

Silver Chef Limited

Doing well despite the world at large



Wilson HTM
INVESTMENT GROUP

22 August 2011

\$3.00

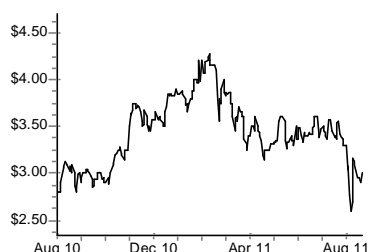
BUY

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Price Performance



Security/Capital Details

ASX Code	SIV
Market Cap	\$70 M
Issued Shares	24.0 M
Avg Mth T'over	0.32 M
12 Mth High – Low	\$4.28 - \$2.60

Key Data/Ratios – FY 2012

EBITDA / Sales	68.7%
EBIT / Sales	26.2%
Net Debt / Equity	166.3%
Interest Cover	2.9 x
ROE	23.6%
EPS Growth	10.5%
PEG Ratio	x
NTA / Share	\$ 1.48
12 Mth Price Target	\$ 3.40

Important Disclosure

Wilson HTM Corporate Finance Ltd acted as Manager of the October 2009 placement and advisor in relation to the Non-Renounceable Entitlement by Silver Chef Limited and earned fees for acting in this capacity

Recommendation

Silver Chef reported FY11 net profit after tax of \$6.7m which represents 28.3% growth on the pcp (FY10: \$5.2m). The result was slightly below our forecast of \$7.1m and was at the lower end of company guidance of \$6.7m to \$7.0m. The Board declared a final dividend of 11.0 cents per share bringing the full year dividend to 20.0 cents per share. We have slightly lowered our forecasts in FY12 by 7% to NPAT of \$8.2m. We have reduced our share price target based on this reduced forecast and weaker market conditions. We now have a share price target of \$3.40 based on a PER of 10 times FY12. We retain our BUY recommendation.

Key Points

- Silver Chef reported its full year FY11 results today with net profit after tax of \$6.7m which represents 28.3% growth over the pcp (FY10: \$5.2m). The result was slightly below our forecast of \$7.1m and represented the lower end of company guidance of \$6.7m - \$7.0m. Earnings per share increased to 29.7 cents per share (FY10: 28.0cps). The Board declared a final dividend of 11.0 cents per share, bringing the full year dividend to 20.0 cents per share. This was slightly below our forecast of 22.0 cents per share.
- Rental income for the two divisions, Hospitality and Go Getta, increased 27.8% to \$62.7m (FY10: \$49.1m). The hospitality division recorded solid rental revenue growth of 17.2% to \$49.2m. The Go Getta division continues to deliver with rental revenues increasing 91.0% to \$13.5m. The company experienced its highest volumes of rental application in February following an incentive package of 8 weeks rent free that was launched after the January floods in Queensland.
- The combined rental assets under management increased 29.1% to \$141.2m from \$109.4m in FY10. The higher level of rental assets results in depreciation charges increasing to \$26.7m (FY10: \$21.7m). Management previously commented that the flooding and other natural disasters in Queensland earlier in the year had no material impact on asset write offs.
- Silver Chef continued to achieve strong operating cash flows with the business generating \$43.4m in operating cash flow, up 23.3% from \$35.2m in FY10. The \$74.7m CBA facility arrangement made in August 2010 is likely to be sufficient for the company for a further 2 years. We believe the company may conduct an equity raising before this time. We have not included this in our forecasts at this stage. Management commented that this facility, combined with the strong operating cash flow, provided the company with the ability to grow and acquire additional rental assets for both divisions.
- We have reduced our net profit after tax forecasts for FY12 by 7% to \$8.2m. We have lowered our dividend forecast for FY12 by 9% to 24.0 cents per share.
- Silver Chef has produced another solid result and has continued to demonstrate the strength of the business model. We have reduced our share price target based on revised forecasts and the weak market conditions to \$3.40 based on a PER of 10 times FY12. We retain our BUY recommendation.

