

Americana Restaurants

Strong LfL growth and decline in high-cost inventory benefitted profit

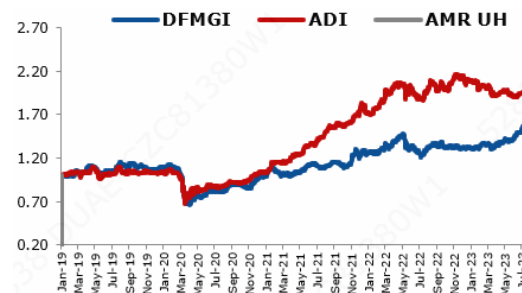
Current Price
AED 4.05

Target Price
AED 4.15

Upside/Downside (%)
+2.5%

Rating
HOLD

- Americana Restaurants (AMR) plans to open 250-260 net new stores in 2023, with a strong focus on growth opportunities in its market of operation, with a key focus in Saudi Arabia.
- Recorded an LfL growth of 7.2% in 1H23 as compared to 1H22, mainly due to the strong performance of KFC and Pizza Hut.
- Both gross and EBITDA margins improved 122 bps and 151 bps YOY to 52.9% and 25.3%, respectively in 2Q23. It further expects the gross margin in 2H23 to improve 1.2-1.5% as compared to 2H21. It also expects 2023 EBITDA margin to be 0.5-0.7% higher than 2022.
- AMR incurred a CAPEX of USD 69.0 Mn amounting to 5.6% of total revenue in 1H23.
- The Company successfully completed the expansion of Pizza Hut in KSA, Peet's Coffee in Dubai Mall and two stores in KSA, while also launched Krispy Kreme in Egypt Alexandria and KSA.



2Q23 Net Profit higher than our estimate

Americana Restaurants' (Americana/ the Company) net profit attributable to equity shareholders grew significantly 75.8% YOY to USD 87 Mn in 2Q23, higher than our estimate of USD 62 Mn. The increase was mainly supported by a robust revenue growth partially offset by an increase in higher cost of revenue and rise in operating expenses.

P&L Highlights

Americana Restaurants' revenue grew 13.5% YOY to USD 652 Mn in 2Q23. The increase was primarily attributed to the expansion of the restaurant portfolio, a notable rise in like-for-like sales, and improved operational efficiencies. Americana added 49 net new stores, resulting in a total restaurant count of 2,277 during 1H23. Like-for-like (LfL) sales grew 7.2% in 1H23 as compared to 1H22 owing to strong performance of Pizza Hut and KFC. On the other hand, the Company's cost of revenue rose 10.7% YOY to USD 307 Mn in 2Q23, the increase is slower than the growth in revenue mainly due to decline in high inventory owing to a fall in the prices of key commodities. Thus, gross profit grew 16.2% YOY to USD 345 Mn in 2Q23 with an increase in gross margin from 51.6% in 2Q22 to 52.9% in 2Q23. Moreover, selling and marketing expenses rose 8.8% YOY to AED 197 Mn in 2Q23. While G&A expenses increased 24.0% YOY to AED 51 Mn in 2Q23 resulting in a 13.2% YOY hike in total operating expenses to USD 244 Mn in 2Q23. G&A expense grew at a higher due to investment building of certain brands. However, adjusted EBITDA grew significantly 20.7% YOY to USD 165 Mn in 2Q23 despite higher inventory carryover costs as compared to the 1H22. EBITDA margin

Stock Information

Market Cap (AED, mm)	24,069.73
Paid Up Capital (mm)	4,532.91
52 Week High	6.20
52 Week Low	4.95
3M Avg. daily value (AED)	2,106,738

2Q23 Result Review (USD, mm)

Total Assets	1,411
Total Liabilities	1,074
Total Equity	336
EBITDA	165
Net Profit	87

Financial Ratios

Dividend Yield (12m)	4.90
Dividend Pay-out (%)	89.20
Price-Earnings Ratio(x)	17.65
Price-to-Book Ratio (x)	2.69
Book Value (AED)	1.97
Return-on Equity (%)	15.61

