

Silver Chef Limited

Confirms good start to the year



Wilson HTM
INVESTMENT GROUP

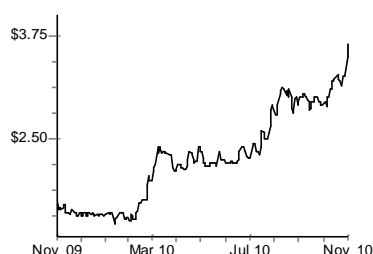
2 November 2010

\$3.65

Hold

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Price Performance



Security/Capital Details

ASX Code	SIV
Market Cap	\$81 M
Issued Shares	23.2 M
Avg Mth T'over	0.16 M
12 Mth High – Low	\$3.50 - \$1.46

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%
NTA / Share	\$ 1.24
DCF	\$ 0.00
12 Mth Price Target	\$ 3.52

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 Limited has confirmed they have had a good start to the year. The company stated they had achieved asset growth of 9% in the first quarter increasing to \$119m. The company also issued guidance that they expect pre-tax profit to increase by between 26% and 33% this financial year. This is modestly below our forecast increase of 37% but we remain confident that our forecast will be achieved and have not altered our projections. We retain our Hold recommendation but we have increased our share price target to \$3.52 inline with the appreciation in small industrial co. ratings. This represents a PER of 11 times 2011 earnings.

Key Points

- Silver Chef has issued market guidance projecting the company will make pre tax profit of between \$9.5m and \$10m this financial year. This represents growth of between 26% and 33% compared to the previous corresponding period.
- The company indicated that this year's tax rate was likely to return to the 30% level compared to last year when the tax rate was 26% due to the investment allowances that were available.
- Silver Chef forecast that NPAT would rise to between \$6.7m and \$7.0m compared to \$5.5m in FY10, a gain of between 22 and 27%.
- Our profit forecasts are slightly higher than the companies indicated levels and we are not inclined to change the forecasts at this stage as we believe the company may be being conservative.
- The first half profit is forecast to increase by only 8%. The three reasons for the relatively modest growth in the first half are; a gain of \$220,000 due to a property appreciation made in the first half will not be repeated this year. There will be a one off charge of \$300,000 relating to the establishment of the new line of credit and the tax rate will increase from 24.8% to 30%. These changes represent a drag on this year's profit growth of about \$800,000 pre tax compared to last year, ie about 7-8% growth.
- Asset growth in the first quarter was 9% with assets under management increasing from \$109m to \$119m at 31st October. This is in line with our forecasts. The company is still experiencing good demand in both the hospitality and GoGetta side of the business.
- We have not altered our NPAT forecast of \$7.4m which is 8% above the mid point of company guidance. We believe demand will remain strong for the company's product and that the recently negotiated funding package will enable the firm to exceed its current guidance.
- The Silver Chef share price has performed exceptionally well this calendar year increasing by nearly 120%. We have increased our share price target to \$3.52 taking into account the appreciation of small industrial multiples. The new share price target represents a PER multiple of 11 times FY 11. This is a slight discount to the current small industrial multiple of 12.2 times. The Hold recommendation remains.

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	12.4	2.0	3.8	18.0	4.9	100
2011e	7.4	32.1	9.1	11.4	2.3	3.3	20.0	5.5	100
2012e	9.0	36.6	13.9	10.0	2.3	3.3	23.0	6.3	100
2013e	10.7	39.1	6.9	0.0	0.0	1.5	26.0		100

Equities Research – Silver Chef Limited

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Silver Chef Limited (SIV : \$3.65)

INVESTMENT FUNDAMENTALS

Yr Ending June	2009A	2010A	2011E	2012E	2013E
EPS Reported (c)	22.5	28.0	32.1	36.6	39.1
EPS Normalised (c)	24.2	29.4	32.1	36.6	39.1
EPS Growth (%)	N/A	21.6%	9.1%	13.9%	6.9%
PER Normalised (x)	15.1	12.4	11.4	10.0	0.0
DPS (c)	14.0	18.0	20.0	23.0	26.0
Payout (%)	62.3%	64.2%	62.3%	62.9%	66.5%
Yield (%)	3.8%	4.9%	5.5%	6.3%	
Franking (%)	100%	100%	100%	100%	100%

VALUATION DATA

Yr Ending June	2009A	2010A	2011E	2012E	2013E
EV / EBITA (x)	14.2	11.3	8.6	8.1	3.5
EV / EBITDA (x)	4.3	3.8	3.3	3.3	1.5
CFPS (c)	128.5	179.5	158.2	160.0	158.3
Price / CF	2.8	2.0	2.3	2.3	0.0
Book Value / Share (\$)	0.9	1.1	1.4	1.6	
Price / Book (x)	3.9	3.2	2.7	2.3	

PROFIT & 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
EBITA	7.0	10.7	15.7	19.1	22.9
Amortisation	0.3	0.3	0.0	0.0	0.0
EBIT	6.7	10.4	15.7	19.1	22.9
Net Interest Expense	2.8	2.9	5.1	6.2	7.6
Pre-tax Profit	3.9	7.5	10.6	12.9	15.3
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
Net Profit	3.6	5.5	7.4	9.0	10.7
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
EBIT / Sales (%)	19.3%	21.2%	26.7%	28.5%	30.2%
ROA (%)	N/A	13.6%	16.7%	16.4%	15.9%
ROE (%)	N/A	27.5%	26.3%	25.3%	24.4%
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
Yr Ending June	1H A	2H A	1H E	2H E	1H E
Sales Revenue	22.9	26.5	28.3	30.5	32.0
EBIT	5.7	4.7	7.1	8.6	9.3
Net Profit	3.2	2.3	3.4	4.0	4.5
EBIT / Sales (%)	25.0%	17.8%	25.2%	28.1%	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
Current Assets	4.2	7.1	6.8	8.3	7.9
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
Non-current Assets	65.8	78.6	98.5	123.1	152.3
Total Assets	70.1	85.7	105.4	131.4	160.2
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
Total Liabilities	54.9	60.8	73.7	91.8	112.0
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
Total Equity	15.1	24.9	31.7	39.6	48.3
Total Funds Employed	56.7	66.2	81.8	102.8	128.5

LIQUIDITY & LEVERAGE RATIOS

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

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
Operating Cash Flow	20.5	35.3	36.7	39.5	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	0.0	0.0	0.0
Other Inv. Flows	0.0	0.0	0.0	0.0	0.0
Investing Cash Flow	-33.7	-38.8	-43.9	-51.7	-59.1
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
Financing Cash Flow	11.2	4.5	8.3	12.9	14.0
Net Cash Flow	-2.0	0.9	1.2	0.7	-1.8

**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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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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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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