June	NPAT (Rep) \$M	EPS (Norm) c	EPS Growth %	PER x	P/CF x	EV/EBITDA x	DPS c	Div Yld %	Franking %
2011a	6.7	31.0	5.3	9.7	1.6	2.9	20.0	6.7	100
2012e	8.2	34.2	10.5	8.8	1.8	2.9	24.0	8.0	100
2013e	9.8	39.2	14.6	7.7	1.7	2.9	28.0	9.3	100
2014e	11.4	44.2	12.8	6.8	1.5	1.7	30.0	10.0	100



Result Review

June year-end		FY11	FY10	% Chg
Sales revenue	\$M	62.9	49.4	28%
EBITDA	\$M	40.8	32.1	27%
EBITDA margin	%	64.9%	65.1%	0%
EBIT	\$M	13.9	10.4	33%
EBIT margin	%	22.0%	21.2%	4%
Pretax profit	\$M	9.7	7.5	29%
NPAT	\$M	6.7	5.5	22%
NPAT (reported)	\$M	6.7	5.5	22%
EPS	cps	29.7	28.0	6%
DPS	cps	20.0	18.0	11%
ROE	%	23.9	27.5	(13%)
Operating Cash Flow	\$M	43.5	35.3	23%
Interest cover	x	9.8	10.9	(10%)
Net debt	\$M	50.3	41.3	22%
Effective tax rate	%	31.1	26.7	17%

The earnings per share for FY11 increased 6% to 29.7 cents per share however this reflects the increased capital base from the previous placement and rights issue and the dividend reinvestment plan. Since listing in 2005 the company's earnings per share have grown at a compound annual growth rate of 20%.

Silver Chef's EBITDA and EBIT margins remained stable at about 65% and 22.0% respectively.

The company's net debt position increased 22% to \$50.3m with interest cover reducing slightly to below 10 times. The current CBA funding facility is expected to be sufficient for the company for a further two years. It is likely the company will raise equity before this time. We have not included this in our forecasts at this stage.

The company's effective tax rate increased from 26.7% in FY10 to 31.1% in FY11. This was due to a change in the accounting for tax loss positions by the company's auditors. We do not expect the effective tax rate to reflect this higher level going forward.

The Hospitality division of Silver Chef continued to perform well with rental revenues increasing 17.2% to \$49.2m and rental assets under management increasing to \$108.6m from \$90.3m in FY10. The company is targeting growth in this division through new sectors including hotels and casinos as well as continuing to develop the number of franchise customers. In FY11, the Hospitality business generated \$4.4m in rental revenue from the franchise sector. In addition to this continued organic growth the company has registered a new entity in New Zealand to expand its customer base in this geographic area.

The Go Getta business performed strongly in its third year of operations with rental revenues increasing 91.0% to \$13.5m. Rental assets under management increased from \$19.1m in FY10 to \$32.6m in FY11. Management commented that they look to grow this division by increasing its market share in the sectors it is currently operating. The average size lend size in the division has declined to about \$20,000 and the average contract length has increased to just over 12 months.

Silver Chef produced another solid result and continues to deliver a track record of earnings growth. We have made minor adjustments to our forecasts by reducing our FY12 NPAT by 7% to \$8.2m. We have also slightly lowered our full year FY12 dividend to 24.0 cents per share from 26.5 cents per share. We have included a dividend reinvestment plan in our forecasts.

Based on revised forecasts and current weak market conditions we have reduced our 12 month target price for Silver Chef to \$3.40 per share based on a PER of 10 times FY12. We retain our BUY recommendation.

Silver Chef Limited (SIV : \$3.00)

INVESTMENT FUNDAMENTALS

Yr Ending June	2010A	2011A	2012E	2013E	2014E
EPS Reported (c)	28.0	29.7	34.2	39.2	44.2
EPS Normalised (c)	29.4	31.0	34.2	39.2	44.2
EPS Growth (%)	N/A	5.3%	10.5%	14.6%	12.8%
PER Normalised (x)	10.2	9.7	8.8	7.7	6.8
DPS (c)	18.0	20.0	24.0	28.0	30.0
Payout (%)	64.2%	67.2%	70.2%	71.5%	67.8%
Yield (%)	6.0%	6.7%	8.0%	9.3%	10.0%
Franking (%)	100%	100%	100%	100%	100%