Stock Performance

5 Days	-3.80%
1 Months	-0.19%
3 Months	4.12%
6 Months	2.12%
1 Year	-12.95%
Month to Date (MTD%)	-3.80%
Quarter to Date (QTD%)	0.57%
Year to Date (YTD%)	-8.45%

grew 163 bps YOY to 25.3% in 2Q23. As a result, total operating income increased 24.3% YOY to USD 100 Mn in 2Q23. Furthermore, the Company's finance income stood at USD 3 Mn in 2Q23 as compared to USD 0.5 Mn in 2Q22 whereas finance costs grew 42.4% YOY to USD 8 Mn in 2Q23. Zakat expenses grew significantly from USD 1 Mn in 2Q22 to USD 7 Mn in 2Q23 dragging profitability.

Balance Sheet Highlights

Americana Restaurants' borrowing stood at USD 12 Mn in 2Q23 as compared to USD 20 Mn in 1Q23. The Company's cash and cash equivalents, including short-term deposits with banks, stood at USD 312 Mn. Furthermore, Americana Restaurants generated USD 264.8 Mn in cash flow from operating activities in 1H23 as compared to USD 241.3 Mn in 1H22. Adjusted free cash flow declined from USD 140 Mn in 1H22 to USD 111 Mn in 1H23 with a conversion ratio of 58.4%. Americana restaurants incurred a capex of USD 69 Mn in 1H23.

Target Price and Rating

We maintain our HOLD rating on Americana Restaurants with a target price of AED 4.15. Americana owns and runs 2,277 restaurants across power, growth/niche, and other brand segments as of 1H23. Additionally, the company had 84 stores currently under construction as of 1H23. The Company plans to open 250-260 net new stores, with a strong focus on growth opportunities in its market of operation, with a key focus in Saudi Arabia by 2023. It is also well-positioned to continue the growth of its new brands, such as the expansion of Pizza Hut and Peet's Coffee in Saudi Arabia. Americana Restaurants recorded LfL growth of 7.2% in 1H23 as compared to 1H22 mainly due to the strong performance of KFC and Pizza Hut. Moving forward, the Company anticipates an upswing in gross margin in 2H23 as it gradually phases out high-cost inventory. Furthermore, it also expects an improvement in net profit margin in 2H23, mainly due to the focus on operational efficiencies and the successful implementation of ZBB initiatives. During the year, the Company successfully completed the expansion of Pizza Hut in KSA, while Peet's Coffee opened a flagship store in Dubai Mall and two stores in KSA. Americana Restaurants also expanded in Egypt and launched Krispy Kreme in Alexandria, Egypt. Additionally, it also launched Krispy Kreme in the KSA, with two locations in Tabuk and Taif. Furthermore, the Company intends to provide a minimum dividend payout of 50% of net profit beginning in FY2023. Since most of the positives are already priced in the stock hence, we maintain our HOLD rating on the stock.

Americana Restaurants - Relative valuation

(at CMP)	2021	2022	2023F
PE	NA	35.68	28.64
PB	NA	32.51	23.79
EV/EBITDA	NA	16.75	14.38
Dividend yield	NA	2.3%	2.4%

