

Americana Restaurants International PLC

The geopolitical situation and seasonal effect of Ramadan impacted the top-line

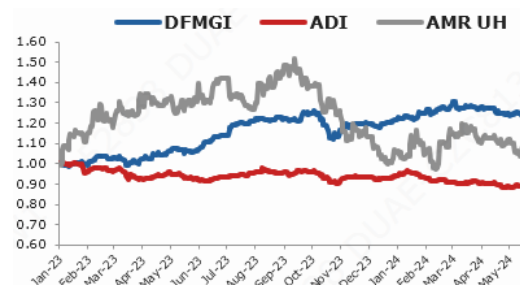
Current Price
AED 3.26

Target Price
AED 3.62

Upside/Downside (%)
+11%

Rating
ACCUMULATE

- Americana added 37 restaurants in 1Q24 with a total restaurant of 2,456 and plans to add 200-225 restaurants in FY2024.
- Recorded a negative LfL of 22.2% YOY in 1Q24 owing to a boycott of international brands as well as the seasonal effect of Ramadan
- Power brands generated USD 460 Mn in revenue, making up 93% of total sales in 1Q24.
- Among the power brands Krispy Kreme recorded the highest decline in LfL sales of 26.4% YOY in 1Q24 due to cannibalization from existing stores.
- Adjusted free cash flow stood at negative USD 27 Mn in 1Q24 as compared to positive USD 17 Mn in 1Q23 with a conversion ratio of negative 50.0%.



1Q24 Net Profit lower than our estimate

Americana Restaurants' (Americana/ the Company) net profit declined 51.8% YOY to USD 28 Mn in 1Q24, lower than our estimate of USD 45 Mn. The decrease in net profit is mainly attributable to lower revenue as a result of the geopolitical situation and onset of Ramadan, as well as higher depreciation and rent expense owing to the opening of new stores during the period.

P&L Highlights

Americana restaurant's revenue declined significantly from USD 589 Mn in 1Q23 to USD 494 Mn in 1Q24 primarily driven by lower like-for-like sales due to ongoing geopolitical tension in the region, as well as the seasonal effect of Ramadan, closure of stores and impact from foreign exchange impact partially offset by higher sales from new store openings. Americana added 37 new stores with a portfolio of 2,456 restaurants in 1Q24. Like-for-like (LfL) sales also declined 22.2% YOY in 1Q24 owing to geopolitical tension and seasonal effect of Ramadan. On the other hand, the Company's cost of revenue declined 17.2% YOY to USD 239 Mn in 1Q24 driven by a decline in commodity prices and procurement & revenue management initiatives. As a result, cost of inventory declined 2.9% YOY to 29.6% in 1Q24. Thus, Americana's gross profit declined 15.4% YOY to USD 254 Mn in 1Q24. However, gross profit margin grew 52 bps YOY to 51.5% in 1Q24. Moreover, Americana's selling and marketing expenses declined 6.2% YOY to USD 175 Mn in 1Q24. However, G&A expenses increased 2.1% YOY to USD 48 Mn in 1Q24. The Company's adjusted EBITDA declined 18.6% YOY to USD 103 Mn in 1Q24 owing to lower revenue with an EBITDA margin of 20.9%. Total operating income declined from USD 66 Mn in 1Q23 to USD 34 Mn in 1Q24. Operating margin declined 430 bps YOY to 6.9% in 1Q24. Furthermore, the Company's finance income rose from USD 3 Mn in 1Q23 to USD 5 Mn in 1Q24 whereas finance cost increased 17.4%

Stock Information

Market Cap (AED, mm)	27,461.04
Paid Up Capital (mm)	167.42
52 Week High	4.51
52 Week Low	2.84
3M Avg. daily value (AED)	12,487,060

1Q24 Result Review (USD, mm)

Total Assets	1,511
Total Liabilities	1,037
Total Equity	474
EBITDA	103
Net Profit	28

Financial Ratios

Dividend Yield (12m)	2.40
Dividend Pay-out (%)	69.15
Price-Earnings Ratio(x)	32.64
Price-to-Book Ratio (x)	16.15
Book Value (AED)	0.05
Return-on Equity (%)	65.67

Stock Performance

5 Days	3.49%
1 Months	0.37%
3 Months	0.06%
6 Months	-2.32%
1 Year	-15.84%
Month to Date (MTD%)	-1.44%
Quarter to Date (QTD%)	-0.54%
Year to Date (YTD%)	4.86%

YOY to USD 9 Mn in 1Q24 due to higher lease cost. Zakat expense increased from USD 3 Mn in 1Q23 to USD 4 Mn in 1Q24 impacting profitability.

