

Silver Chef Limited

Solid result, well disguised



Wilson HTM
INVESTMENT GROUP

21 February 2011

\$3.78

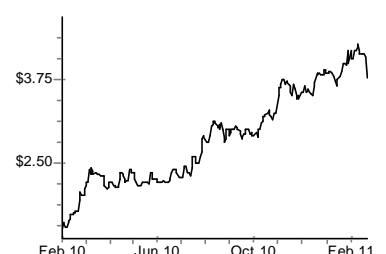
BUY

Andrew Dalziel

07 3212 1946

andrew.dalziel@wilsonhtm.com.au

Price Performance



Security/Capital Details

ASX Code	SIV
Market Cap	\$86 M
Issued Shares	22.6 M
Avg Mth T'over	0.32 M
12 Mth High – Low	\$4.28 - \$1.76

Key Data/Ratios – FY 2011

EBITDA / Sales	70.5%
EBIT / Sales	26.7%
Net Debt / Equity	161.6%
Interest Cover	3.0 x
ROE	25.2%
EPS Growth	6.1%
PEG Ratio	x
NTA / Share	\$ 1.26
12 Mth Price Target	\$ 4.02

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 Limited reported an interim NPAT of \$3.1m this compared with a \$3.2m result in the previous corresponding period and our forecast of \$3.4m. The result was deceptively strong considering this result included a \$0.3m loan establishment fee for the CBA line of credit established last year and there was a decline in the value of investment properties of \$0.22m in this year compared to the pcp. The tax rate also increased this year. The company's guidance and our forecasts remain unchanged. We have changed our recommendation to Buy following yesterdays price fall.

Key Points

- Silver Chef reported and interim NPAT of \$3.1m, this was virtually unchanged compared to the pcp result of \$3.2m. Our forecast was \$3.4m
- EBITDA rose by 22% from \$15.988m to \$19.476m.
- Operating cash flow was strong at \$19.955 compared to \$16.716m a rise of 19.3%.
- Pretax profits were virtually unchanged at \$4.231m compared to \$4.201m
- The result was influenced by a number of one offs. There was a \$0.3m loan establishment fee expensed in the half that related to the \$74m loan that was put in place last year with CBA. There was an adverse change in the valuation of investment of -\$0.22m. The investment properties are in the process of being sold and are not part of the core business. The tax rate in the reported period increased from 24.8% to 27.7% due to the absence of the investment allowance program put in place by the Federal Government in the previous financial year to stimulate investment.
- We calculate that these three factors had a drag on this result of about \$600-700/- at the pre tax level when compared to the previous corresponding period. Adding these adjustments back the actual operating performance was up by over 15%.
- The loss on sale of plant and equipment was an unusually high \$1.189m compared to \$0.547m an increase of over \$0.6m.
- Rental assets at book value grew from \$74.098m at the end of December 2009 to \$88.495m a rise of 18.8%. Rental assets at cost increased to \$127.21m a gain of 17% over the year. Hospitality and Go Getta both had good revenue growth growing 20 and 83% respectively.
- Earnings per share for the half was 13.8 cents compared to 17.8 cents following the equity issue last year. Dividend per share increased from 8 to 9 cents per share.
- Despite the natural disasters in eastern Australia the business remains robust and the company has maintained its NPAT guidance of \$6.7-\$7.0m.
- Our NPAT forecast of \$7.1m remains unchanged. We believe yesterdays reaction to the interim result presents a buying opportunity and have upgraded our recommendation to BUY.

June	NPAT (Rep) \$M	EPS (Norm) c	EPS Growth %	PER x	P/CF x	EV/EBITDA x	DPS c	Div Yld %	Franking %
2010a	5.5	29.4	21.6	12.8	2.1	3.9	18.0	4.8	100
2011e	7.1	31.2	6.1	12.1	2.4	3.4	22.0	5.8	100
2012e	8.8	36.6	17.2	10.3	2.3	3.4	26.5	7.0	100
2013e	10.7	39.9	9.1	9.5	2.3	1.5	29.0	7.7	100



June year-end		1H11a	1H10a	% Chg
Sales revenue	\$M	29.4	22.9	28%
EBITDA	\$M	19.5	16.0	22%
EBITDA margin	%	66.5%	70.2%	-5%
EBIT	\$M	6.3	5.7	11%
EBIT margin	%	21.6%	25.0%	-14%
Pretax profit	\$M	4.2	4.2	0%
NPAT	\$M	3.0	3.2	-4%
NPAT (reported)	\$M	3.0	3.2	-4%
EPS	cps	13.4	17.8	-24%
DPS	cps	9.0	8.0	13%
ROE	%	22.9	33.1	(31%)
Operating Cash Flow	\$M	20.0	16.7	19%
Interest cover	x	9.1	10.5	(13%)
Net debt	\$M	50.3	40.0	26%
Effective tax rate	%	27.9	24.8	13%

