

Americana Restaurants

Unfavorable foreign currency and seasonality impacted bottom line

Rating : ACCUMULATE

First Look Note – 1Q23

Sector: Consumer Discretionary

1Q23 Net profit lower than our estimates

Americana Restaurants' (the Company/ Americana) net profit attributable to equity shareholders declined 19.3% YOY to USD 58 Mn in 1Q23, lower than our estimate of USD 73 Mn. This was mainly driven by a decline in gross profit due to higher cost of revenue and rise in operating expenses.

P&L highlights

Americana Restaurants' revenue rose 2.1% YOY to USD 589 Mn in 1Q23 despite the holy month of Ramadan in which families gather and enjoy home-cooked food instead of ordering or eating out. It added 49 gross stores with like-for-like (LfL) sales growth of 1.7% during 1Q23. The lower LfL sales is mainly due to month of Ramadan falling during the month of March 2023. Until the start of the Ramadan, it recorded LfL growth of 7.5% from beginning of quarter till 22 March 2023. The revenue was also impacted due to unfavorable foreign currency impact in Egypt and Lebanon impacting the revenue by USD 32 Mn in 1Q23. On the other hand, the Company's cost of revenue rose 7.7% YOY to USD 289 Mn in 1Q23. Thus, gross profit declined 2.8% YOY to AED 301 Mn in 1Q23 with a gross margin of 51.0%. Moreover, selling and marketing expenses rose 4.2% YOY to AED 187 Mn in 1Q23 whereas G&A expenses declined 4.9% YOY to AED 47 Mn in 1Q23 resulting in a 3.2% YOY hike in total operating expenses to USD 234 Mn. Thus, adjusted EBITDA declined to USD 127 Mn in 1Q23 as compared to USD 134 Mn in 1Q22. EBITDA margin fell 175 bps to 21.5% in 1Q23. As a result, total operating income declined 19.5% YOY to AED 66 Mn in 1Q23. Furthermore, the Company's finance income stood at USD 3 Mn in 1Q23 as compared to USD 1 Mn in 1Q22 whereas finance costs grew 50.3% YOY to USD 7 Mn in 1Q23. In addition, zakat expenses declined 42.3% YOY to USD 3 Mn in 1Q23 in line with a decline in profitability.

Balance Sheet highlights

Americana Restaurants' borrowing stood at USD 20 Mn in 1Q23 as compared to USD 19 Mn in 4Q22. The Company's cash and cash equivalents increased to USD 329 Mn in 1Q23, up from USD 305 Mn in 4Q22. Furthermore, Americana Restaurants generated USD 91 Mn in cash flow from operating activities in 1Q23 as compared to USD 149 Mn in 1Q22. Adjusted free cash flow declined from USD 91 Mn in 1Q22 to USD 17 Mn in 1Q23 with a conversion ratio of 21.9%. Americana restaurants incurred a capex of USD 31 Mn in 1Q23.

Target price and rating

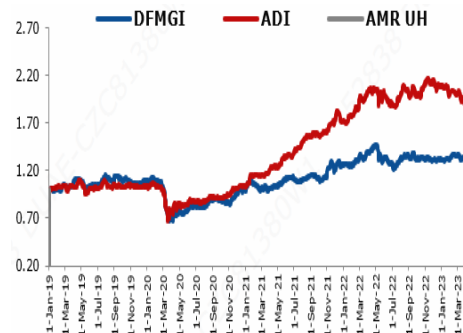
We maintain our ACCUMULATE rating on Americana Restaurants with a target price of AED 4.15. Despite headwinds of currency devaluation and the holy month of Ramadan falling in 1Q23, Americana's managed to increase its topline 2.1% YOY to USD 589 Mn in 1Q23 due to strong brand recall. The Company added 49 gross new restaurants in 1Q23 and has a robust pipeline of restaurants planned for 2023 wherein 63 restaurants are under construction, 66 sites are secured, 70 sites are approved, and 30 sites are under review. The management plans to open 250-300 net restaurants every year in the mid-term. Americana launched Pizza Hut and KFC restaurants in Baghdad in April 2023 and also added two Peet's

Recommendation

Current Price (15-May-23)	3.75
Target Price (AED)	4.15
Upside/Downside (%)	+11%

Stock Information

Market Cap (mm)	31,588.62
Paid Up Capital (mm)	167.46
52 Week High	4.14
52 Week Low	2.66
3M Avg. daily value (AED)	31,828,840



Financial Ratios

Dividend Yield (12m)	1.20
Dividend Pay-out (%)	39.93
Price-Earnings Ratio (x)	N/A
Price-to-Book Ratio (x)	36.53
Book Value (AED)	0.03
Return-on Equity (%)	N/A
Earning Per Share (AED)	N/A
Beta	N/A

Stock Performance

5 Days	-0.79%
1 Months	-2.85%
3 Months	3.59%
6 Months	N/A
1 Year	N/A
Month to Date (MTD)	-4.34%
Quarter to Date (QTD)	-1.57%
Year to Date (YTD)	26.26%

Coffee outlets in UAE which will add to the topline growth. Americana also launched a loyalty program for KFC in 1Q23 to offer differentiated customer experience leading to customer retention and drive repeat orders. The launch of ALM platform in January 2023 will bring in automation and enhance the efficiency of the Company's delivery fleet. Americana is showing early signs of improvement in margins as gross margin declined 7 bps QOQ to 51.0%, while EBITDA rose 248 bps to 21.5% in 1Q23. The Company further expects due to phasing out of high cost of inventory margin is expected to improve in the second half of 2023 in turn boosting profitability. Thus, considering the above-mentioned factors, we maintain our ACCUMULATE rating .

