunction with Opportunity International. The Foundation will also expand support to marginalised communities in South East Queensland. We'd expect the shares to be retained.

**FY11 should be a good year but we've pulled our FY11 EPS back inline with guidance**

Given the string of natural disasters and a somewhat nervous consumer we no longer forecast guidance to be exceeded and reduce our forecasts to match guidance. A weak property market may result in another non-cash property write-down as seen in 1H11.

**Investment view – Buy recommendation retained**

The ~5% reduction in our earnings forecasts has reduced our DCF based valuation from A\$4.38 to A\$4.20. The key risk relates to SIV's ongoing ability to successfully grow its customer base. We believe upside risk relates to stronger than expected customer demand.

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## SIV Financial summary

	AIFRS	AIFRS	AIFRS	AIFRS	AIFRS	Closing price	\$3.60	Price target	\$4.20	
Income statement	2009A	2010A	2011F	2012F	2013F	Valuation metrics				
Sales revenue	34.8	49.3	59.5	70.4	83.5	Preferred methodology	DCF	Val'n (A\$)	\$4.20	
EBITDA	23.2	32.1	39.6	47.8	57.4	<b>DCF valuation inputs</b>				
Depreciation and amortisation	16.3	21.7	25.4	30.6	35.6	Rf	5.25%	10-year rate	5.25%	
EBIT	7.0	10.4	14.2	17.2	21.8	Rm-Rf	6.00%	Margin	2.0%	
Net interest expense	3.0	2.9	4.0	4.2	5.0	Beta	2.12	Kd	4.73%	
Pre-tax profit	3.9	7.5	10.3	13.1	16.8	CAPM (Rf+Beta(Rm-Rf))	18.0%	Ke	14.0%	
Income tax expense	0.3	2.0	3.1	3.9	5.0	E/EV*Ke+D/EV*Kd(1-t)		NPV cash flow (A\$m)	138.8	
NPAT	3.6	5.5	7.2	9.1	11.8	Equity (E/EV)		20.0% Minority interest (A\$m)	0.0	
Earnings Per Share (c)	22.5	28.0	31.0	36.8	44.0	Debt (D/EV)		80.0% Net debt (A\$m)	41.3	
EPS growth (%)	28.6%	24.4%	10.6%	18.8%	19.7%	Interest rate		4.73% Investments (A\$m)	0.0	
Dividend per share (c)	14.0	18.0	18.6	22.1	26.4	Tax rate (t)		30.0% Equity market value (A\$m)	97.5	
Dividend payout ratio (%)	62.2%	64.3%	60.1%	60.1%	60.0%	<b>WACC</b>		<b>14.4%</b> Diluted no. of shares (m)	23.2	
						<b>Market Cap</b>		<b>A\$83.5m</b>	<b>DCF valuation</b>	<b>\$4.20</b>
<b>Cash flow statement</b>	<b>2009A</b>	<b>2010A</b>	<b>2011F</b>	<b>2012F</b>	<b>2013F</b>	<b>Multiples at current share price</b>	<b>2009A</b>	<b>2010A</b>	<b>2011F</b>	<b>2012F</b>
EBITDA	23.2	32.1	39.6	47.8	57.4	Enterprise value (A\$m)	102.6	112.0	128.7	139.8
Change in working capital	1.7	6.6	10.5	6.7	-0.8	EV/Sales (x)	2.9	2.3	2.2	2.0
Net interest (pd)/rec	-2.2	-2.3	-4.0	-4.2	-5.0	EV/EBITDA (x)	4.4	3.5	3.2	2.9
Taxes paid	-2.1	-1.2	-3.1	-3.9	-5.0	EV/EBIT (x)	14.8	10.7	9.0	8.1
<b>Cash flow from ops (1)</b>	<b>20.5</b>	<b>35.3</b>	<b>43.0</b>	<b>46.4</b>	<b>46.6</b>	PE (x)	20.6	12.9	11.6	9.8
Capex (2)	-41.2	-50.8	-61.8	-71.0	-85.8	Yield (%)	3.9	5.0	5.2	6.1
Asset disposals/(acquisitions)(3)	7.4	12.0	16.6	21.0	24.2					
<b>Cash flow from invest (4)</b>	<b>-33.7</b>	<b>-38.8</b>	<b>-45.3</b>	<b>-50.0</b>	<b>-61.6</b>	<b>Multiples at valuation</b>	<b>2009A</b>	<b>2010A</b>	<b>2011F</b>	<b>2012F</b>
Incr/(decr) in equity	-0.3	6.4	1.8	3.1	4.0	EV/EBITDA (x)	4.9	3.9	3.6	3.2
Incr/(decr) in debt	16.2	0.3	10.0	3.0	13.0	EV/EBIT (x)	16.2	11.9	10.0	9.0