Balance Sheet Highlights

Americana Restaurants' borrowing declined from USD 4 Mn in 4Q23 to USD 2 Mn in 1Q24. The Company's cash and cash equivalents including short-term deposits with banks declined from USD 384 Mn in 4Q23 to USD 364 Mn in 1Q24. Furthermore, the Company generated USD 41 Mn in cash flow from operating activities in 1Q24. Net working capital declined from negative USD 222 Mn in 4Q23 to USD 172 Mn in 1Q24 owing to inventory management and decline in payables. In addition, the Company's adjusted free cash flow stood at negative USD 27 Mn in 1Q24 compared to USD 17 Mn in 1Q23 with a conversion ratio of negative 50.0%. Americana restaurants incurred a capex of USD 22 Mn in 1Q24 compared to USD 31 Mn in 1Q23.

Target Price and Rating

We maintain our ACCUMULATE rating on Americana Restaurant with a revised target price of AED 3.62. Americana restaurants' profitability was impacted in 1Q24 primarily due to lower revenue owing to the ongoing geopolitical situation and the seasonal effect of Ramadan. Like-for-like (LfL) sales declined 19.6% YOY until 10 March 2024 further worsened by Ramadan and LfL fell 22.2% YOY in 1Q24. The Company observed a broader slowdown in the QSR space in KSA, resulting in an overall decline in consumer spending driven by multiple factors, including a strong expansion post-Covid by international as well as local players, and pressure on the disposable income. The pace of recovery in Jordan and Oman is slower than anticipated. However, AMR is undertaking various initiatives to boost revenue such as event-based and differential pricing, targeted communication by leveraging CRM platforms, managing inventory by moving between least impacted and higher impacted markets, and working with suppliers to delay orders. Furthermore, direct cost fell 17.2% YOY to USD 239 Mn in 1Q24 due to a lower cost of inventory compared to 1Q23 owing to lower commodity cost, strategic procurement and revenue management initiatives. As a result, the company is anticipating an overall improvement in gross margin in 2024 compared to 2023 despite higher focus on value and discounting. Moreover, AMR added nine restaurants in April 2024, bringing the total to 2,465 restaurants. Additionally, 37 restaurants are under construction with an additional 40 secured sites as of 1Q24. The new stores will be added in the region least impacted by the conflict including UAE, KSA, Kuwait, Iraq, and Kazakhstan. Thus, based on our analysis, we assign an ACCUMULATE rating on the stock.

Americana - Relative valuation

(at CMP)	2022	2023	2024F
PE	28.7	28.7	35.1
PB	26.1	16.9	15.0
EV/EBITDA	13.4	12.8	13.0
Dividend yield	2.9%	2.4%	2.0%

FABS Estimates & Co Data

Americana-P&L (USD, Mn)	1Q23	4Q23	1Q24	1Q24F	Var.	YOY Ch.	QOQ Ch.	2023	2024F	Change
Revenue	589	516	494	540	9.4%	-16.3%	-4.4%	2,413	2,290	-5.1%
COGS	-289	-246	-239	-256	7.2%	-17.2%	-2.7%	-1,152	-1,086	-5.7%
Gross Profit	301	270	254	283	11.5%	-15.4%	-5.9%	1,262	1,204	-4.6%
S&M Expenses	-187	-183	-175	-189	7.9%	-6.2%	-4.5%	-777	-751	-3.4%
G&A Expenses	-47	-45	-48	-46	-4.4%	2.1%	6.1%	-192	-206	7.5%
Other Income	1	8	3	7	195.9%	205.7%	-67.9%	17	13	-20.0%
Total Operating Expense	-234	-235	-220	-227	3.3%	-6.1%	-6.2%	-970	-943	-2.8%
EBITDA	127	104	103	123	19.5%	-18.6%	-0.9%	551	545	-1.1%
EBIT	66	35	34	56	64.3%	-48.4%	-3.8%	291	261	-10.5%
Financing income	3	5	5	1	-78.3%	72.4%	-0.7%	15	18	14.4%
Financing cost	-7	-8	-9	-8	-10.0%	17.4%	5.4%	-31	-36	15.2%
Profit Before ZAKAT	62	32	31	49	61.7%	-50.5%	-5.6%	275	242	-12.0%
Zakat	-3	0	-4	0	NM	NM	NM	13	30	132.3%
Net Profit	59	32	27	45	68.4%	-54.7%	-16.4%	262	212	-19.1%
Non-controlling interest	1	-1	-1	0	NM	NM	NM	3	0	NM
Net profit attributable	58	33	28	45	60.2%	-51.8%	-14.5%	259	212	-18.3%

