

SIV and QAN - 23 Aug 18

Shares in equipment financier **Silver Chef** (SIV) have fallen further out of favour today, despite the company confirming that the unaudited underlying FY18 profit before tax from hospitality will be within the guidance range of between \$17 and \$18 million. Investors have been alarmed by a forecast FY18 net loss after tax of around \$48 million, which relates largely to the Group's previously announced exit from the problematic GoGetta business. This has seen the Board suspend the final dividend.

The company has also continued to work with ASIC to resolve a previously flagged matter under investigation. This has resulted in a material provision for customer remediation.

As a result of the statutory loss Silver Chef has confirmed it is in discussion with lenders about financial covenants, and a capital management plan. The company expects to gain the appropriate waivers, and to introduce subordinated debt to the capital structure. This has increased investor unease, with the shares down around 13% currently.

We have previously said that there would be further short-term pain as the GoGetta business runs off, (with this compounded by the ASIC issue) but that over the medium-term this would deliver more optimal use of capital and management focus. We retain this view, and despite the investor exodus today. The bar, valuation wise, has now been set very low given that the core hospitality business appears to have stabilised.

For now we maintain a hold rating on Silver Chef and will cover the stock in detail in next week's report.

Elsewhere, **Qantas** has released full year numbers which were impressive on a number of counts. The airline delivered a 15% increase in annual profit after tax to \$980 million. Higher earnings are flowing back to shareholders with a 10 cent per share dividend and a \$332 million on market share buyback programme.

The shares have performed impressively since we backed the turnaround story in August 2014 at around \$1.30. While the consensus view is now still very positive, we are coming to the view that the earnings cycle for the airline may be peaking.

We note that the company's fuel bill is expected to increase by around \$690 million this year to \$3.92 billion. CEO Alan Joyce said the company 'should' be able to recover rising fuel costs in the domestic market, and 'substantially' so in the international market. We however note that the latter remains highly competitive. Given our view on rising global inflationary pressures, we do not see high jet fuel prices as a problem that will go away. As an aside, Qantas has also used up the last of its tax losses.

Accordingly, we recommend Members who hold Qantas sell half their shares at around \$6.57 and lock in further gains. We will cover Qantas in more detail in next week's report.

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

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Snapshot QAN

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Latest Closing Price: \$6.53

Qantas Airways Ltd is an Australia-based airline, which operates in the domestic and international space. The Company is engaged in the operation of international and domestic air transportation services, the provision of freight services and the operation of a frequent flyer loyalty program. Its segments include Qantas Domestic, Qantas International, Jetstar Group, Qantas Freight, Qantas Loyalty and Corporate.

The Qantas Domestic, Qantas International and Jetstar Group segments include passenger flying businesses. The Qantas Freight segment is engaged in the air cargo and express freight business. The Qantas Loyalty segment is engaged in the customer loyalty recognition programs. Its main business is the transportation of customers using two airline brands, which include Qantas and Jetstar. It also operates subsidiary businesses, including other airlines and businesses in specialist markets, such as Q Catering. Its airline brands operate regional, domestic and international services.

Market Capitalisation: \$10.07b

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