

# Silver Chef Limited

Solid growth continues



Wilson HTM  
INVESTMENT GROUP

19 August 2010

\$3.01

HOLD

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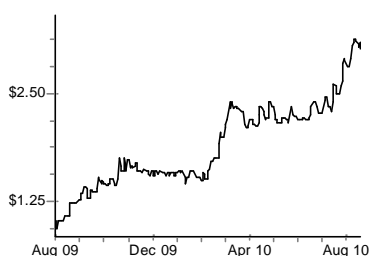
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## Price Performance



## Security/Capital Details

ASX Code	SIV
Market Cap	\$71 M
Issued Shares	23.2 M
Avg Mth T'over	0.16 M
12 Mth High – Low	\$3.13 - \$1.10

## Key Data/Ratios – FY 2011

EBITDA / Sales	69.0%
EBIT / Sales	26.7%
Net Debt / Equity	158.3%
Interest Cover	3.1 x
ROE	26.3%
EPS Growth	9.1%
PEG Ratio	x
NTA / Share	\$ 1.24
12 Mth Price Target	\$ 0.00
	\$ 3.05

## 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 will earn fees for acting in this capacity.

## Recommendation

Silver Chef reported FY10 NPAT of \$5.5m which represents 53% growth over pcp and compares to our forecast of \$5.3m. The result is particularly impressive considering it includes a number of non-operating charges including \$0.6m write-down on property assets. We have adjusted our EPS forecasts by 5% in FY11 and FY12 to consider the modestly better operating result. Our new price target is \$3.05 (prev \$2.90). The outlook is positive however the stock continues to look fairly priced. HOLD maintained.

## Key Points

- Silver Chef Limited reported net profit after tax of \$5.5m for the 12 months ending 30 June 2010 which represents 53% growth over the pcp. The result beat our forecast of \$5.3m even after a non-cash charge of \$0.56m relating to the mark-to-market valuation adjustment of some investment property that is for sale, loss on the sale of equipment of \$2.04m. EPS was 28.0 cents (in line with company guidance) with 24% growth reflecting dilution from the equity raising completed during the first half. A final dividend of 10 cents was declared taking the full year dividend to 18 cents (versus 14 cents for FY09) this represents a payout ratio of 64%.
- Rental income from the equipment book increased by 41% to \$49.1m reflecting strong growth from both the hospitality and newer GoGetta businesses. Solid customer demand continued into the second half as the traditional lenders continued to tighten their lending criteria in the niche financing segments where Silver Chef operates. EBIT/revenue margins increased by 193 bp to 21.2% (even after considering the non-operating charges) as some benefits of larger scale started to become evident. Bad debts as a percentage of total sales were 3.3% and the company has increased its focus on this area with additional staff added.
- Net interest charges increased only marginally on pcp at \$2.9m. The effective tax rate of 26.7% (compared to 8.6% pcp) was supported by Federal Government investment allowances.
- A highlight of the result was strong operating cash flows which increased by 72% to \$35.3m supported by the good operating result. Net capex was \$38.8m for FY10 with the hospitality division now recording \$90.4m in rental assets (+18% on pcp) while GoGetta now has \$19.1m (+142%) at cost values. Net debt was \$41.3m at the end of the period compared to \$40.0m at 31 December 2009 and \$41.6m at 30 June 2009, with growth also supported by the \$6.4m equity raised in October 2009. Documentation for the new 3-year \$75m debt facility with CBA has been finalised and should support growth over the medium term, along side a DRP (which we have assumed is underwritten).
- No formal guidance was provided however Silver Chef does expect to generate \$45m+ from equipment rental income. We have adjusted our EPS forecasts by 5% in FY11 and FY12 to consider the better than expected operating result for FY10 and momentum into FY11 and FY12. We have a new price target of \$3.05 (prev \$2.90) based on a FY11 PER of 9.5 times which is a 15% discount to the WHTM Small Industrials Index. Silver Chef is building a sound track record for delivering good earnings growth and their pipeline looks good. However the stock appears fairly valued at current price levels and we retain our HOLD recommendation.

