

## Americana Restaurants International PLC

Prolonged geopolitical tension and demand slowdown in some markets impacted financials

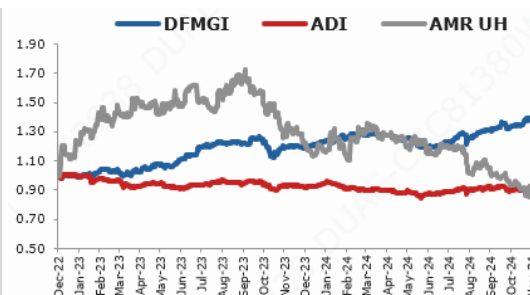
**Current Price**  
AED 2.31

**Target Price**  
AED 3.15

**Upside/Downside (%)**  
+36%

**Rating**  
BUY

- Americana revised its store guidance for FY2024 from 175-185 in 2Q24 to 150-160 stores in 3Q24 to align with business trend.
- The Company added 32 gross new stores in 3Q24 leading to a total store count of 2,504 stores at the end of 3Q24.
- The company recorded a negative LfL of 18.0% YOY in 3Q24 owing to a demand slowdown and evolving geopolitical tensions.
- Home delivery channel sales amounted to 43% of total revenue in 9M24 compared to 40% in 9M23 and expect to stay at this level.
- Free cash flow fell from USD 84 Mn in 3Q23 to USD 12 Mn in 3Q24 due to lower EBITDA and investment in working capital.
- Cash and cash equivalents including short-term deposits with banks boosted from USD 258 Mn in 2Q24 to USD 274 Mn in 3Q24.



### 3Q24 Net Profit lower than our estimate

Americana Restaurants' (Americana/ the Company) net profit declined 54.3% YOY to USD 37 Mn in 3Q24, lower than our estimate of USD 57 Mn. The decrease in net profit is mainly attributable to lower revenue owing to the prolonged geopolitical conflict, demand slowdown in some markets, and higher inflation, coupled with higher depreciation expense due to the addition of new stores and the introduction of corporate tax in UAE.

### P&L Highlights

Americana restaurant's revenue declined significantly by 15.3% YOY to USD 555 Mn in 3Q24 primarily driven by a slowdown in consumer demand in some markets, prolonged geopolitical conflict, and an increase in inflation partially offset by an expansion of sales due to store additions. Revenue from the Power Brands portfolio decreased substantially by 15.1% YOY to USD 521 Mn in 3Q24, while the revenue of the Growth/ Niche portfolio experienced a similar decline. Americana restaurant added 32 gross new stores with a portfolio of 2,504 restaurants in 3Q24, however, the Like-for-like (LfL) revenue declined 18.0% YOY 3Q24. The company's cost of goods sold fell faster than revenue declining 16.5% YOY to USD 258 Mn in 3Q24 due to favourable commodity price trends, successful inventory management and various procurement initiatives. Thus, Americana's gross profit declined 14.3% YOY to USD 297 Mn in 3Q24. Gross profit margin improved 65 bps YOY to 53.5% in 3Q24. Americana's total operating expenses fell 3.1% YOY to USD 249 Mn in 3Q24 owing to lower selling & marketing and G&A expenses partially offset by lower other income. Selling & marketing expenses fell 2.1% YOY to USD 206 Mn and G&A expenses reduced 11.0% YOY to USD 43 Mn in 3Q24. On the other hand, other income fell 68.7% YOY to USD 1 Mn in 3Q24. Thus, Americana's EBITDA fell 23.8% YOY to USD 118 Mn in 3Q24.

### Stock Information

Market Cap (USD, Mn)	19,458.59
Paid Up Capital (Mn)	167.42
52 Week High	3.62
52 Week Low	2.22
3M Avg. daily value (AED)	14,079,690

### 3Q24 Result Review (USD, Mn)

Total Assets	1,468
Total Liabilities	1,096
Total Equity	372
EBITDA	118
Net Profit	37

### Financial Ratios

Dividend Yield (12m)	3.39
Dividend Pay-out (%)	69.15
Price-Earnings Ratio(x)	35.27
Price-to-Book Ratio (x)	14.55
Book Value (AED)	0.04
Return-on Equity (%)	39.00

### Stock Performance

5 Days	3.13%
1 Months	-6.10%
3 Months	-13.16%
6 Months	-25.72%
1 Year	-29.95%
Month to Date (MTD%)	2.21%
Quarter to Date (QTD%)	-12.83%
Year to Date (YTD%)	-25.70%

EBITDA margin fell 190 bps QOQ basis to 21.2% in 3Q24 due to seasonality, higher delivery cost and higher utility & maintenance expenses due to the summer season. EBIT also fell 46.3% YOY to USD 48 Mn in 3Q24. Additionally, the company finance income fell 24.0% YOY to USD 4 Mn in 3Q24 and finance cost rose 20.5% YOY to USD 9 Mn in 3Q24. Hence, profit before zakat fell considerably 51.0% YOY to USD 42 Mn in 3Q24. The company zakat expenses more than doubled from USD 3 Mn in 3Q23 to USD 6 Mn in 3Q24 due to the introduction of corporate tax in UAE in FY2024.

