

## Americana Restaurants (AMR)

Current geopolitical situation and Unfavorable FX movements impacted the revenue growth

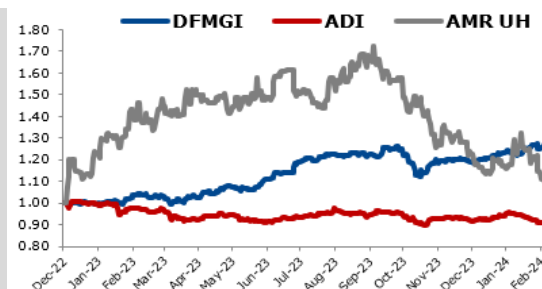
**Current Price**  
AED 3.29

**Target Price**  
AED 3.75

**Upside/Downside (%)**  
+14%

**Rating**  
**ACCUMULATE**

- AMR revenue declined 15.0% YOY to USD 516 Mn in 4Q23, mainly due to the ongoing geopolitical situation and unfavorable FX movements.
- The Company opened 252 net new stores in 2023. While it further plans to open 200-225 net new stores in 2024.
- AMR incurred a CAPEX of USD 168 Mn, amounting to 7.0% of total revenue in 2023.
- During the last two months of 2023, the Company opened two new KFC stores, one in Kuwait and another in Qatar. Additionally, in November 2023, it introduced a Peets Coffee store in the UAE.
- The Company's board of directors proposed a total dividend and special dividend of USD 0.02 per share, generating a dividend yield of 2.4% in 2023.



### Stock Information

Market Cap (AED, mm)	27,713.75
Shares Outstanding(mm)	8,423.63
52 Week High	4.54
52 Week Low	2.86
3M Avg. daily value (AED)	21,669,020

### 4Q23 Result Review (USD, mm)

Total Assets	1,557
Total Liabilities	1,105
Total Equity	451
EBITDA	104
Net Profit	33

### Financial Ratios

Dividend Yield (12m)	1.37
Dividend Pay-out (%)	69.15
Price-Earnings Ratio(x)	29.09
Price-to-Book Ratio (x)	17.17
Book Value (AED)	0.05
Return-on Equity (%)	71.68

### Stock Performance

5 Days	13.84%
1 Months	-0.60%
3 Months	-4.91%
6 Months	-19.56%
1 Year	-8.36%
Month to Date (MTD%)	5.79%
Quarter to Date (QTD%)	5.11%
Year to Date (YTD%)	5.11%

### 4Q23 Net Profit lower than our estimate

Americana Restaurants' (Americana/ the Company) net profit declined 48.3% YOY to USD 33 Mn in 4Q23, lower than our estimate of USD 72 Mn. The decrease in net profit is mainly attributable to the decline in revenue along with higher finance costs partially offset by a decline in direct cost and lower S&M and G&A expenses.

### P&L Highlights

Americana Restaurants' revenue declined 15.0% YOY to USD 516 Mn in 4Q23. The decline in net revenue is mainly attributable to the owing to the ongoing geopolitical situation and unfavorable FX movements. Americana added 97 net new stores in 4Q23, resulting in a total restaurant count of 2,435. Like-for-like (LfL) sales also declined 21.8% YOY in 4Q23 and 1.3% in 2023. On the other hand, the Company's cost of revenue declined 17.3% YOY to USD 246 Mn in 4Q23, driven by a decline in the cost of inventory due to a decrease in commodity inflation. Thus, Americana's gross profit declined 12.9% YOY to USD 270 Mn in 4Q23. However, gross profit margin grew 130 bps YOY to 52.4% in 4Q23. Moreover, Americana's selling and marketing expenses declined 2.3% YOY to USD 183 Mn in 4Q23. G&A expenses also declined 16.2% YOY to USD 45 Mn in 4Q23. The Company's adjusted EBITDA declined 20.8% YOY to USD 104 Mn in 4Q23 owing to lower revenue. Adjusted EBITDA margin fell 147 bps YOY to 20.2% in 4Q23. As a result, total operating income declined 22.0% YOY to USD 35 Mn in 4Q23. Operating margin declined 61 bps YOY to 6.9% in 4Q23. Furthermore, the Company's finance income rose from USD 2 Mn in 4Q22 to USD 5 Mn in 4Q23 whereas finance cost increased 9.7% YOY to USD 8 Mn in 4Q23 due to increased interest rates. Zakat expense declined from USD 1.1 Mn in 4Q22 to USD 0.4 Mn in 4Q23.

