

22 August 2011

Silver Chef

Growth continuing to heat up

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.**

SIV's FY11 NPAT of A\$6.7m, up 28% on pcp, hit the bottom end of guidance. The group's unique market position and business model continues to perform well in tough economic conditions. We believe earnings momentum will continue, Buy.

Key Forecasts

	FY10A	FY11A	FY12F	FY13F	FY14F	
Price A\$3.00	EBITDA (A\$m)	32.1	40.5	51.1	63.5	76.3
	Net Profit After Tax (A\$m)	5.2	6.7	8.6	10.4	12.8
	Net Profit After Tax growth (%)	45.2	28.3	28.4	20.5	23.3
Price Target A\$3.80 (from A\$4.20)	EPS (¢)	28.0	29.7	35.0	39.6	45.6
	EPS Growth (%)	24.4	6.2	17.7	13.2	15.3
Market Cap A\$69m	Dividend Per Share (¢)	18.0	20.0	22.7	25.7	29.7
	Dividend Yield (%)	6.0	6.7	7.6	8.6	9.9
	Normalised PE (x)	10.7	10.1	8.6	7.6	6.6
SIV110822	PE (x) at price target	13.6	12.8	10.9	9.6	8.3
	EV/EBITDA (x)	3.1	2.9	2.6	2.4	2.1

Source: Company data; RBS Morgans estimates

year to Jun, fully diluted

FY11 result – strong underlying growth

SIV reported FY11 NPAT of A\$6.7m, up 28.3% from A\$5.2m (re-stated) in the pcp and in line with guidance. EPS of 29.7cps (up 11.7%) slightly missed guidance of 31.2cps, however was impacted by A\$1m (or 0.5cps) of one-off items and dilution from SIV's expanded capital base. One-off items included: A\$336k write-off of unamortised bank facility costs; A\$376k of derivative revaluations; and A\$303k impairment of investment properties held on balance sheet. Management stated the company is in the process of divesting these properties. Revenue growth of 27.6% to A\$62.9m was achieved on total rental assets under management growth of 29.1% (to A\$141.2m). SIV financed A\$67.3m of new assets, up 28% on pcp. Of this, strong growth was recorded from the GoGetta division with equipment acquisitions up 71% to A\$24.6m. A final dividend of 11cps fully franked was declared, up 10% on the pcp.

Outlook – strong growth momentum set to continue

Management stated the business is well positioned to continue strong growth in FY12, benefitting from 75% of budgeted revenue already contracted. Further growth is expected from the GoGetta division which is now gaining traction (FY11 assets acquired up 71% on pcp). SIV has also identified further opportunities for the Hospitality division - working directly with franchisee groups and potentially new business opportunities in New Zealand. We maintain our positive outlook, however have taken a more conservative approach to asset rental growth and funding assumptions. We lower our FY12 forecast NPAT to A\$8.6m and FY13 to A\$10.4m, down 6% and 12% respectively.

Investment view – Buy recommendation retained

Following changes to our forecasts, our DCF-based valuation and price target has fallen to A\$3.80ps (from A\$4.20ps). We believe SIV's unique market position in hospitality equipment financing, sound risk controls and growth options through the GoGetta division bode well for continued strong growth. Despite relatively tough macro conditions, SIV's recurring earnings base sets a strong platform for the year ahead. Trading on 8.6x FY12 PE, Buy maintained.

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FY11 result

Table 1 : FY11 result summary

	FY10A	1H11A	2H11A	FY11A	% Change on pcp
Total revenue (A\$m)	49.3	30.2	32.6	62.7	27.2%
EBITDA (A\$m)	32.1	19.5	21.1	40.5	26.1%
PBT (A\$m)	7.5	4.2	5.5	9.7	29.4%
Reported profit (A\$m)	5.2	3.1	3.6	6.7	28.3%
Reported EPS (cps)	26.6	13.7	16.0	29.7	11.8%
DPS (cps)	18.0	9.0	11.0	20.0	11.1%
Operating cash flow	35.3	20.0	23.5	43.5	23.3%
PP&E	74.1	87.5	8.2	95.8	29.2%
Payments for PP&E	50.8	36.8	30.4	67.3	32.3%