### Balance Sheet Highlights

Americana's cash and cash equivalents including short-term deposits with banks increased from USD 258 Mn in 2Q24 to USD 274 Mn in 3Q24. Borrowings increased from USD 2 Mn in 2Q24 to USD 8 Mn in 3Q24. Furthermore, the Company generated USD 451 Mn in cash flow from operating activities during 9M23 compared to USD 298 Mn in 9M24 due to lower profit and investment in working capital. Americana generated an adjusted free cash flow of USD 195 Mn in 9M23 compared to USD 56 Mn in 9M24 with a conversion ratio of 28.9% in 9M24. Furthermore, the Company generated positive working capital of USD 34 Mn in 9M23 compared to negative working capital of USD 40 Mn in 9M24. Americana restaurants incurred a capex of USD 73 Mn in 9M24 against the CAPEX of USD 106 Mn in 9M23.

### Target Price and Rating

We maintain our BUY rating on Americana Restaurant with a revised target price of AED 3.15. The Company continued to experience a decline in the top line due to a slowdown in consumer demand in some markets, prolonged geopolitical issues, and higher inflation. Americana added 32 gross new stores, with a portfolio of 2,504 restaurants in 3Q24. It also lowered its new store guidance to 150-160 stores in FY2024 due to changes in business trends. However, the Company is taking various initiatives both on the revenue and cost front to overcome current challenges. Americana opened two Krispy Kreme outlets in Morocco in 3Q24 and is building the pipeline to scale up operations in Morocco. Additionally, the company launched a Peets Coffee store in Abu Dhabi, as part of its expansion plan and committed to expanding premium coffee offerings in UAE. Americana continues to take initiatives to drive transactions. It has undertaken multiple initiatives focussing on product innovation and attractive offers to customers to drive sales. These initiatives are driven across markets and brands. Due to these initiatives, the Company witnessed a robust recovery in Hardee's and Pizza Hut in 3Q24 compared to 1H24. Additionally, it took more steps to drive sales of KFC in October 2024 which was lower in 3Q24 due to the value campaign and epic meals resulting in check dilution in 3Q24. Americana expects the initiatives will result in higher sales MOM with recovery in some markets at a higher rate and some at a slower rate. Moreover, Americana also expanded digital platform kiosks in KFC stores located in Kuwait and Qatar. The company also expanded last last-mile delivery platform which operates in nine locations in Kazakhstan. Americana Restaurant added new aggregators to its platform to expand its reach and capture a large portion of the market share. Americana Restaurant witnessed a major recovery in average daily transactions and average daily sales in 3Q24 compared to 2Q24. The Company plans to introduce daily value offers across markets to increase order frequency. It also expects gross margin to improve in 4Q24 compared to 3Q24 as Americana plans to reduce the value of offers owing to positive seasonality during the period. Thus, based on our analysis, we assign a BUY rating on the stock.

### Americana - Relative valuation

(at CMP)	2022	2023	2024F
PE	20.7	20.7	33.5
PB	18.9	12.2	11.8
EV/EBITDA	9.5	9.1	10.6
Dividend yield	4.0%	3.4%	2.4%