Ordinary dividend paid	-1.8	-2.2	-3.5	-4.7	-6.0	PE (pre-goodwill) (x)	18.7	15.0	13.6	11.4
Other financing cash flow	0.0	-0.1	0.0	0.0	0.0					
<b>Cash flow from fin (5)</b>	<b>14.2</b>	<b>4.5</b>	<b>8.3</b>	<b>1.5</b>	<b>11.0</b>	<b>Comparable company data (x)</b>	<b>2009A</b>	<b>2010A</b>	<b>2011F</b>	<b>2012F</b>
Incr/(decr) cash (1+4+5)	1.0	0.9	6.1	-2.1	-4.0	Thom Group				
<b>Equity FCF (1+2+3)</b>	<b>-13.2</b>	<b>-3.6</b>	<b>-2.2</b>	<b>-3.6</b>	<b>-15.1</b>	EV/EBITDA	12.6	9.4	7.7	5.6
						EV/EBIT	13.7	9.9	8.1	6.2
<b>Balance sheet</b>	<b>2009A</b>	<b>2010A</b>	<b>2011F</b>	<b>2012F</b>	<b>2013F</b>	PE	17.7	14.8	10.5	8.7
Cash & deposits	0.5	1.4	7.6	5.4	1.4	EPS growth	24%	19%	41%	21%
Trade debtors	3.1	3.7	4.4	5.2	6.2	ThinkSmart				
Inventory	0.0	1.7	2.1	2.5	2.9	EV/EBITDA	7.4	5.4	5.0	4.2
Investments	6.2	2.3	1.1	0.0	0.0	EV/EBIT	9.5	6.7	5.8	4.8
Intangibles	0.8	0.5	0.5	0.5	0.5	PE	9.6	8.2	7.7	6.9
Fixed assets	57.4	73.5	94.5	115.0	141.1	EPS growth	57%	18%	6%	12%
Other assets	2.1	2.6	2.6	2.6	2.6	<b>Growth ratios</b>	<b>2009A</b>	<b>2010A</b>	<b>2011F</b>	<b>2012F</b>
<b>Total assets</b>	<b>70.0</b>	<b>85.7</b>	<b>112.8</b>	<b>131.2</b>	<b>154.7</b>	Sales growth	20.0%	41.6%	20.8%	18.2%
Short-term borrowings	0.0	0.0	5.3	5.6	6.9	Operating cost growth	44.5%	47.8%	16.3%	12.9%
Trade payables	12.2	15.7	27.3	35.2	35.8	EBITDA growth	10.6%	38.5%	23.2%	20.8%
Long-term borrowings	42.1	42.7	47.4	50.1	61.8	EBIT growth	-5.4%	50.2%	36.3%	21.0%
Provisions	0.5	0.4	0.4	0.4	0.4	NPAT growth	36.4%	53.2%	30.5%	27.3%
Other liabilities	0.1	2.0	2.0	2.0	2.0	EPS growth	28.6%	24.4%	10.6%	18.8%
<b>Total liabilities</b>	<b>54.9</b>	<b>60.8</b>	<b>82.4</b>	<b>93.2</b>	<b>106.9</b>	DPS growth	10.2%	28.6%	3.3%	18.8%
Share capital	9.4	16.9	22.4	30.1	39.9	<b>Operating performance</b>	<b>2009A</b>	<b>2010A</b>	<b>2011F</b>	<b>2012F</b>
Other reserves	0.0	0.0	0.0	0.0	0.0	EBITDA margin (%)	66.7	65.2	66.5	68.0
Retained earnings	5.7	7.9	7.9	7.9	7.9	EBIT margin (%)	20.0	21.2	23.9	24.5
Other equity	0.0	0.0	0.0	0.0	0.0	Net profit margin (%)	10.3	11.2	12.1	13.0
<b>Total equity</b>	<b>15.1</b>	<b>24.9</b>	<b>30.4</b>	<b>38.0</b>	<b>47.8</b>	Return on Equity (%)	23.8	22.1	23.6	24.1
						Invested capital	58.4	72.7	86.0	94.9
<b>Gearing ratios</b>	<b>2009A</b>	<b>2010A</b>	<b>2011F</b>	<b>2012F</b>	<b>2013F</b>	ROIC (%)	11.9	14.4	16.5	18.1
Net debt (A\$m)	41.6	41.3	45.2	50.3	67.3					
Net debt/ equity (%)	275.3	166.0	148.7	132.3	140.9					
Net debt/ fixed assets (%)	72.5	56.2	47.8	43.7	47.7					
Net debt/ EBITDA (x)	1.8	1.3	1.1	1.1	1.2					
EBIT interest cover (x)	2.3	3.6	3.6	4.1	4.4					

Source: Company data and RBS Morgans estimates



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SIV - RBS Morgans Corporate Limited was the Underwriter to the Silver Chef Limited dividend reinvestment plan in September 2010 and received fees in this regard.

#### RECOMMENDATION STRUCTURE

For a full explanation of the recommendation structure, refer to our website at [https://www.rbsmorgans.com/research\\_disclaimer](https://www.rbsmorgans.com/research_disclaimer)

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