

## Americana Restaurants International PLC (AMR)

Prolonged geopolitical tension and demand slowdown in some markets impacted financials

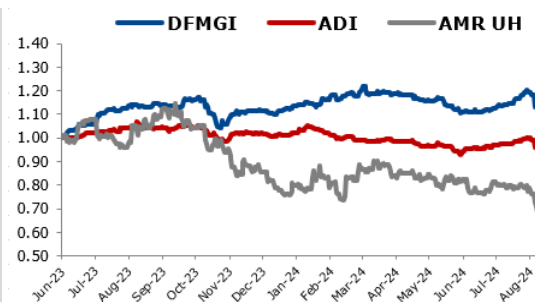
**Current Price**  
AED 2.63

**Target Price**  
AED 3.40

**Upside/Downside (%)**  
+29%

**Rating**  
BUY

- Americana Restaurant added 81 new stores in UAE and KSA with a portfolio of 2,477 restaurants in 1H24.
- It recorded a negative LfL of 20.3% YOY in 2Q24 owing to a demand slowdown, particularly in Saudi Arabia & Egypt and a boycott of Western brands due to geopolitical tensions.
- Consumers transitioned towards home delivery owing to regional conflict, and the home delivery mix made up 42% of sales in 1H24 compared to 39% in 1H23.
- Gross margin improved both on QOQ and YOY basis in 2Q24 due to various cost initiatives. It further expects gross margins to improve in 2024 compared to 2023 due to lower inventory cost due to the implementation of supply chain optimization, cost control measures & procurement strategy.



### 2Q24 Net Profit higher than our estimate

Americana Restaurants' (Americana/ the Company) net profit declined 40.1% YOY to USD 52 Mn in 2Q24, higher than our estimate of USD 42 Mn. The decrease in net profit is mainly attributable to lower revenue, as a result of the prolonged geopolitical conflict, demand slowdown, and increasing competition as well as higher depreciation expense owing to the addition of new stores partially offset by a decline in commodity costs.

### P&L Highlights

Americana restaurant's revenue declined significantly from USD 652 Mn in 2Q23 to USD 559 Mn in 2Q24 primarily driven by lower like-for-like sales owing to demand slowdown, particularly in Saudi Arabia and Egypt, the boycott of Western brands due to geopolitical tension and higher competition partially offset by additional revenue earned through the addition of new store. Americana added 81 new stores with a portfolio of 2,477 restaurants in 1H24. Like-for-like (LfL) sales declined 20.3% in 1H24. On the other hand, direct cost fell 16.0% YOY to USD 258 Mn in 2Q24 due to lower cost of inventory owing to supply chain optimization & procurement strategy, coupled with favorable commodity prices. As a result, the cost of inventory declined 2.7% YOY to 28.9% in 2Q24. Thus, Americana's gross profit declined 12.6% YOY to USD 301 Mn in 2Q24. However, gross profit margin grew 98 bps YOY to 53.8% in 2Q24. Moreover, Americana's selling and marketing expenses declined 1.2% YOY to USD 195 Mn in 2Q24. G&A expenses fell 4.4% YOY to USD 49 Mn in 2Q24. The Company's adjusted EBITDA declined 21.5% YOY to USD 129 Mn in 2Q24 owing to lower revenue with an EBITDA margin of 23.1%. Total operating income declined from USD 100 Mn in 2Q23 to USD 60 Mn in 2Q24. Operating margin declined 465 bps YOY to 10.7% in 2Q24. Furthermore, the Company's finance income rose from USD 3 Mn in

### Stock Information

Market Cap (AED, mm)	22,575.34
Paid Up Capital (mm)	167.42
52 Week High	4.51
52 Week Low	2.62
3M Avg. daily value (AED)	14,869,580

### 2Q24 Result Review (USD, mm)

Total Assets	1,425
Total Liabilities	1,083
Total Equity	342
EBITDA	129
Net Profit	52

### Financial Ratios

Dividend Yield (12m)	2.92
Dividend Pay-out (%)	69.15
Price-Earnings Ratio(x)	31.60
Price-to-Book Ratio (x)	18.42
Book Value (AED)	0.04
Return-on Equity (%)	59.03

### Stock Performance

5 Days	-0.37%
1 Months	-14.38%
3 Months	-14.92%
6 Months	-8.85%
1 Year	-35.30%
Month to Date (MTD%)	-13.27%
Quarter to Date (QTD%)	-15.99%
Year to Date (YTD%)	-13.80%

2Q23 to USD 4 Mn in 2Q24, whereas finance cost increased 5.5% YOY to USD 8 Mn in 2Q24 due to higher lease costs as a result of an increase in lease liabilities. Zakat expense fell 34.3% YOY to USD 5 Mn in 2Q24.