Source: Company data, RBS Morgans forecasts

- Profit & Loss** - SIV reported FY11 NPAT of A\$6.7m, up 28.3% from A\$5.2m (re-stated) in the pcp and in line with guidance. EPS of 29.7cps (up 11.7%) slightly missed guidance of 31.2cps, however was impacted by A\$1m (or 0.5cps) of one-off items and dilution from SIV's expanded capital base (full year impact of SIV's capital raising in October 2009 and DRP stock issue). One-off items included: A\$336k write-off of unamortised bank facility costs; A\$376k of derivative revaluations (interest rate hedge); and A\$303k impairment of investment properties held on balance sheet. Revenue growth of 27.6% to A\$62.9m was achieved with total rental assets under management up 29.1% to A\$141.2m.
- Margins** - EBITDA margins remain strong, falling just 60bp including one-off's to 64.6%. Slightly lower depreciation saw EBIT margin improvement to 22.1%, up 90bp. We forecast margins to remain relatively stable in FY12.
- Balance sheet** - Net rental assets under management (at cost) gained 29% to A\$141.3m. Net debt rose to A\$50.3m, up from A\$41.3m, to finance growth in the asset base (above funds from operations). Net debt/total assets reduced to 52.5% (from 55.8%) and we remain comfortable with EBIT interest cover at 3.3x given the debt funded nature of the model (and appropriate risk and asset recycling measures). SIV's banking facility (A\$74.7m total facility) expires August 2013.
- Cash flow** - operating cash flow was strong, up 23% on pcp to A\$43.5m. Rental assets acquired of A\$67.2m where funded 86% from internal cash flows (operating cash flows and asset disposals).
- Dividend** - SIV declared a final dividend of 11cps fully franked, taking the FY11 DPS to 20cps (up 11.1%). SIV's payout ratio of 67% is within management's previous stated range of 60-70% of reported EPS.

Divisional comments

- Hospitality (Silverchef)** – acquisitions grew 18% to A\$45.4m with assets under management up 20% to A\$108.6m. SIV experienced a strong start to its franchise division initiative, entering into a business agreement with Retail Food Group.
- GoGetta** – acquisitions grew 71% to A\$24.2m with assets under management also up 71% to A\$32.6m. The division is now showing evidence of traction and continues to finance trailers, point of sale systems and gym equipment.

Outlook and guidance

Management provided no formal guidance however stated the business is well positioned for growth across both divisions. The Hospitality division is identifying further hospitality avenues, ie Hotels, and will also seek opportunities with franchise operators in New Zealand. The GoGetta division is growing from a low base and SIV has now gained confidence and increased reputation in a number of sectors. Despite challenging conditions for small business operators, we believe the SIV model and product offering is well placed to provide funding solutions for start up enterprises.

Changes to forecasts

Table 2 outlines our changes to forecasts. We have made changes to our asset acquisition assumptions and funding mix leading to a decrease in FY12 forecast NPAT of 6%. Our FY12 DPS increases to 22.7cps and is based on a 65% payout ratio (from 60% previously).

Table 2 : Changes to forecasts

A\$m	FY12F old	FY12F new	% chg	FY13F old	FY13F new	% chg
Revenue	70.4	78.6	12%	83.5	97.7	17%
EBITDA	47.8	51.1	7%	57.4	63.5	11%
EBIT	17.2	17.1	-1%	21.8	20.5	-6%
Net profit	9.1	8.6	-6.0%	11.8	10.4	-12%
Normalised EPS (c)	36.8	35.0	-4.9%	44.0	39.6	-10%
Dividend per share (c)	22.1	22.7	3%	26.4	25.7	-3%

Source: RBS Morgans forecasts

Valuation and price target – Buy, A\$3.80 price target

Following changes to our forecasts, our DCF-based valuation and price target has fallen to A\$3.80ps (from A\$4.20ps). At our target price, SIV would trade on a FY12 PE of 10.9x. We believe SIV's unique market position in hospitality equipment financing, strong risk controls and growth options through the GoGetta division bode well for continued strong growth. Despite relatively tough macro conditions, SIV's recurring earnings base sets a strong platform for the year ahead. Trading on 8.6x FY12 PE, Buy maintained.

Key downside risks include lower than forecast asset acquisitions, an unexpected spike in bad debts or arrears, further impairments on property assets and growth strategies not materialising as expected.

The key upside risk to our forecasts is higher than expected assets financed.