FABS estimate & Co Data

Americana - Margins

	1Q23	4Q23	1Q24	YOY Ch.	QOQ Ch.	2023	2024F	Change
Gross Profit	51.0%	52.4%	51.5%	52	-84	52.3%	52.6%	29
EBITDA	21.5%	20.2%	20.9%	-59	73	22.8%	23.8%	97
Operating Profit	11.2%	6.9%	6.9%	-430	4	12.1%	11.4%	-68
Net Profit	9.9%	6.3%	5.7%	-418	-67	10.8%	9.3%	-149

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	3.84	70.0%	2.68
Relative Valuation (RV)	3.12	30.0%	0.94
Weighted Average Valuation (AED)			3.62
Current market price (AED)			3.26
Upside/Downside (%)			+11%

1) DCF Method:

Americana is valued using free cash flow to equity. We have discounted the cash flow using the cost of equity of 8.3%. The cost of equity is calculated using a 10-year government bond yield of 5.3%, a beta of 0.95, and an equity risk premium of 3.2%. 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)	1,625
Terminal value (USD, Mn)	7,173
FV to Common shareholders (USD, Mn)	8,797
No. of share (Mn)	8,439
Current Market Price (AED)	3.26
Fair Value per share (AED)	3.84

DCF Method

(All Figures in USD Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Income	212	318	426	565	673
D&A	284	341	379	404	423
(-) Capex	-140	-173	-187	-191	-193
Change in working capital	6	27	-8	22	-2
Net change in debt	-168	-200	-229	-246	-259
Free Cash Flow to Equity (FCFE)	195	313	382	553	641
Discounting Factor	0.95	0.88	0.81	0.75	0.69
Discounted FCFE	185	274	308	410	438

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 multiple of 13.4x in line with peers.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2024F	2025F	2024F	2025F
Herfy Food Services Co	570	11.2	9.2	84.0	33.6
Domino's Pizza Enterprises Ltd	2,292	13.4	11.7	32.2	23.0
Yum China Holdings Inc	14,740	7.5	6.4	17.5	15.4
Restaurant Brands International	23,170	12.7	11.5	22.0	17.7
Yum Brands	38,760	18.2	16.7	24.3	21.5
Domino's Pizza Inc	18,100	23.1	21.3	32.6	28.7
Starbucks Corporation	86,200	13.6	12.2	21.0	17.9
Average		14.2x	12.7x	33.4x	22.5x
Median		13.4x	11.7x	24.3x	21.5x
Max		15.9x	14.5x	32.4x	25.9x
Min		12.0x	10.4x	21.5x	17.8x

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%

FAB Securities Contacts:

Research Analyst

Ahmad Banihani +971-2-6161629 ahmad.banihani@Bankfab.com

Sales & Execution

Abu Dhabi Head Office

Trading Desk +971-2-6161700/1 Online Trading Link

+971-2-6161777

Institutional Desk +971-4-4245765

DISCLAIMER

This report has been prepared by FAB Securities (FABS), which is authorised by the UAE Securities and Commodities Authority, licensing registration number 604002, and is a member of the Abu Dhabi Securities Exchange and Dubai Financial Market. The information, opinions and materials contained in this report are provided for information purposes only and are not to be used, construed, or considered as an offer or the solicitation of an offer or recommendation to sell or to buy or to subscribe for any investment security or other financial instrument. The information, opinions and material in this report have been obtained and derived from publicly available information and other sources considered reliable without being independently verified for their accuracy or completeness. FABS gives no representation or warranty, express or implied, as to the accuracy and completeness of information and opinions expressed in this report. Opinions expressed are current as of the original publication date appearing on the report only and the information, including the opinions contained herein, are subject to change without notice. FABS is under no obligation to update this report. The investments referred to in this report might not be suitable for all recipients. Recipients should not base their investment decisions on this report and should make their own investigations, and obtain independent advice, as appropriate. Any loss or other consequences arising from the uses of material contained in this report shall be the sole and exclusive responsibility of the recipient and FABS accepts no liability for any such loss or consequence. The value of any investment could fall as well as rise and the investor may receive less than the original amount invested. Some investments mentioned in this report might not be liquid investments, which could be difficult to realise in cash. Some investments discussed in this report could be characterised by high level of volatility, which might result in loss. FABS owns the intellectual property rights and any other material contained in this report. No part of this report may be reproduced, utilised or modified in any form either in whole or in part or by any electronic, mechanical or other means, now known or hereafter invented, including photocopying and recording, or stored in any retrieval system without the prior consent of FABS in writing. While utmost care has been taken to ensure that the information provided is accurate and correct, neither FABS, nor its employees shall, in any way, be responsible for the contents. By accepting this document, the recipient agrees he/she has read the above disclaimer and to be bound by the foregoing limitations/restrictions.