

Calling time

Silver Chef (ASX, SIV) shares have remained on the back foot over the past month, with no respite provided by the company's full year results which were underwhelming. A recent disclosure that Chairman and founder Alan English has increased his holding to the tune of around \$50,000 is one encouraging development, but putting that aside (and as per our mid-week alert last week) we have changed our rating on the company in the wake of the full year numbers, along with our macro-economic outlook.

The company has had a year to forget and this showed in the full year figures. The equipment financier reported a net loss after tax of \$48 million, due to the exit of the GoGetta business, and a 'material reset' of the Group's collections strategy. The company suspended the final dividend.

30 JUNE 2018 – SEGMENT SPLIT

\$ millions	Hospitality (pre overhead)	GoGetta (pre overhead)	Unallocated overheads	Total
Revenue	178.4	104.2	4.5	287.1
EBITDA	57.7	14.6	(13.5)	58.8
Profit/(loss) before tax	12.3	(53.3)	(27.5)	(68.4)
Net profit/(loss) after tax	8.0	(37.0)	(19.0)	(48.0)

30 JUNE 2018 – UNDERLYING PERFORMANCE

\$ millions	Hospitality (pre overhead)	GoGetta (pre overhead)	Overheads	Total
Ongoing operations	34.0	-	(17.0)	17.0
Discontinuing operations	-	(1.0)	(10.0)	(11.0)
One-off impairments	(22.0)	(52.0)	-	(74.0)
Profit/(loss) before tax	12.0	(53.0)	(27.0)	(68.0)
Income tax	(4.0)	16.0	8.0	20.0
Net profit/(loss) after tax	8.0	(37.0)	(19.0)	(48.0)

Source: Company Presentation

More positively, the company's core hospitality business is performing well, with an underlying FY18 profit before tax of \$17.3 million, and revenue growth of 17%. The company has seen continued growth offshore at the New Zealand and Canadian operations; a key driver of our original recommendation.

Hospitality	Closing Asset Base FY17	Closing Asset Base FY18	Growth %	Originations FY17	Originations FY18	Growth %
Australia	313.3	341.4	9.0	142.6	149.2	4.6
New Zealand	28.7	37.5	30.6	14.8	16.9	13.9
Canada	28.7	36.1	25.7	18.6	18.5	-0.6
Total	370.7	415.0	12.0	176.0	184.6	4.9

Source: Company Presentation

Investors responded positively to the result initially, but the shares have since resumed their decline, with a move below the key psychological \$2 mark. If this is breached affirmatively from a technical perspective, prices towards \$1.50 (seen back in 2010) may come into focus.

In more recent coverage, we have maintained a hold recommendation and have expected short-term pain as the GoGetta business runs off, which allows over the medium to long-term a more optimal use of capital and a greater management focus on its core competency.

This may yet be the case, but we now see the restructuring and adjustment process as being a very lengthy one. This could also be complicated by impairments being higher than what management anticipates, particularly if customers start to see more financial pressure as interest rates rise and should the economy stutter. The recovery could be further complicated if property hotspots in NSW and Victoria continue to unwind, denting confidence generally.

PORTFOLIO CONCENTRATION



- 72.88% - < \$15k
- 12.78% - \$15k - \$25k
- 9.28% - \$25k - \$50k
- 3.88% - \$50k - \$100k
- 1.18% - Over \$100k

GLOBAL DIVERSIFICATION



- 83.9% - Australia
- 7.75% - Canada
- 8.86% - New Zealand

AUSTRALIA GEOGRAPHIC DIVERSIFICATION



- 28.34% - NSW
- 28.35% - QLD
- 24.43% - VIC
- 9.68% - WA
- 4.99% - SA
- 1.73% - TAS
- 1.48% - ACT
- 1.01% - NT

Source: Company Presentation

Turning to the charts, and the technical picture has deteriorated severely in recent months and this year. Key support at the March low of \$3.24 failed to hold, as did that the July low of \$2.61. With a downward sloping trend line in play, a definitive break below the \$2 mark could further extend the downside.

SILVER CHEF LIMITED - SIV (ASX) - 1 Day CandleStick Chart - AUD



With reference to the monthly chart, the zone of support located between \$4.54 and \$5.13 did not hold. The additional line of support at the 78.6% Fibonacci retracement of \$3.24 also gave way as did that at \$2.41. A move back towards 2009 levels below \$1 could not be ruled out from a technical perspective over the longer term.

SILVER CHEF LIMITED - SIV (ASX) - 1 Month CandleStick Chart - AUD



Summary

There is no question that Silver Chef has been a disappointing recommendation, with the only saving grace for Members who took-up our initial buy, being the take profits recommendation at \$7.32. We share the frustration with Members that have bought the stock at higher levels since, but we believe it is appropriate to draw a line under Silver Chef and move on, and avert a potentially steeper decline in the share price.

We recommend Members sell their holdings in Silver Chef.

Disclosure: Silver Chef is held in the Share Income and Small-Mid-cap managed account portfolios.

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Snapshot SIV

Silver Chef

Latest Closing Price: \$1.94

Silver Chef was originally created on the back of founder Allan English's vision about the need to cater to the home delivery pizza market. Observing that the average small pizza business could not afford the outlay for equipment, he sought to provide a clear need with a service. He invested in the ovens and rented them out.

That model was ultimately to prove Silver Chef's core product twenty years on. The company offers a funding arrangement called *Rent-Try-Buy* that enables small businesses in the catering sector to procure the equipment they need, without committing the capital up-front.

Market Capitalisation:\$74.41m

	FY1	FY2
Price to Earnings	-	8.8
Dividend Yield (%)	-	5.9
Price to Book	1.42	0.68
Return on Equity (%)	-	7.9
EV/EBITDA	2.1	3.0

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