Company overview

SIV is an equipment finance business established in 1986 and listed on the ASX in May 2005. It was founded by Allan English and is focussed on providing long term rentals to small-to-medium enterprise. The SilverChef brand is best known for its catering proposition where it provides rental of core business assets to start-up and established restaurants. Management estimate that 70% of all new clients are existing businesses which are growing and therefore need to expand their asset base. More recently SIV launched its GoGetta business which provides equipment financing for commercial purposes e.g. builders renting equipment trailers.

SIV's typical customer is a small to medium business owner/operator. Some of the better known customer brands include: Subway; Dominos Pizza; Eagle Boys Pizza; The Coffee Club; Nandos and Outback Jacks Bar and Grill.

Table 3 : Business lines and customer propositions

Brand	Target Market	Example	Proposition
SilverChef	Start-up and expanding restaurants	Pizza oven rental	Asset renting to minimise cash requirements in start-up businesses.
GoGetta	Broader commercial equipment market (~23% of AUM)	Trailer and compressor rental	Asset renting to minimise cash requirements in start-up businesses.

Source: Company data; RBS Morgans

SIV Financial summary

	AIFRS	AIFRS	AIFRS	AIFRS	AIFRS	Closing price	\$3.00	Price target	\$3.80		
Income statement	2010A	2011A	2012F	2013F	2014F	Valuation metrics					
Sales revenue	49.3	62.7	78.6	97.7	117.4	Preferred methodology	DCF	Valn (A\$)	\$3.80		
EBITDA	32.1	40.5	51.1	63.5	76.3	DCF valuation inputs					
Depreciation and amortisation	21.7	26.7	34.0	43.0	52.5	Rf	5.25%	10-year rate	5.25%		
EBIT	10.4	13.9	17.1	20.5	23.8	Rm-Rf	6.00%	Margin	2.0%		
Net interest expense	2.9	4.1	4.8	5.7	5.6	Beta	2.12	Kd	4.73%		
Pre-tax profit	7.5	9.7	12.3	14.8	18.2	CAPM (Rf+Beta(Rm-Rf))	18.0%	Ke	14.0%		
Income tax expense	2.3	3.0	3.7	4.4	5.5	E/EV*Ke+D/EV*Kd(1-t)		NPV cash flow (A\$m)	155.1		
NPAT	5.2	6.7	8.6	10.4	12.8	Equity (E/EV)		20.0% Minority interest (A\$m)	0.0		
Earnings Per Share (c)	28.0	29.7	35.0	39.6	45.6	Debt (D/EV)		80.0% Net debt (A\$m)	61.6		
EPS growth (%)	24.4%	6.2%	17.7%	13.2%	15.3%	Interest rate		4.73% Investments (A\$m)	0.0		
Dividend per share (c)	18.0	20.0	22.7	25.7	29.7	Tax rate (t)		30.0% Equity market value (A\$m)	93.4		
Dividend payout ratio (%)	64.3%	67.3%	64.9%	64.9%	65.1%	WACC		14.4% Diluted no. of shares (m)	24.6		
						Market Cap	A\$73.7m	DCF valuation	\$3.80		
Cash flow statement	2010A	2011A	2012F	2013F	2014F	Multiples at current share price	2010A	2011A	2012F	2013F	2014F
EBITDA	32.1	40.5	51.1	63.5	76.3	Enterprise value (A\$m)	100.3	117.8	135.3	150.0	161.0
Change in working capital	6.6	10.1	5.6	15.6	10.9	EV/Sales (x)	2.0	1.9	1.7	1.5	1.4
Net interest (pd)/rec	-2.3	-4.1	-4.8	-5.7	-5.6	EV/EBITDA (x)	3.1	2.9	2.6	2.4	2.1
Taxes paid	-1.2	-3.0	-3.7	-4.4	-5.5	EV/EBIT (x)	9.6	8.5	7.9	7.3	6.8
