

Americana Restaurants

Healthy LfL growth, rise in restaurant portfolio, and decline in commodity inflation drove bottom-line

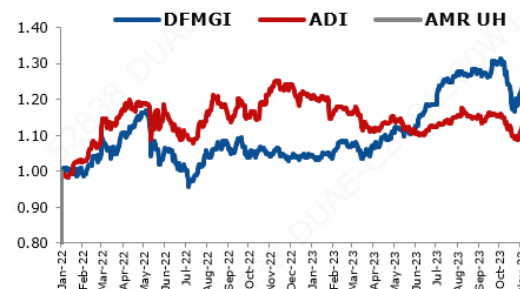
Current Price
AED 3.40

Target Price
AED 4.15

Upside/Downside (%)
+22%

Rating
BUY

- AMR launched dynamic pricing strategy in key markets for KFC in four countries and Hardees in three countries
- 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 3.8% YOY in 3Q23 and 6.0% YOY in 9M23 due to the robust performance of KFC and Pizza Hut
- Both gross and EBITDA margins improved 207 bps and 209 bps YOY to 52.8% and 23.6%, respectively in 3Q23
- AMR incurred a CAPEX of USD 39 Mn amounting to 5.9% of total revenue in 3Q23



Stock Information

Market Cap (AED, mm)	28,640.35
Paid Up Capital (mm)	167.42
52 Week High	4.54
52 Week Low	2.66
3M Avg. daily value (AED)	19,499,600

3Q23 Result Review (USD, mm)

Total Assets	1,505
Total Liabilities	1,087
Total Equity	418
EBITDA	155
Net Profit	82

Financial Ratios

Dividend Yield (12m)	1.33
Dividend Pay-out (%)	39.93
Price-Earnings Ratio(x)	26.89
Price-to-Book Ratio (x)	19.21
Book Value (AED)	0.05
Return-on Equity (%)	93.21

Stock Performance

5 Days	-3.68%
1 Months	-10.53%
3 Months	-18.07%
6 Months	-12.82%
1 Year	NA
Month to Date (MTD%)	-8.11%
Quarter to Date (QTD%)	-17.07%
Year to Date (YTD%)	14.48%

3Q23 Net Profit lower than our estimate

Americana Restaurants' (Americana/ the Company) net profit rose 9.9% YOY to USD 82 Mn in 3Q23, lower than our estimate of USD 94 Mn. The increase was mainly supported by a healthy revenue growth partially offset by an increase in cost of revenue and rise in operating expenses. Americana's net profit rose 21.5% YOY in 3Q23 after adjusting USD 8.7 Mn of negative hyperinflation impact from Lebanon's business and currency devaluation in Egypt.

P&L Highlights

Americana Restaurants' revenue grew 5.9% YOY to USD 656 Mn in 3Q23. The increase in net revenue is mainly attributable to the growth in restaurant portfolio and rise in like-for-like sales. Americana added a total of 61 net new stores in 3Q23, resulting in total restaurant count of 2,338. Like-for-like (LfL) sales rose 3.8% YOY in 3Q23 and 6.0% YOY in 9M23 driven by robust performance of KFC, Hardee's and Pizza hut. On the other hand, the Company's cost of revenue increased marginally 1.4% YOY to USD 309 Mn in 3Q23 driven by decline in cost of inventory due to decrease in commodity inflation. Thus, the Americana's gross profit rose 10.2% YOY to USD 346 Mn in 3Q23. Moreover, Americana's selling and marketing expenses rose 10.1% YOY to USD 210 Mn in 3Q23 while G&A expenses remained unchanged on YOY basis to USD 49 Mn. Meanwhile, the Company's adjusted EBITDA recorded a growth of 16.2% YOY to USD 155 Mn in 3Q23 owing to decreasing commodity inflation and focus on operational efficiencies whereas Adjusted EBITDA margin increased 209 bps YOY to 23.6% in 3Q23. As a result, total operating income increased 8.4% YOY to USD 89 Mn in 3Q23. Furthermore, the Company's finance income rose from USD 1 Mn in 3Q22 to USD 5 Mn in 3Q23 whereas finance cost increased 13.4% YOY to USD 8 Mn in 3Q23 due to increased interest rates. Zakat expense stood at USD 2.9 Mn in 3Q23 as compared to USD 1.5 Mn in 3Q22.

Balance Sheet Highlights

Americana Restaurants' borrowing declined from USD 12 Mn in 2Q23 to USD 1 Mn in 3Q23. The Company's cash and cash equivalents including short-term deposits with banks stood at USD 384 Mn in 3Q23 as compared to USD 312 Mn in 2Q23. Furthermore, Americana Restaurants generated USD 186 Mn in cash flow from operating activities in 3Q23 as compared to USD 174 Mn in 2Q23. In addition, the Company's adjusted free cash flow stood at USD 195 Mn in 9M23 as compared to USD 142 Mn in 9M22 with a conversion ratio of 66.3%. Americana restaurants incurred a capex of USD 39 Mn in 3Q23.