VALUATION DATA

Yr Ending June	2010A	2011A	2012E	2013E	2014E
EV / EBITA (x)	9.9	8.5	7.6	7.1	3.8
EV / EBITDA (x)	3.3	2.9	2.9	2.9	1.7
CFPS (c)	179.5	193.2	171.3	175.9	198.0
Price / CF	1.7	1.6	1.8	1.7	1.5
Book Value / Share (\$)	1.1	1.3	1.6	1.9	
Price / Book (x)	2.6	2.2	1.9	1.6	

PROFIT & LOSS (\$m)

Yr Ending June	2010A	2011A	2012E	2013E	2014E
Sales Revenue	49.4	62.9	68.3	75.8	89.5
EBITDA	32.1	40.8	46.9	53.0	59.4
Depreciation	21.4	26.7	29.0	31.4	33.9
EBITA	10.7	14.1	17.9	21.6	25.6
Amortisation	0.3	0.3	0.0	0.0	0.0
EBIT	10.4	13.9	17.9	21.6	25.5
Net Interest Expense	2.9	4.1	6.2	7.6	9.2
Pre-tax Profit	7.5	9.7	11.7	14.0	16.3
Tax	2.0	3.0	3.5	4.2	4.9
Tax rate (%)	26.7%	31.1%	30.0%	30.0%	30.0%
Minorities / pref divs	0.0	0.0	0.0	0.0	0.0
Equity accounted NPAT	0.0	0.0	0.0	0.0	0.0
Net Profit	5.5	6.7	8.2	9.8	11.4
Abn's / Extraord's	0.0	0.0	0.0	0.0	0.0
Reported Net Profit	5.5	6.7	8.2	9.8	11.4
Revenue Growth (%)	N/A	27.5%	8.5%	10.9%	18.1%
EBIT Growth (%)	N/A	32.7%	29.2%	20.8%	18.1%
NPAT Growth (%)	N/A	21.6%	22.5%	19.6%	16.5%

PROFITABILITY RATIOS

Yr Ending June	2010A	2011A	2012E	2013E	2014E
EBIT / Sales (%)	21.2%	22.0%	26.2%	28.5%	28.5%
ROA (%)	N/A	14.6%	15.3%	15.3%	14.8%
ROE (%)	N/A	23.9%	23.6%	23.4%	22.8%
ROFE (%)	N/A	19.2%	19.5%	19.1%	18.4%

INTERIMS (\$m)

Half Yr	Dec 10	Jun 11	Dec 11	Jun 12	Dec 12
Yr Ending June	1H A	2H A	1H E	2H E	1H E
Sales Revenue	29.4	33.6	32.0	36.3	36.1
EBIT	6.4	7.5	8.5	9.4	9.8
Net Profit	3.1	3.6	3.9	4.3	4.4
EBIT / Sales (%)	21.7%	22.3%	26.5%	25.9%	27.1%

BALANCE SHEET (\$m)

Yr Ending June	2010A	2011A	2012E	2013E	2014E
Cash	1.4	1.5	2.5	2.7	1.9
Receivables	3.7	3.4	3.7	3.1	2.6
Inventories	0.0	0.0	0.0	0.0	0.0
Other	2.0	1.8	0.8	0.8	0.8
Current Assets	7.1	6.7	6.9	6.6	5.3
Net PPE	73.5	95.8	118.4	146.1	179.6
Investments	2.3	1.6	1.6	1.6	1.6
Intangibles	0.5	0.4	0.4	0.4	0.4
Other	2.3	2.3	3.2	3.3	4.1
Non-current Assets	78.6	100.0	123.6	151.4	185.7
Total Assets	85.7	106.7	130.5	158.0	191.0
Current Payables	15.7	21.1	22.9	25.4	30.0
Current Debt	0.1	1.8	1.8	1.8	1.8
Non-Current Debt	42.7	50.1	64.1	80.1	98.1
Provisions	0.0	0.0	0.0	0.0	0.0
Other	2.3	2.7	3.7	5.0	6.8
Total Liabilities	60.8	75.6	92.4	112.2	136.6
Equity	16.9	21.2	25.7	30.6	35.4
Reserves	0.0	0.0	0.0	0.0	0.0
Retained Profits	7.9	10.0	12.4	15.3	19.0
Minorities	0.0	0.0	0.0	0.0	0.0
Total Equity	24.9	31.1	38.1	45.8	54.4
Total Funds Employed	66.2	81.4	101.5	125.0	152.3