Cash flow from ops (1)	35.3	43.5	48.2	69.0	76.2	PE (x)	10.7	10.1	8.6	7.6	6.6
Capex (2)	-50.8	-67.2	-80.7	-103.8	-114.0	Yield (%)	6.0	6.7	7.6	8.6	9.9
Asset disposals/(acquisitions)(3)	12.0	15.4	21.3	25.7	33.1						
Cash flow from invest (4)	-38.8	-51.8	-59.4	-78.1	-81.0	Multiples at valuation	2010A	2011A	2012F	2013F	2014F
Incr/(decr) in equity	6.4	3.5	4.1	5.1	6.4	EV/EBITDA (x)	3.6	3.4	3.0	2.7	2.4
Incr/(decr) in debt	0.3	8.9	11.0	10.0	5.0	EV/EBIT (x)	11.1	9.8	9.1	8.3	7.7
Ordinary dividend paid	-2.2	-3.4	-4.2	-5.9	-7.2	PE (pre-goodwill) (x)	13.6	12.8	10.9	9.6	8.3
Other financing cash flow	-0.1	-0.6	0.0	0.0	0.0						
Cash flow from fin (5)	4.5	8.4	10.9	9.2	4.2						
Ino/(decr) cash (1+4+5)	0.9	0.1	-0.3	0.1	-0.6						
Equity FCF (1+2+3)	-3.6	-8.3	-11.2	-9.1	-4.8	Comparable company data (x)	2010A	2011A	2012F	2013F	2014F
Balance sheet	2010A	2011A	2012F	2013F	2014F	Thorn Group					
Cash & deposits	1.4	1.5	1.2	1.3	0.7	EV/EBITDA	8.7	7.2	5.2	4.9	4.5
Trade debtors	3.7	3.4	4.1	5.1	6.1	EV/EBIT	9.2	7.5	5.8	5.4	4.8
Inventory	1.7	1.5	2.7	3.4	4.1	PE	13.7	9.7	8.0	7.3	6.4
Investments	2.3	1.6	0.4	0.4	0.4	EPS growth	19%	41%	21%	10%	14%
Intangibles	0.5	0.4	0.5	0.5	0.5	ThinkSmart					
Fixed assets	74.1	95.8	122.3	157.4	185.8	EV/EBITDA	3.6	4.4	3.2	1.8	1.6
Other assets	2.1	2.6	2.6	2.6	2.6	EV/EBIT	4.5	5.0	3.6	1.9	1.8
Total assets	85.8	106.7	133.9	170.7	200.3	PE	6.0	7.6	5.5	3.7	3.6
Short-term borrowings	0.1	1.8	6.3	7.3	7.8	EPS growth	18%	-20%	38%	48%	3%
Trade payables	16.4	21.1	28.6	45.9	58.6						
Long-term borrowings	42.7	50.1	56.6	65.6	70.1	Growth ratios	2010A	2011A	2012F	2013F	2014F
Provisions	0.3	0.6	0.6	0.6	0.6	Sales growth	41.6%	27.2%	25.3%	24.3%	20.2%
Other liabilities	2.0	2.0	2.0	2.0	2.0	Operating cost growth	47.8%	29.3%	24.0%	24.3%	20.2%
Total liabilities	61.4	75.6	94.1	121.4	139.1	EBITDA growth	38.5%	26.1%	26.0%	24.3%	20.2%
Share capital	16.9	21.2	29.7	39.2	51.2	EBIT growth	50.2%	32.7%	23.1%	20.1%	16.2%
Other reserves	0.0	0.0	0.0	0.0	0.0	NPAT growth	45.2%	28.3%	28.4%	20.5%	23.3%
Retained earnings	7.5	10.0	10.0	10.0	10.0	EPS growth	24.4%	6.2%	17.7%	13.2%	15.3%
Other equity	0.0	0.0	0.0	0.0	0.0	DPS growth	28.6%	11.1%	13.5%	13.2%	15.6%
Total equity	24.4	31.1	39.6	49.2	61.1	Operating performance	2010A	2011A	2012F	2013F	2014F
Gearing ratios	2010A	2011A	2012F	2013F	2014F	EBITDA margin (%)	65.2	64.6	65.0	65.0	65.0
Net debt (A\$m)	41.3	50.3	61.6	71.5	77.1	EBIT margin (%)	21.2	22.1	21.7	21.0	20.3
Net debt/ equity (%)	169.4	161.7	155.5	145.5	126.1	Net profit margin (%)	10.6	10.7	10.9	10.6	10.9
Net debt/ fixed assets (%)	55.8	52.5	50.4	45.5	41.5	Return on Equity (%)	21.4	21.5	21.7	21.1	20.9
Net debt/ EBITDA (x)	1.3	1.2	1.2	1.1	1.0	Invested capital	72.4	91.5	106.8	136.3	149.2
EBIT interest cover (x)	3.6	3.3	3.6	3.6	4.3	ROIC (%)	14.4	15.1	16.0	15.0	16.0

Source: Company data and RBS Morgans estimates



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