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	10.2	1.7	3.3	18.0	6.0	100
2011e	7.4	32.1	9.1	9.4	1.9	3.0	20.0	6.6	100
2012e	9.0	36.6	13.9	8.2	1.9	3.0	23.0	7.6	100
2013e	10.7	39.1	6.9	0.0	0.0	1.5	26.0		100

**Result Review**

<b>June year-end</b>		<b>FY10</b>	<b>FY09</b>	<b>% Chg</b>
Sales revenue	\$M	49.4	34.9	41%
EBITDA	\$M	32.1	23.0	40%
EBITDA margin	%	65.1%	65.9%	-1%
EBIT	\$M	10.4	6.7	55%
EBIT margin	%	21.2%	19.3%	10%
Pretax profit	\$M	7.5	3.9	91%
NPAT	\$M	5.5	3.6	53%
NPAT (reported)	\$M	5.5	3.6	53%
EPS	cps	28.0	22.5	25%
DPS	cps	18.0	14.0	29%
ROE	%	27.5	25.4	9%
Operating Cash Flow	\$M	35.3	20.5	72%
Interest cover	x	10.9	8.2	33%
Net debt	\$M	41.3	41.6	(1%)
Effective tax rate	%	26.7	8.6	209%

## Silver Chef Limited (SIV : \$3.01)

## INVESTMENT FUNDAMENTALS

Yr Ending June	2009A	2010A	2011E	2012E	2013E
EPS Reported (c)	22.5	28.0	32.1	36.6	39.1
<b>EPS Normalised (c)</b>	<b>24.2</b>	<b>29.4</b>	<b>32.1</b>	<b>36.6</b>	<b>39.1</b>
EPS Growth (%)	N/A	21.6%	9.1%	13.9%	6.9%
<b>PER Normalised (x)</b>	<b>12.4</b>	<b>10.2</b>	<b>9.4</b>	<b>8.2</b>	<b>0.0</b>
DPS (c)	14.0	18.0	20.0	23.0	26.0
Payout (%)	<b>62.3%</b>	<b>64.2%</b>	<b>62.3%</b>	<b>62.9%</b>	<b>66.5%</b>
Yield (%)	4.7%	6.0%	6.6%	7.6%	
Franking (%)	100%	100%	100%	100%	100%

## VALUATION DATA

Yr Ending June	2009A	2010A	2011E	2012E	2013E
EV / EBITA (x)	12.8	10.0	7.6	7.2	3.5
EV / EBITDA (x)	3.9	3.3	3.0	3.0	1.5
CFPS (c)	128.5	179.5	158.2	160.0	158.3
<b>Price / CF</b>	<b>2.3</b>	<b>1.7</b>	<b>1.9</b>	<b>1.9</b>	<b>0.0</b>
Book Value / Share (\$)	0.9	1.1	1.4	1.6	
<b>Price / Book (x)</b>	<b>3.2</b>	<b>2.6</b>	<b>2.2</b>	<b>1.9</b>	

## PROFIT &amp; LOSS (\$m)

Yr Ending June	2009A	2010A	2011E	2012E	2013E
Sales Revenue	34.9	49.4	58.8	67.1	75.8
EBITDA	23.0	32.1	40.6	46.6	53.0
Depreciation	16.0	21.4	24.9	27.5	30.1
<b>EBITA</b>	<b>7.0</b>	<b>10.7</b>	<b>15.7</b>	<b>19.1</b>	<b>22.9</b>
Amortisation	0.3	0.3	0.0	0.0	0.0
<b>EBIT</b>	<b>6.7</b>	<b>10.4</b>	<b>15.7</b>	<b>19.1</b>	<b>22.9</b>
Net Interest Expense	2.8	2.9	5.1	6.2	7.6
<b>Pre-tax Profit</b>	<b>3.9</b>	<b>7.5</b>	<b>10.6</b>	<b>12.9</b>	<b>15.3</b>
Tax	0.3	2.0	3.2	3.9	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
<b>Net Profit</b>	<b>3.6</b>	<b>5.5</b>	<b>7.4</b>	<b>9.0</b>	<b>10.7</b>
Abn's / Extraord's	0.0	0.0	0.0	0.0	0.0
Reported Net Profit	3.6	5.5	7.4	9.0	10.7
Revenue Growth (%)	N/A	41.4%	19.2%	14.0%	13.0%
EBIT Growth (%)	N/A	55.0%	50.5%	21.4%	19.9%
NPAT Growth (%)	N/A	53.2%	35.3%	21.2%	18.5%

## PROFITABILITY RATIOS

Yr Ending June	2009A	2010A	2011E	2012E	2013E
<b>EBIT / Sales (%)</b>	<b>19.3%</b>	<b>21.2%</b>	<b>26.7%</b>	<b>28.5%</b>	<b>30.2%</b>
ROA (%)	N/A	13.6%	16.7%	16.4%	15.9%
<b>ROE (%)</b>	<b>N/A</b>	<b>27.5%</b>	<b>26.3%</b>	<b>25.3%</b>	<b>24.4%</b>
ROFE (%)	N/A	17.4%	21.2%	20.6%	19.8%