LIQUIDITY & LEVERAGE RATIOS

Yr Ending June	2010A	2011A	2012E	2013E	2014E
Net Debt (Cash) (\$m)	41.3	50.3	63.4	79.1	97.9
Net Debt / Equity (%)	166.3%	161.7%	166.3%	172.7%	180.0%
Interest Cover (x)	3.6	3.3	2.9	2.8	2.8
Debt / CashFlow (x)	1.2	1.2	1.6	1.9	2.0

CASHFLOW (\$m)

Yr Ending June	2010A	2011A	2012E	2013E	2014E
EBIT	10.4	13.9	17.9	21.6	25.5
Dep'n and Amort'n	21.7	27.0	29.0	31.4	33.9
Net Int Rec'd (Paid)	-2.3	-3.7	-6.2	-7.6	-9.2
Tax Paid	-1.2	-3.5	-3.5	-4.2	-4.9
Dec / (Inc) W'kg Cap	0.0	0.0	0.0	0.0	0.0
Other	6.6	9.9	3.8	2.8	5.8
Operating Cash Flow	35.3	43.5	41.0	44.0	51.1
Capital Expenditure	-40.7	-67.2	-51.7	-59.1	-67.4
Asset Sales	0.0	0.0	0.0	0.0	0.0
Investments	1.8	15.4	0.0	0.0	0.0
Other Inv. Flows	0.0	0.0	0.0	0.0	0.0
Investing Cash Flow	-38.8	-51.8	-51.7	-59.1	-67.4
Equity Raised	6.4	3.5	4.6	4.8	4.8
Inc / (Dec) in Loans	0.3	9.0	14.0	16.0	18.0
Dividends Paid	-2.2	-3.4	-5.8	-6.9	-7.7
Other Fin. Flows	0.0	-0.6	0.0	0.0	0.0
Financing Cash Flow	4.5	8.4	12.8	13.9	15.2
Net Cash Flow	0.9	0.1	2.1	-1.1	-1.1



Recommendation Structure

BUY: Total return +10% or more over a 12 month period

HOLD: Total return expected to be between +10% to -10% over a 12-month period

SELL: Total return expected to be -10% or more over a 12 month period

TOTAL RETURN OR TSR = capital growth in share price + expected dividend yield in that period

Other definitions

CS Coverage Suspended. Wilson HTM Ltd has suspended coverage of this company.

NR Not Rated. The recommendation has been suspended temporarily. Such suspension is in line with Wilson HTM Investment Group Ltd policies in circumstances where Wilson HTM Corporate Finance Ltd is acting in an advisory capacity in a merger or strategic transaction involving the company and in certain other situations.

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Disclosure of Interest. Silver Chef Limited

The Directors of Wilson HTM Ltd advise that at the date of this report they and their associates have relevant interests in Silver Chef Limited. They also advise that Wilson HTM Ltd and Wilson HTM Corporate Finance Ltd A.B.N. 65 057 547 323 and their associates have received and may receive commissions or fees from Silver Chef Limited in relation to advice or dealings in securities. Some or all of Wilson HTM Ltd authorised representatives may be remunerated wholly or partly by way of commission.

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Regulatory Disclosures

Wilson HTM Corporate Finance Ltd acted as Manager of the October 2009 placement and advisor in relation to the Non-Renounceable Entitlement by Silver Chef Limited and earned fees for acting in this capacity.

Wilson HTM Investment Group Ltd and its related bodies corporates trades or may trade as principal in the securities that are subject of the research report.

Wilson HTM Corporate Finance Ltd has received compensation for corporate advisory services from this company, its subsidiaries or affiliates during the previous 12 months.

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