FABS Estimates & Co Data

Americana-P&L (USD, Mn)	3Q23	2Q24	3Q24	3Q24F	Var.	YOY Ch.	QOQ Ch.	2023	2024F	Change
Revenue	656	559	555	575	-3.4%	-15.3%	-0.8%	2,413	2,173	-10.0%
COGS	-309	-258	-258	-265	-2.7%	-16.5%	0.1%	-1,152	-1,022	-11.3%
<b>Gross Profit</b>	<b>346</b>	<b>301</b>	<b>297</b>	<b>309</b>	<b>-4.0%</b>	<b>-14.3%</b>	<b>-1.5%</b>	<b>1,262</b>	<b>1,151</b>	<b>-8.8%</b>
S&M Expenses	-210	-195	-206	-192	6.9%	-2.1%	5.7%	-777	-777	-0.1%
G&A Expenses	-49	-49	-43	-49	-11.2%	-11.0%	-10.8%	-192	-189	-1.4%
Other Income	3	2	1	2	-56.2%	-68.7%	-53.6%	17	18	5.0%
<b>Total Operating Expense</b>	<b>-257</b>	<b>-241</b>	<b>-249</b>	<b>-239</b>	<b>4.0%</b>	<b>-3.1%</b>	<b>3.2%</b>	<b>-970</b>	<b>-947</b>	<b>-2.4%</b>
<b>EBITDA</b>	<b>155</b>	<b>129</b>	<b>118</b>	<b>133</b>	<b>-11.7%</b>	<b>-23.8%</b>	<b>-8.9%</b>	<b>551</b>	<b>483</b>	<b>-12.2%</b>
<b>EBIT</b>	<b>89</b>	<b>60</b>	<b>48</b>	<b>70</b>	<b>-31.4%</b>	<b>-46.3%</b>	<b>-20.1%</b>	<b>291</b>	<b>204</b>	<b>-30.0%</b>
Financing income	5	4	4	5	-26.6%	-24.0%	-9.3%	15	18	14.4%
Financing cost	-8	-8	-9	-9	2.8%	20.5%	9.8%	-31	-35	14.0%
<b>Profit Before ZAKAT</b>	<b>86</b>	<b>56</b>	<b>42</b>	<b>66</b>	<b>-35.6%</b>	<b>-51.0%</b>	<b>-23.8%</b>	<b>275</b>	<b>186</b>	<b>-32.5%</b>
Zakat	-3	-5	-6	-8	-29.6%	102.6%	27.5%	13	23	78.1%
<b>Net Profit</b>	<b>84</b>	<b>51</b>	<b>37</b>	<b>58</b>	<b>-36.5%</b>	<b>-56.2%</b>	<b>-28.4%</b>	<b>262</b>	<b>163</b>	<b>-38.0%</b>
Non-controlling interest	2	-1	-1	1	NM	NM	NM	3	2	-26.2%
<b>Net profit attributable</b>	<b>82</b>	<b>52</b>	<b>37</b>	<b>57</b>	<b>-34.4%</b>	<b>-54.3%</b>	<b>-27.9%</b>	<b>259</b>	<b>160</b>	<b>-38.2%</b>

FABS estimate & Co Data

#### Americana - Margins

	3Q23	2Q24	3Q24	YOY Ch.	QOQ Ch.	2023	2024F	Change
Gross Profit	52.8%	53.8%	53.5%	65	-38	52.3%	53.0%	69
EBITDA	23.6%	23.1%	21.2%	-237	-190	22.8%	22.3%	-57
Operating Profit	13.6%	10.7%	8.6%	-499	-210	12.1%	9.4%	-269
Net Profit	12.5%	9.3%	6.7%	-576	-254	10.8%	7.4%	-337

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	3.17	70.0%	2.22
Relative Valuation (RV)	3.10	30.0%	0.93
<b>Weighted Average Valuation (AED)</b>			<b>3.15</b>
Current market price (AED)			2.31
Upside/Downside (%)			+36%

### 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 4.8%, a beta of 0.95, and an equity risk premium of 3.7%. Government bond yield is calculated after adding Abu Dhabi's 10-year spread over 10-year US risk-free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (USD, Mn)	1,188
Terminal value (USD, Mn)	6,086
<b>FV to Common shareholders (USD, Mn)</b>	<b>7,273</b>
No. of share (Mn)	<b>8,424</b>
Current Market Price (AED)	2.31
<b>Fair Value per share (AED)</b>	<b>3.17</b>

### DCF Method

(All Figures in USD Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Income	163	195	284	390	502
D&A	280	326	355	375	389
(-) Capex	-115	-130	-153	-161	-169
Change in working capital	-37	26	15	33	35
Net change in debt	-166	-179	-207	-226	-237
<b>Free Cash Flow to Equity (FCFE)</b>	<b>124</b>	<b>238</b>	<b>293</b>	<b>411</b>	<b>519</b>
Discounting Factor	0.99	0.91	0.84	0.78	0.72
<b>Discounted FCFE</b>	<b>31</b>	<b>217</b>	<b>247</b>	<b>320</b>	<b>373</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 12.8x in line with peers.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2024F	2025F	2024F	2025F
Herfy Food Services Co	405	12.6	8.9	NA	76.4
Domino's Pizza Enterprises Ltd	1,827	11.3	10.2	21.7	18.0
Yum China Holdings Inc	18,743	11.4	10.2	21.1	19.3
Restaurant Brands International	30,647	13.9	12.8	20.4	18.0
Yum Brands	38,291	18.7	17.5	25.0	22.6
Domino's Pizza Inc	15,875	21.6	20.1	27.5	26.1
Starbucks Corporation	110,573	19.2	19.4	29.4	31.2
<b>Average</b>		<b>15.5x</b>	<b>14.2x</b>	<b>24.2x</b>	<b>30.2x</b>
<b>Median</b>		<b>13.9x</b>	<b>12.8x</b>	<b>23.4x</b>	<b>22.6x</b>
<b>Max</b>		<b>18.9x</b>	<b>18.5x</b>	<b>26.9x</b>	<b>28.6x</b>
<b>Min</b>		<b>12.0x</b>	<b>10.2x</b>	<b>21.2x</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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