Silver Chef Limited (SIV : \$3.78)

INVESTMENT FUNDAMENTALS

Yr Ending June	2009A	2010A	2011E	2012E	2013E
EPS Reported (c)	22.5	28.0	31.3	36.6	39.9
EPS Normalised (c)	24.2	29.4	31.2	36.6	39.9
EPS Growth (%)	N/A	21.6%	6.1%	17.2%	9.1%
PER Normalised (x)	15.6	12.8	12.1	10.3	9.5
DPS (c)	14.0	18.0	22.0	26.5	29.0
Payout (%)	62.3%	64.2%	70.4%	72.4%	72.6%
Yield (%)	3.7%	4.8%	5.8%	7.0%	7.7%
Franking (%)	100%	100%	100%	100%	100%

VALUATION DATA

Yr Ending June	2009A	2010A	2011E	2012E	2013E
EV / EBITA (x)	14.5	11.5	9.0	8.3	3.5
EV / EBITDA (x)	4.4	3.9	3.4	3.4	1.5
CFPS (c)	128.5	179.5	156.9	161.3	161.7
Price / CF	2.9	2.1	2.4	2.3	2.3
Book Value / Share (\$)	0.9	1.1	1.4	1.6	
Price / Book (x)	4.0	3.3	2.7	2.4	

PROFIT & LOSS (\$m)

Yr Ending June	2009A	2010A	2011E	2012E	2013E
Sales Revenue	34.9	49.4	56.8	66.1	75.8
EBITDA	23.0	32.1	40.1	46.3	53.0
Depreciation	16.0	21.4	24.9	27.5	30.1
EBITA	7.0	10.7	15.2	18.8	22.9
Amortisation	0.3	0.3	0.0	0.0	0.0
EBIT	6.7	10.4	15.2	18.8	22.9
Net Interest Expense	2.8	2.9	5.1	6.2	7.6
Pre-tax Profit	3.9	7.5	10.1	12.6	15.3
Tax	0.3	2.0	3.0	3.8	4.6
Tax rate (%)	8.6%	26.7%	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	3.6	5.5	7.1	8.8	10.7
Abn's / Extraord's	0.0	0.0	0.0	0.0	0.0
Reported Net Profit	3.6	5.5	7.1	8.8	10.7
Revenue Growth (%)	N/A	41.4%	15.2%	16.2%	14.7%
EBIT Growth (%)	N/A	55.0%	45.4%	23.8%	21.8%
NPAT Growth (%)	N/A	53.2%	28.5%	24.8%	21.1%

PROFITABILITY RATIOS

Yr Ending June	2009A	2010A	2011E	2012E	2013E
EBIT / Sales (%)	19.3%	21.2%	26.7%	28.5%	30.2%
ROA (%)	N/A	13.6%	16.2%	16.2%	16.0%
ROE (%)	N/A	27.5%	25.2%	25.4%	25.3%
ROFE (%)	N/A	17.4%	20.5%	20.4%	19.9%

INTERIMS (\$m)

Half Yr	Dec 09	Jun 10	Dec 10	Jun 11	Dec 11
Yr Ending June	1H A	2H A	1H E	2H E	1H E
Sales Revenue	22.9	26.5	29.4	27.5	32.0
EBIT	5.7	4.7	6.4	8.8	9.3
Net Profit	3.2	2.3	3.1	4.0	4.5
EBIT / Sales (%)	25.0%	17.8%	21.7%	32.1%	29.1%

BALANCE SHEET (\$m)

Yr Ending June	2009A	2010A	2011E	2012E	2013E
Cash	0.5	1.4	1.3	1.5	1.1
Receivables	3.1	3.7	4.2	4.9	4.6
Inventories	0.0	0.0	0.0	0.0	0.0
Other	0.6	2.0	0.8	0.8	0.8
Current Assets	4.2	7.1	6.4	7.2	6.6
Net PPE	57.4	73.5	92.5	116.6	145.5
Investments	6.2	2.3	1.7	1.7	1.7
Intangibles	0.8	0.5	0.5	0.5	0.5
Other	1.5	2.3	3.1	3.5	3.9
Non-current Assets	65.8	78.6	97.7	122.4	151.7
Total Assets	70.1	85.7	104.1	129.6	158.3
Current Payables	12.2	15.7	18.1	21.1	24.1
Current Debt	0.0	0.1	0.1	0.1	0.1
Non-Current Debt	42.1	42.7	51.7	65.7	81.7
Provisions	0.0	0.0	0.0	0.0	0.0
Other	0.6	2.3	3.0	4.6	6.0
Total Liabilities	54.9	60.8	72.9	91.5	112.0
Equity	9.4	16.9	21.2	25.8	30.6
Reserves	0.0	0.0	0.0	0.0	0.0
Retained Profits	5.7	7.9	10.0	12.5	15.7
Minorities	0.0	0.0	0.0	0.0	0.0
Total Equity	15.1	24.9	31.2	38.2	46.3
Total Funds Employed	56.7	66.2	81.7	102.5	126.9