## INTERIMS (\$m)

Half Yr	Dec 09	Jun 10	Dec 10	Jun 11	Dec 11
<b>Yr Ending June</b>	<b>1H A</b>	<b>2H A</b>	<b>1H E</b>	<b>2H E</b>	<b>1H E</b>
Sales Revenue	22.9	26.5	28.3	30.5	32.0
EBIT	5.7	4.7	7.4	8.3	9.3
<b>Net Profit</b>	<b>3.2</b>	<b>2.3</b>	<b>3.6</b>	<b>3.8</b>	<b>4.5</b>
EBIT / Sales (%)	25.0%	17.8%	26.2%	27.1%	29.1%

## BALANCE SHEET (\$m)

Yr Ending June	2009A	2010A	2011E	2012E	2013E
Cash	0.5	1.4	1.7	2.5	1.5
Receivables	3.1	3.7	4.4	5.0	5.6
Inventories	0.0	0.0	0.0	0.0	0.0
Other	0.6	2.0	0.8	0.8	0.8
<b>Current Assets</b>	<b>4.2</b>	<b>7.1</b>	<b>6.8</b>	<b>8.3</b>	<b>7.9</b>
Net PPE	57.4	73.5	92.5	116.6	145.5
Investments	6.2	2.3	2.3	2.3	2.3
Intangibles	0.8	0.5	0.5	0.5	0.5
Other	1.5	2.3	3.2	3.6	3.9
<b>Non-current Assets</b>	<b>65.8</b>	<b>78.6</b>	<b>98.5</b>	<b>123.1</b>	<b>152.3</b>
<b>Total Assets</b>	<b>70.1</b>	<b>85.7</b>	<b>105.4</b>	<b>131.4</b>	<b>160.2</b>
Current Payables	12.2	15.7	18.8	21.4	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	3.1	4.6	6.0
<b>Total Liabilities</b>	<b>54.9</b>	<b>60.8</b>	<b>73.7</b>	<b>91.8</b>	<b>112.0</b>
Equity	9.4	16.9	20.9	25.5	30.3
Reserves	0.0	0.0	0.0	0.0	0.0
Retained Profits	5.7	7.9	10.7	14.1	17.9
Minorities	0.0	0.0	0.0	0.0	0.0
<b>Total Equity</b>	<b>15.1</b>	<b>24.9</b>	<b>31.7</b>	<b>39.6</b>	<b>48.3</b>
<b>Total Funds Employed</b>	<b>56.7</b>	<b>66.2</b>	<b>81.8</b>	<b>102.8</b>	<b>128.5</b>

## LIQUIDITY &amp; LEVERAGE RATIOS

Yr Ending June	2009A	2010A	2011E	2012E	2013E
Net Debt (Cash) (\$m)	41.6	41.3	50.1	63.3	80.3
<b>Net Debt / Equity (%)</b>	<b>275.5%</b>	<b>166.3%</b>	<b>158.3%</b>	<b>160.0%</b>	<b>166.4%</b>
Interest Cover (x)	2.4	3.6	3.1	3.1	3.0
<b>Debt / CashFlow (x)</b>	<b>2.0</b>	<b>1.2</b>	<b>1.4</b>	<b>1.7</b>	<b>1.9</b>

## CASHFLOW (\$m)

Yr Ending June	2009A	2010A	2011E	2012E	2013E
EBIT	6.7	10.4	15.7	19.1	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	-3.2	-3.9	-4.6
Dec / (Inc) W'kg Cap	0.0	0.0	0.0	0.0	0.0
Other	1.9	6.6	4.4	3.0	2.4
<b>Operating Cash Flow</b>	<b>20.5</b>	<b>35.3</b>	<b>36.7</b>	<b>39.5</b>	<b>43.3</b>
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	0.0	0.0	0.0
Other Inv. Flows	0.0	0.0	0.0	0.0	0.0
<b>Investing Cash Flow</b>	<b>-33.7</b>	<b>-38.8</b>	<b>-43.9</b>	<b>-51.7</b>	<b>-59.1</b>
Equity Raised	-0.3	6.4	4.0	4.6	4.8
Inc / (Dec) in Loans	14.7	0.3	9.0	14.0	16.0
Dividends Paid	-1.8	-2.2	-4.6	-5.7	-6.8
Other Fin. Flows	-1.5	0.0	0.0	0.0	0.0
<b>Financing Cash Flow</b>	<b>11.2</b>	<b>4.5</b>	<b>8.3</b>	<b>12.9</b>	<b>14.0</b>
<b>Net Cash Flow</b>	<b>-2.0</b>	<b>0.9</b>	<b>1.2</b>	<b>0.7</b>	<b>-1.8</b>



## 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 will earn 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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