### Balance Sheet Highlights

Americana Restaurants' borrowing remained unchanged at 2Q24 at USD 2 Mn. The Company's cash and cash equivalents including short-term deposits with banks declined from USD 364 Mn in 1Q24 to USD 258 Mn in 2Q24. Furthermore, the Company generated USD 161 Mn in cash flow from operating activities in 2Q24 compared to USD 41 Mn in 1Q24. Net working capital increased from negative USD 172 Mn in 1Q24 to negative USD 195 Mn in 2Q24. In addition, the Company's adjusted free cash flow stood at USD 44 Mn in 1H24 compared to USD 111 Mn in 1H23 with a conversion ratio of 33.4%. Americana restaurants incurred a capex of USD 47 Mn in 1H24 compared to USD 69 Mn in 1H23.

### Target Price and Rating

We maintain our BUY rating on Americana Restaurant with a revised target price of AED 3.40. The Company's topline was impacted by a broader slowdown in the QSR space in KSA and Egypt, which, in turn, owed to an overall decline in consumer spending and boycott of Western brands due to geopolitical tensions. Americana also recorded a decline in average revenue per store, largely due to negative like-for-like sales coupled with the underperformance of new stores which are yet to mature. It added 81 new stores with a portfolio of 2,477 stores in 1H24. The UAE is one of Americana's key markets where there is no visible slowdown in demand. The Company is taking various initiatives both on the revenue and cost front to revive growth despite difficult market conditions in some markets owing to prolonged geopolitical situations and demand slowdown. Americana saw positive recovery trends in Kuwait and Qatar both in 1Q24, 2Q24 and even in July 2024. It also focuses on product innovation and aggressive value to drive transaction growth. The Company is focused on value offerings which are likely to benefit the business volumes and drive revenue. The company introduced new product offerings across KFC, Hardee's, and Krispy Kreme. Moreover, it introduced meal offers and combo deals in Pizza Hut and KFC to drive transactions and enhance customer satisfaction, resulting in a rise in average daily sales in July. Americana is also prudent on capital deployment and plans to 175-185 net new stores in FY2024. Amidst a decline in sales, the Company is also pursuing cost management strategies to optimize cost structure. The cost management strategy will include improving supply chain efficiency, improved raw material sourcing, reduction in G&A expenses and negotiating rental release with the landlord. The management expects the gross margin to improve in FY2024 mainly attributed to favorable commodity prices, supply chain optimization and proactive revenue management resulting in lower inventory cost. The Company will maintain its focus on revenue recovery strategies, including smart pricing, targeted promotions, and marketing efforts, with an emphasis on boosting transactions and increasing investment in marketing. Thus, based on our analysis, we assign a BUY rating on the stock.

#### Americana - Relative valuation

(at CMP)	2022	2023	2024F
PE	23.3	23.3	29.3
PB	21.2	13.7	12.8
EV/EBITDA	10.8	10.3	10.8
Dividend yield	3.5%	3.0%	2.8%