## Balance Sheet Highlights

Americana Restaurants' borrowing grew from USD 1 Mn in 3Q23 to USD 4 Mn in 4Q23. The Company's cash and cash equivalents including short-term deposits with banks remained stable at USD 384 Mn in 4Q23 compared to 3Q23. Furthermore, the Company generated USD 540 Mn in cash flow from operating activities in 2023 as compared to USD 454 Mn in 2022. The net working capital stood at negative USD 222 Mn in 2023 compared to negative USD 188 Mn in 2022, owing to increased trade payables and lower inventories. In addition, the Company's adjusted free cash flow stood at USD 183 Mn in 2023 as compared to USD 179 Mn in 2022 with a conversion ratio of 52.1%. Americana restaurants incurred a capex of USD 168 Mn in 2023 compared to USD 152 Mn in 2022.

## Target Price and Rating

We revise our rating from BUY to ACCUMULATE on Americana Restaurant with a revised target price of AED 3.75. Americana restaurants' profitability was impacted in 4Q23 primarily due to lower revenue which was owing to the ongoing geopolitical situation and unfavourable FX movements mainly in Egypt. The current geopolitical instability in the region created a huge impact on the Company's operations in Oman, Egypt, and Jordan. However, the impact has been minimal in key markets including UAE, KSA, and Kazakhstan representing 50% to 55% of the business, indicating strong performance in 2023. In medium and high-impact markets, Kuwait and Qatar experienced the strongest recovery, which can be attributed to KFC's flagship brand strength. Furthermore, the Company's strategy to maintain operational efficiency benefitted as it recorded lower direct costs and a decline in S&M and G&A expenses in 4Q23. Moreover, the restaurant portfolio rose from 2,338 in 3Q23 to 2,435 in 4Q23. Americana is well positioned with the continued expansion of its power brands like KFC, Pizza Hut, Hardees, and Krispy Kreme. The Company recorded negative LFL sales of 21.8% YOY in 4Q23 and 1.3% in 2023. The impact on sales was evident from mid-October, reaching its lowest point in November and December, however, it was followed by a gradual upward trend in January and February of 2024. Furthermore, during the last two months of 2023, the Company launched two KFC stores one in Kuwait and another one in Qatar. It also launched Peets Coffee store in UAE in November 2023 mainly 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 that benefits the margins. Americana Restaurant also maintained a strong balance sheet with a healthy cash balance of USD 384 Mn and an adjusted free cash flow of USD 183 Mn in 2023, supporting its growth and inorganic opportunities. The Company's board of directors also proposed a total dividend and special dividend of USD 0.02 per share, generating a dividend yield of 2.4% in 2023. Thus, based on our analysis, we assign our ACCUMULATE rating on the stock.

### Americana - Relative valuation

(at CMP)	2021	2022	2023	2024F
PE	NA	29.1	29.1	21.6
PB	NA	26.5	17.2	13.4
EV/EBITDA	NA	13.6	13.0	10.3
Dividend yield	NA	2.8%	2.4%	3.2%

FABS Estimates & Co Data

#### Americana Restaurant – P&L

USD mm	4Q22	3Q23	4Q23	4Q23F	Var.	YOY Ch.	QOQ Ch.	2022	2023	Change
Revenue	608	656	516	633	-18.5%	-15.0%	-21.3%	2,379	2,413	1.5%
COGS	-297	-309	-246	-300	-18.1%	-17.3%	-20.5%	-1,148	-1,152	0.3%
<b>Gross profit</b>	<b>310</b>	<b>346</b>	<b>270</b>	<b>333</b>	<b>-18.8%</b>	<b>-12.9%</b>	<b>-21.9%</b>	<b>1,230</b>	<b>1,262</b>	<b>2.6%</b>
S&M Expenses	-188	-210	-183	-211	-13.2%	-2.3%	-12.7%	-739	-777	5.2%
G&A Expenses	-54	-49	-45	-48	-6.3%	-16.2%	-7.1%	-193	-192	-0.7%
Other Income	7	3	8	9	-17.5%	12.1%	172.8%	17	17	-0.9%
<b>Total Operating Expense</b>	<b>-265</b>	<b>-257</b>	<b>-235</b>	<b>-250</b>	<b>-6.1%</b>	<b>-11.3%</b>	<b>-8.6%</b>	<b>-937</b>	<b>-970</b>	<b>3.5%</b>
<b>EBITDA</b>	<b>132</b>	<b>155</b>	<b>104</b>	<b>154</b>	<b>-32.1%</b>	<b>-20.8%</b>	<b>-32.6%</b>	<b>536</b>	<b>551</b>	<b>2.8%</b>
<b>EBIT</b>	<b>45</b>	<b>89</b>	<b>35</b>	<b>83</b>	<b>-57.2%</b>	<b>-22.0%</b>	<b>-60.3%</b>	<b>293</b>	<b>291</b>	<b>-0.5%</b>
Finance income	2	5	5	4	45.9%	169.1%	9.7%	4	15	NM
Finance cost	-7	-8	-8	-10	-16.9%	9.7%	8.6%	-25	-31	26.2%
<b>Profit before ZAKAT</b>	<b>65</b>	<b>86</b>	<b>32</b>	<b>76</b>	<b>-57.8%</b>	<b>-50.1%</b>	<b>-62.6%</b>	<b>272</b>	<b>275</b>	<b>1.4%</b>
Zakat	-1.1	-3	-0.40	-3	NM	-65.2%	-86.1%	9	13	49.2%
<b>Net Profit before NCI</b>	<b>64</b>	<b>84</b>	<b>32</b>	<b>73</b>	<b>-56.4%</b>	<b>-49.8%</b>	<b>-61.8%</b>	<b>263</b>	<b>262</b>	<b>-0.2%</b>
Non-controlling interest	0	2	-1	1	NM	NM	NM	4	3	NM
<b>Net Profit</b>	<b>63</b>	<b>82</b>	<b>33</b>	<b>72</b>	<b>-54.7%</b>	<b>-48.3%</b>	<b>-60.0%</b>	<b>259</b>	<b>259</b>	<b>0.1%</b>