Target Price and Rating

We revise our rating on Americana Restaurant from HOLD to BUY with an unchanged target price of AED 4.15. The Company's share price fell 8.9% since our previous rating on 23 October 2023. Americana restaurants recorded healthy growth in profitability despite hyperinflation impact on Lebanon's business and currency devaluation in Egypt. The Company's restaurant portfolio rose from 2,277 restaurants in 2Q23 to 2,338 in 3Q23. Americana is on track to open 250-260 new stores in 2023 with a key focus in Saudi Arabia out of which 184 gross restaurants already opened in 9M23 whereas 92 new restaurants are under construction. Americana is well positioned with the continued expansion of its power brands like KFC, Pizza Hut, Hardees, and Krispy Kreme. The Company recorded healthy growth in LfL sales 3.8% YOY in 3Q23 and 6.0% YOY in 9M23 driven by the robust performance of KFC, Hardees, and Pizza Hut. Moreover, Americana's EBITDA margin rose 209 bps YOY to 23.6% in 3Q23 due to a decline in commodity inflation and operating efficiencies. However, the current geopolitical instability in the region might impact the Company's short-term performance but Americana remains positive on its long-term outlook. Meanwhile, the Company launched its first Krispy Kreme store in Kazakhstan entering new geographies to diversify its income source. The Company also launched an Internal Development Program 'Grow' which aims to improve the efficiency of Restaurant General Managers which might lead to further cost optimization. In addition, the Company also launched a dynamic pricing strategy in key markets for KFC and Hardees which will increase sales volume and result in competitive pricing benefiting the margins. The recent correction in the share price provides an attractive entry opportunity in addition introduction of a new strategy led us to assign a BUY rating on the stock.

Americana - Relative valuation

(at CMP)	2021	2022	2023F
PE	NA	30.64	24.82
PB	NA	27.91	20.53
EV/EBITDA	NA	14.31	12.43
Dividend yield	NA	2.7%	2.8%

FABS Estimates & Co Data

Americana – P&L

USD mm	3Q22	2Q23	3Q23	3Q23F	Var.	YOY Ch.	QOQ Ch.	2022	2023F	Change
Revenue	619	652	656	694	-5.5%	5.9%	0.5%	2,379	2,575	8.3%
COGS	-305	-307	-309	-326	-5.2%	1.4%	0.6%	-1,148	-1,224	6.6%
Gross profit	314	345	346	368	-5.9%	10.2%	0.4%	1,230	1,351	9.8%
S&M Expenses	-191	-197	-210	-208	0.9%	10.1%	6.6%	-739	-812	9.9%
G&A Expenses	-49	-51	-49	-58	-15.5%	0.0%	-4.2%	-193	-198	2.7%
Other Income	0	5	3	4	-31.1%	NM	-44.8%	17	18	9.0%
Total Operating Expense	-232	-244	-257	-262	-1.8%	10.8%	5.1%	-915	-996	8.8%
EBITDA	133	165	155	158	-2.2%	16.2%	-6.1%	536	609	13.7%
EBIT	82	100	89	106	-15.9%	8.4%	-11.0%	315	355	12.7%
Finance income	1	3	5	2	NM	NM	79.1%	4	14	276.6%
Finance cost	-7	-8	-8	-7	9.0%	13.4%	-3.9%	-25	-32	31.3%
Profit before ZAKAT	78	95	86	101	-14.5%	11.3%	-9.1%	272	337	24.0%
Zakat	-1	-7	-3	-7	-59.6%	92.7%	-58.6%	9	17	92.6%
Net Profit before NCI	76	88	84	94	-11.1%	9.7%	-5.2%	263	320	21.7%
Non-controlling interest	2	1	2	0	NM	NM	NM	4	0	NM
Net Profit	75	87	82	94	-12.8%	9.9%	-5.4%	259	320	23.4%

FABS estimate & Co Data

Americana - Margins

	3Q22	2Q23	3Q23	YOY Ch.	QOQ Ch.	2022	2023F	Change
Gross Profit	50.7%	52.9%	52.8%	207	-5	51.7%	52.5%	75
EBITDA	21.5%	25.3%	23.6%	209	-168	22.5%	23.6%	112
Operating Profit	13.3%	15.4%	13.6%	32	-177	13.3%	13.8%	55
Net Profit	12.0%	13.3%	12.5%	46	-79	10.9%	12.4%	153

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	4.22	70.0%	2.96
Relative Valuation (RV)	4.96	30.0%	1.19
Weighted Average Valuation (AED)			4.15
Current market price (AED)			3.40
Upside/Downside (%)			+22%

1) DCF Method:

Americana is valued using free cash flow to equity. We have discounted the cash flow using the cost of equity of 8.0%. 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)	1,585
Terminal value (USD, Mn)	8,103
FV to Common shareholders (USD, Mn)	9,689
No. of share (Mn)	8,424
Current Market Price (AED)	3.40
Fair Value per share (AED)	4.23

DCF Method

(All Figures in USD Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
Net Income	320	375	441	535	643
D&A	254	308	367	422	471
(-) Capex	-149	-172	-187	-202	-202
Change in working capital	66	43	28	34	49
Net change in debt	-170	-208	-250	-280	-304
Free Cash Flow to Equity (FCFE)	321	345	398	510	658
Discounting Factor	0.99	0.92	0.85	0.79	0.73
Discounted FCFE	53	316	338	400	478

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 14.3x in line with peers.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2023F	2024F	2023F	2024F
Herfy Food Services Co	518	9.5	8.9	19.7	21.4
Jolibee Foods Corp	4,530	8.4	7.7	32.9	25.9
Domino'S Pizza Enterprises Ltd	3,027	15.5	13.0	37.1	23.6
Yum China Holdings Inc	18,830	9.5	8.1	23.6	20.0
Restaurant Brands International	22,090	13.1	12.1	24.2	20.6
Yum Brands	35,830	18.5	17.0	23.6	21.7
Domino's Pizza Inc	13,070	20.0	18.3	26.0	23.8
Starbucks Corporation	122,000	16.7	15.0	25.9	22.1
Average		13.9x	12.5x	26.6x	22.4x
Median		14.3x	12.6x	25.1x	21.9x
Max		17.2x	15.5x	27.7x	23.7x
Min		9.5x	8.7x	23.6x	21.2x

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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