FABS Estimates & Co Data

Americana-P&L (USD, Mn)	2Q23	1Q24	2Q24	2Q24F	Var.	YOY Ch.	QOQ Ch.	2023	2024F	Change
Revenue	652	494	559	508	10.0%	-14.2%	13.3%	2,413	2,349	-2.6%
COGS	-307	-239	-258	-244	5.8%	-16.0%	7.9%	-1,152	-1,110	-3.6%
<b>Gross Profit</b>	<b>345</b>	<b>254</b>	<b>301</b>	<b>264</b>	<b>13.9%</b>	<b>-12.6%</b>	<b>18.4%</b>	<b>1,262</b>	<b>1,239</b>	<b>-1.8%</b>
S&M Expenses	-197	-175	-195	-168	16.0%	-1.2%	11.2%	-777	-781	0.4%
G&A Expenses	-51	-48	-49	-47	3.9%	-4.4%	1.3%	-192	-211	10.3%
Other Income	5	3	2	3	-23.7%	-62.8%	-22.9%	17	18	5.0%
<b>Total Operating Expense</b>	<b>-244</b>	<b>-220</b>	<b>-241</b>	<b>-212</b>	<b>13.7%</b>	<b>-1.3%</b>	<b>9.5%</b>	<b>-970</b>	<b>-974</b>	<b>0.4%</b>
<b>EBITDA</b>	<b>165</b>	<b>103</b>	<b>129</b>	<b>123</b>	<b>4.8%</b>	<b>-21.5%</b>	<b>25.2%</b>	<b>551</b>	<b>546</b>	<b>-0.8%</b>
<b>EBIT</b>	<b>100</b>	<b>34</b>	<b>60</b>	<b>52</b>	<b>14.6%</b>	<b>-40.2%</b>	<b>76.0%</b>	<b>291</b>	<b>265</b>	<b>-8.8%</b>
Financing income	3	5	4	5	-19.0%	50.1%	-23.0%	15	19	25.9%
Financing cost	-8	-9	-8	-9	-7.1%	5.5%	-4.1%	-31	-35	14.3%
<b>Profit Before ZAKAT</b>	<b>95</b>	<b>31</b>	<b>56</b>	<b>48</b>	<b>15.2%</b>	<b>-41.5%</b>	<b>82.2%</b>	<b>275</b>	<b>249</b>	<b>-9.5%</b>
Zakat	-7	-4	-5	-6	-24.7%	-34.3%	17.9%	13	31	NM
<b>Net Profit</b>	<b>88</b>	<b>27</b>	<b>51</b>	<b>42</b>	<b>20.9%</b>	<b>-42.1%</b>	<b>91.5%</b>	<b>262</b>	<b>218</b>	<b>-16.9%</b>
Non-controlling interest	1	-1	-1	0	NM	NM	NM	3	3	NM
<b>Net profit attributable</b>	<b>87</b>	<b>28</b>	<b>52</b>	<b>42</b>	<b>24.2%</b>	<b>-40.1%</b>	<b>85.3%</b>	<b>259</b>	<b>215</b>	<b>-17.2%</b>

FABS estimate & Co Data

#### Americana - Margins

	2Q23	1Q24	2Q24	YOY Ch.	QOQ Ch.	2023	2024F	Change
Gross Profit	52.9%	51.5%	53.8%	98	233	52.3%	52.7%	47
EBITDA	25.3%	20.9%	23.1%	-215	220	22.8%	23.3%	43
Operating Profit	15.4%	6.9%	10.7%	-465	382	12.1%	11.3%	-77
Net Profit	13.3%	5.7%	9.3%	-400	361	10.8%	9.1%	-161

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	3.56	70.0%	2.49
Relative Valuation (RV)	3.03	30.0%	0.91
<b>Weighted Average Valuation (AED)</b>			<b>3.40</b>
Current market price (AED)			2.63
Upside/Downside (%)			+29%

### 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 5.0%, a beta of 0.95, 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)	1,432
Terminal value (USD, Mn)	6,735
<b>FV to Common shareholders (USD, Mn)</b>	<b>8,167</b>
No. of share (Mn)	<b>8,424</b>
Current Market Price (AED)	2.63
<b>Fair Value per share (AED)</b>	<b>3.56</b>

### DCF Method

(All Figures in USD Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Income	218	285	378	496	616
D&A	281	331	362	385	404
(-) Capex	-122	-146	-162	-170	-179
Change in working capital	3	13	-11	19	1
Net change in debt	-167	-196	-223	-241	-255
<b>Free Cash Flow to Equity (FCFE)</b>	<b>213</b>	<b>286</b>	<b>345</b>	<b>490</b>	<b>588</b>
Discounting Factor	0.97	0.89	0.83	0.76	0.70
<b>Discounted FCFE</b>	<b>103</b>	<b>256</b>	<b>285</b>	<b>373</b>	<b>414</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 multiple of 13.2x in line with peers.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2024F	2025F	2024F	2025F
Herfy Food Services Co	400	8.0	7.5	37.0	28.6
Domino's Pizza Enterprises Ltd	1,765	11.6	10.6	22.4	19.0
Yum China Holdings Inc	11,361	7.3	6.5	13.7	12.1
Restaurant Brands International	22,197	13.2	12.0	20.8	18.3
Yum Brands	38,071	18.2	16.8	23.8	21.2
Domino's Pizza Inc	15,003	20.4	18.9	26.5	24.1
Starbucks Corporation	85,987	14.8	13.4	21.3	19.0
<b>Average</b>		<b>13.4x</b>	<b>12.2x</b>	<b>23.6x</b>	<b>20.3x</b>
<b>Median</b>		<b>13.2x</b>	<b>12.0x</b>	<b>22.4x</b>	<b>19.0x</b>
<b>Max</b>		<b>16.5x</b>	<b>15.1x</b>	<b>25.2x</b>	<b>22.7x</b>
<b>Min</b>		<b>9.8x</b>	<b>9.0x</b>	<b>21.0x</b>	<b>18.6x</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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