FABS Estimates & Co Data

Americana Restaurants – P&L

USD mm	2Q22	1Q23	2Q23	2Q23F	Var.	YOY Ch	QOQ Ch	2022	2023F	Change
Revenue	574	589	652	598	9.0%	13.5%	10.6%	2,379	2,653	11.5%
COGS	-278	-289	-307	-293	4.9%	10.7%	6.4%	-1,148	-1,261	9.8%
Gross profit	297	301	345	305	13.0%	16.2%	14.7%	1,230	1,392	13.2%
S&M Expenses	-181	-187	-197	-188	4.6%	8.8%	5.6%	-739	-829	12.2%
G&A Expenses	-41	-47	-51	-48	6.3%	24.0%	8.3%	-193	-212	9.9%
Other Income	6	1	5	3	73.9%	-18.7%	532.7%	17	18	9.0%
Total Operating Expense	-216	-234	-244	-233	4.8%	13.2%	4.2%	-915	-1,025	12.1%
EBITDA	137	127	165	136	21.2%	20.7%	29.9%	536	623	16.4%
EBIT	81	66	100	72	39.8%	24.3%	51.8%	315	367	16.4%
Finance income	0	3	3	1	74.0%	445.3%	-11.6%	4	6	67.4%
Finance cost	-6	-7	-8	-7	19.6%	42.4%	6.7%	-25	-27	8.7%
Profit before ZAKAT	51	62	95	67	42.5%	84.7%	54.1%	272	346	27.4%
Zakat	-1	-3	-7	-5	50.3%	504.4%	140.8%	9	23	164.5%
Net Profit before NCI	50	59	88	62	42.0%	75.1%	49.9%	263	323	22.8%
Non-controlling interest	1	1	1	0	NM	45.4%	123.6%	4	0	NM
Net Profit	49	58	87	62	39.6%	75.8%	49.0%	259	323	24.6%

FABS estimate & Co Data

Americana Restaurants – Margins

	2Q22	1Q23	2Q23	YOY Ch	QOQ Ch	2022	2023F	Change
Gross Profit	51.6%	51.0%	52.9%	122	187	51.7%	52.5%	76
EBITDA	23.8%	21.5%	25.3%	151	376	22.5%	23.5%	97
Operating Profit	14.1%	11.2%	15.4%	133	417	13.3%	13.8%	57
Net Profit	8.6%	9.9%	13.3%	470	342	10.9%	12.2%	128

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.

Valuation Method	Target	Weight	Weighted Value
DCF Method	4.07	70.0%	2.85
Relative Valuation (RV)	4.36	30.0%	1.31
Weighted Average Valuation (AED)			4.15
Current market price (AED)			4.05
Upside/Downside (%)			+2.5%

1) DCF Method:

Americana is valued using free cash flow to equity. We have discounted the cash flow using the cost of equity of 8.2%. The cost of equity is calculated using a 10-year government bond yield of 4.5%, a beta of 1.0, and an equity risk premium of 3.5%. 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)	1,7863
Terminal value (USD, Mn)	7,546
FV to Common shareholders (USD, Mn)	9,328
No. of share (Mn)	8,424
Current Market Price (AED)	4.05
Fair Value per share (AED)	4.07

DCF Method

(All Figures in USD Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
Net Income	323	394	462	557	665
D&A	257	313	372	428	480
(-) Capex	-161	-176	-191	-206	-206
Change in working capital	76	45	29	35	51
Net change in debt	-183	-221	-270	-318	-362
Free Cash Flow to Equity (FCFE)	312	356	402	496	627
Discounting Factor	0.97	0.90	0.83	0.77	0.71
Discounted FCFE	302	319	333	382	446

Source: FAB Securities

2) Relative Valuation:

We have used regional and global peers to value Americana, which is valued using the EV/EBITDA multiple. It is valued at EV/EBITDA of multiple of 15.6x in line with peers.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2023F	2024F	2023F	2024F
Herfy Food Services Co	606	11.4	10.0	33.0	25.0
Jolibee Foods Corp	5,190	10.3	9.0	37.0	30.3
Domino'S Pizza Enterprises Ltd	2,988	17.5	14.9	50.7	31.0
Yum China Holdings Inc	23,348	10.7	8.7	25.9	21.5
Restaurant Brands International	22,865	13.6	12.5	25.4	22.6
Yum Brands	37,630	19.4	17.8	25.2	22.7
Domino's Pizza Inc	13,875	20.8	19.1	28.9	25.2
Starbucks Corporation	115,000	18.0	15.9	29.0	24.5
Average		15.2x	13.5x	31.9x	25.4x
Median		15.6x	13.7x	29.0x	24.8x
Max		18.4x	16.4x	34.0x	26.5x
Min		11.2x	9.7x	25.8x	22.7x

Source: FAB Securities

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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