Americana - Relative Valuation

(at CMP)	2022	2023F
PE(X)	32.85	26.88
PB(X)	29.92	22.13
EV/EBITDA	15.38	12.48
Dividend yield	2.5%	2.6%

FABS Estimates & Co Data

Americana - P&L

(AED mm)	1Q22	4Q22	1Q23	1Q23F	Var.	YOY Ch.	QOQ Ch.	2022	2023F	Change
Revenue	578	608	589	619	-4.8%	2.1%	-3.0%	2,379	2,717	14.2%
COGS	-268	-297	-289	-303	-4.8%	7.7%	-2.8%	-1,148	-1,297	12.9%
Gross Profit	309	310	301	316	-4.8%	-2.8%	-3.1%	1,230	1,421	15.5%
S&M Expenses	-179	-188	-187	-195	-4.3%	4.2%	-0.6%	-739	-860	16.4%
G&A Expenses	-49	-54	-47	-50	-5.2%	-4.9%	-13.0%	-193	-217	12.6%
Other Income	3	7	1	4	-77.9%	-72.9%	-88.2%	17	18	9.0%
Total Operating Exp.	-227	-242	-234	-241	-2.7%	3.2%	-3.2%	-915	-1,059	15.8%
EBITDA	134	116	127	132	-4.2%	NM	9.7%	536	649	21.2%
EBIT	82	68	66	75	-11.8%	-19.5%	-2.7%	315	361	14.7%
Financing income	1	2	3	2	90.1%	NM	54.9%	4	6	67.4%
Financing cost	-5	-7	-7	-8	-8.4%	50.3%	-1.5%	-25	-28	14.1%
Profit Before Zakat	78	65	62	68	-9.9%	-20.8%	-4.7%	272	340	25.0%
Zakat	-5	-1	-3	-5	-40.1%	-42.3%	151.8%	9	23	159.5%
Net Profit	73	64	59	73	-19.7%	-19.4%	-7.5%	263	317	20.5%
Non-controlling interest	1	0	1	0	NM	-28.6%	NM	4	0	NM
Net profit	72	64	58	73	-20.6%	-19.3%	-8.9%	259	317	22.2%

FABS Estimates & Co Data

Americana - Margins

	1Q22	4Q22	1Q23	YOY Ch.	QOQ Ch.	2022	2023F	Change
GPM	53.5%	51.1%	51.0%	-255	-7	51.7%	52.3%	57
EBITDA	23.3%	19.0%	21.5%	-175	248	22.5%	23.9%	138
OPM	14.2%	11.2%	11.2%	-300	3	13.3%	13.3%	5
NPM	12.5%	10.5%	9.9%	-260	-64	10.9%	11.7%	76

FABS estimate & Co Data

Valuation:

We use Discounted Free Cash flow (DCF) and Relative Valuation (RV) to value Americana Restaurants. We have assigned 70% weight to DCF, and 30% to RV method.

Valuation Method	Target	Weight	Weighted Value
DCF	4.29	70.0%	3.00
Relative	3.84	30.0%	1.15
Weighted Average Valuation (AED)			4.15
Current market price (AED)			3.75
Upside/Downside (%)			+11%

1) DCF Method:

Americana Restaurants is valued using free cash flow to equity due to an insignificant amount of debt in the company. We have discounted the cash flow using the cost of equity of 8.6%. Cost of equity is calculated by using 10-year government bond yield of 4.3%, beta of 1.00, and equity risk premium of 4.3%. Government bond yield is calculated after adding Abu Dhabi 10-year spread over 10-year US risk free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (USD, Mn)	2,046
Terminal value (USD, Mn)	7,798

FV to Common shareholders (USD, Mn)	9,844
No. of share (Mn)	8,424
Current Market Price (AED)	3.71
Fair Value per share (AED)	4.15

DCF method

(All Figures in USD Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
Net income	317	396	484	584	707
(+/-) Depreciation & amortization	288	337	380	425	449
(+/-) CAPEX	-163	-178	-193	-208	-207
(+/-) Working Capital	76	45	29	33	47
Net change in debt	-169	-180	-204	-230	-257
Free Cash Flow to Equity (FCFE)	350	421	496	604	738
Discounting Factor	0.95	0.87	0.80	0.74	0.68
Discounted FCFE	331	367	398	447	503

2) Relative Valuation:

We have used international peers to value Americana Restaurants and it is valued using the EV/EBITDA multiple. It is valued at EV/EBITDA multiple of 13.1x in line with peers.

Company	Market (USD Mn)	EV/EBITDA (x)		PE (x)	
		2023	2024	2023	2024
Herfy Food Services Co	713	7.8	8.6	14.6	15.6
Jolibee Foods Corp	4,494	11.6	NA	29.4	NA
Domino'S Pizza Enterprises Ltd	3,792	13.8	13.8	24.8	25.3
Yum China Holdings Inc	20,771	9.1	9.8	26.4	23.8
Restaurant Brands International	18,905	12.4	12.5	20.1	21.9
Yum Brands	33,365	17.7	18.0	22.1	23.1
Domino's Pizza Inc	13,078	19.1	16.7	24.4	20.8
Starbucks Corporation	102,199	16.5	16.5	26.9	25.4
Average		13.5x	13.7x	23.6x	22.3x
Median		13.1x	13.8x	24.6x	23.1x
Max		16.8x	16.6x	26.5x	24.6x
Min		11.0x	11.2x	21.6x	21.4x

Research Rating Methodology:

Rating	Upside/Downside potential
BUY	Higher than +15%
ACCUMULATE	Between +10% to +15%
HOLD	Lower than +10% to -5%
REDUCE	Between -5% to -15%
SELL	Lower than -15%

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