LIQUIDITY & LEVERAGE RATIOS

Yr Ending June	2009A	2010A	2011E	2012E	2013E
Net Debt (Cash) (\$m)	41.6	41.3	50.5	64.3	80.7
Net Debt / Equity (%)	275.5%	166.3%	161.6%	168.3%	174.3%
Interest Cover (x)	2.4	3.6	3.0	3.0	3.0
Debt / CashFlow (x)	2.0	1.2	1.5	1.7	1.9

CASHFLOW (\$m)

Yr Ending June	2009A	2010A	2011E	2012E	2013E
EBIT	6.7	10.4	15.2	18.8	22.9
Dep'n and Amort'n	16.3	21.7	24.9	27.5	30.1
Net Int Rec'd (Paid)	-2.2	-2.3	-5.1	-6.2	-7.6
Tax Paid	-2.1	-1.2	-4.1	-3.8	-4.6
Dec / (Inc) W'kg Cap	0.0	0.0	0.0	0.0	0.0
Other	1.9	6.6	4.6	2.6	2.4
Operating Cash Flow	20.5	35.3	35.5	38.9	43.3
Capital Expenditure	-32.7	-40.7	-43.9	-51.7	-59.1
Asset Sales	0.0	0.0	0.0	0.0	0.0
Investments	-1.0	1.8	0.6	0.0	0.0
Other Inv. Flows	0.0	0.0	0.0	0.0	0.0
Investing Cash Flow	-33.7	-38.8	-43.3	-51.7	-59.1
Equity Raised	-0.3	6.4	4.3	4.6	4.8
Inc / (Dec) in Loans	14.7	0.3	9.0	14.0	16.0
Dividends Paid	-1.8	-2.2	-5.0	-6.4	-7.5
Other Fin. Flows	-1.5	0.0	0.0	0.0	0.0
Financing Cash Flow	11.2	4.5	8.3	12.2	13.4
Net Cash Flow	-2.0	0.9	0.5	-0.6	-2.4



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.

Disclaimer

Whilst Wilson HTM Ltd believes the information contained in this communication is based on reliable information, no warranty is given as to its accuracy and persons relying on this information do so at their own risk. To the extent permitted by law Wilson HTM Ltd disclaims all liability to any person relying on the information contained in this communication in respect of any loss or damage (including consequential loss or damage) however caused, which may be suffered or arise directly or indirectly in respect of such information. Any projections contained in this communication are estimates only. Such projections are subject to market influences and contingent upon matters outside the control of Wilson HTM Ltd and therefore may not be realised in the future.

The advice contained in this document is general advice. It has been prepared without taking account of any person's objectives, financial situation or needs and because of that, any person should, before acting on the advice, consider the appropriateness of the advice, having regard to the client's objectives, financial situation and needs. Those acting upon such information without first consulting one of Wilson HTM Ltd investment advisors do so entirely at their own risk. This report does not constitute an offer or invitation to purchase any securities and should not be relied upon in connection with any contract or commitment whatsoever. If the advice relates to the acquisition, or possible acquisition, of a particular financial product – the client should obtain a Product Disclosure Statement relating to the product and consider the Statement before making any decision about whether to acquire the product. This communication is not to be disclosed in whole or part or used by any other party without Wilson HTM Ltd's prior written consent.

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.

In producing research reports, members of Wilson HTM Ltd Research may attend site visits and other meetings hosted by the issuers the subject of its research reports. In some instances the costs of such site visits or meetings may be met in part or in whole by the issuers concerned if Wilson HTM Ltd considers it is appropriate and reasonable in the specific circumstances relating to the site visit or meeting.

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.

BRISBANE
Ph: 07 3212 1333
Fax: 07 3212 1399

SYDNEY
Ph: 02 8247 6600
Fax: 02 8247 6601

MELBOURNE
Ph: 03 9640 3888
Fax: 03 9640 3800

GOLD COAST
Ph: 07 5509 5500
Fax: 07 5509 5599

DALBY
Ph: 07 4660 8000
Fax: 07 4660 4169

HERVEY BAY
Ph: 07 4197 1600
Fax: 07 4197 1699

TOWNSVILLE
Ph: 07 4725 5787
Fax: 07 4725 5104

Our web site: www.wilsonhtm.com.au