FABS estimate & Co Data

#### Americana Restaurant - Margins

	4Q22	3Q23	4Q23	YOY Ch.	QOQ Ch.	2022	2023	Change
Gross Profit	51.1%	52.8%	52.4%	130	-45	51.7%	52.3%	56
EBITDA	21.7%	23.6%	20.2%	-147	-340	22.5%	22.8%	30
Operating Profit	7.5%	13.6%	6.9%	-61	-675	12.3%	12.1%	-24
Net Profit	10.4%	12.5%	6.3%	-409	-615	10.9%	10.8%	-15

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	3.55	70.0%	2.48
Relative Valuation (RV)	4.21	30.0%	1.26
<b>Weighted Average Valuation (AED)</b>			<b>3.75</b>
Current market price (AED)			3.29
Upside/Downside (%)			+14%

### 1) DCF Method:

Americana Restaurant is valued using free cash flow to equity. We have discounted the cash flow using the cost of equity of 9.3%. The cost of equity is calculated using a 10-year government bond yield of 5.2%, a beta of 1.02, and an equity risk premium of 4.0%. 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)	1,822
Terminal value (USD, Mn)	6,319
<b>FV to Common shareholders (USD, Mn)</b>	<b>8,142</b>
No. of share (Mn)	8,424
Current Market Price (AED)	3.29
<b>Fair Value per share (AED)</b>	<b>3.55</b>

### DCF Method

(All Figures in USD Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Income	349	400	525	668	786
D&A	303	349	388	416	438
(-) Capex	-169	-183	-197	-191	-193
Change in working capital	39	7	-15	-9	-43
Net change in debt	-183	-232	-261	-281	-292
<b>Free Cash Flow to Equity (FCFE)</b>	<b>340</b>	<b>341</b>	<b>440</b>	<b>604</b>	<b>696</b>
Discounting Factor	0.92	0.85	0.77	0.71	0.65
<b>Discounted FCFE</b>	<b>314</b>	<b>289</b>	<b>341</b>	<b>428</b>	<b>451</b>

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 13.3x in line with peers.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2024F	2025F	2024F	2025F
Herfy Food Services Co	593	10.3	9.2	39.1	34.2
Jolibee Foods Corp	5,140	8.2	6.8	28.5	24.1
Domino'S Pizza Enterprises Ltd	2,350	13.9	11.8	33.8	22.1
Yum China Holdings Inc	16,500	8.0	6.9	18.6	16.3
Restaurant Brands International	23,750	12.7	11.6	22.9	19.9
Yum Brands	37,950	17.6	16.3	23.3	20.7
Domino's Pizza Inc	14,810	20.2	18.6	27.1	24.1
Starbucks Corporation	106,000	14.7	13.2	22.9	19.6
<b>Average</b>		<b>13.2x</b>	<b>11.8x</b>	<b>27.0x</b>	<b>22.6x</b>
<b>Median</b>		<b>13.3x</b>	<b>11.7x</b>	<b>25.2x</b>	<b>21.4x</b>
<b>Max</b>		<b>15.4x</b>	<b>14.0x</b>	<b>29.8x</b>	<b>24.1x</b>
<b>Min</b>		<b>9.8x</b>	<b>8.6x</b>	<b>22.9x</b>	<b>19.8x</b>

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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