Equity Research report
AMERICAN AB Equity
21 June 2023

Target Price: SAR4/share
Current Price: SAR4.2 /share
Downside: -4% (+Div. Yield: 1.3%)
Rating: Neutral

Americana Restaurants International

Resilient performance but priced in

- Rev/store metrics in 1Q23 were resilient vis-a-vis peers and store opening is likely faster than expected.
- Further, the cost of inventory is expected to ease in 2H23 supporting margins.
- However we believe the positives are priced in. Our revised TP is SAR4/share with a Neutral rating.

Restaurants growth: The company's portfolio grew to 2,228 stores with 49 gross openings in 1Q23 as compared to 33 in 1Q22, a 50% increase. There are around 199 restaurants in the pipeline, of which about 63 are under construction. This provides visibility of the openings in the next 2-3 quarters. As per the management, the opening of restaurants is usually back-end loaded, i.e., a significant number of stores are opened in 2H, and the company is on track to deliver a net new restaurant opening target of 250 to 300 per annum. Given this, we raise our estimate for store count by ~5% vs. the previous estimate.

1Q23 results update: The Company's revenue rose only 2.1% y/y but this was because of the partial shift of the holy month of Ramadan to 1Q. LFL grew 1.7% during the quarter; however, excluding the Ramadan days, it grew 7.5%. However, the key positive despite the decline in net profit y/y was that the company had outperformed most of its QSRs which de-grew 15-20% at a rev/store level. Net income attributable to shareholders decreased by 19.2% y/y, partially due to currency devaluation in Egypt and Lebanon.

2Q23 onwards: We believe Americana's outperformance is likely due to its diversified portfolio with multiple power brands enabling them to capture change in fluctuating food habits. As for 2Q23, we expect better growth in terms of top-line (5% y/y vs 2% in 1Q23). In 2H23 we should see costs improving due to the inventory cycle as materials prices are normalizing after their peak in 2022. This is likely to lift margins later in the year. We expect expansion to accelerate in 2H reaching 249 for the whole year (lower end of 250-300 store guidance). Given the currency situation, we are less optimistic on the Egyptian market. We assume 12% and 17% CAGR (from 2022-2025) in revenues and operating profits respectively.

Figure 1: Key financial metrics

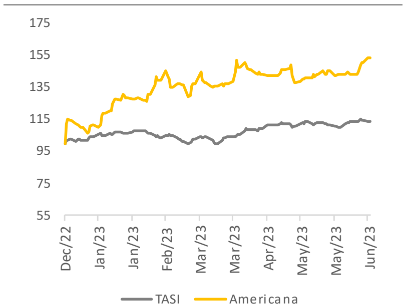
US$mn	2021a	2022a	2023e	2024e
Revenue	2,052	2,379	2,523	3,022
Revenue growth	*30%*	*16%*	*6%*	*20%*
Gross Profit	1,081	1,230	1,300	1,567
Gross Profit margin	*52.7%*	*51.7%*	*51.5%*	*51.8%*
EBITDA	464	540	522	692
Op. income	243	293	287	401
Net profit	206	263	259	367
Net profit margin	*10.1%*	*11.1%*	*10.3%*	*12.1%*
EPS (SAR)	2.5	3.1	3.1	4.4
P/E	44.9x	35.3x	35.8x	25.3x

Source: Company, GIB Capital

Stock data	
TASI ticker	6015
Mcap (SARmn)	35,379
Trd. Val (3m) (SARmn)	84.7
Free float	34.0%
QFI holding	7.5%
TASI FF weight	0.60%

Source: Bloomberg

Prices indexed to 100



Source: Bloomberg

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Region-wise update:

1) **Kuwait:** Hardee's performance in Kuwait has been under pressure due to restrictions on expat visas and competitor dynamics. However, as per the management, there seems to be a pickup in 2Q post-Ramadan.
2) **UAE:** Pizza Hut UAE performed well and exceeded the company's expectations during 1Q in terms of LFL. Also, Hardee's performance has been robust in UAE.
3) **Egypt:** The currency devaluation impacted the overall revenue. Egypt's share of revenue to the total revenue declined to 7.5% in 1Q23 compared to 11.4% in 1Q22. Further, the company has decided to pull back on capital deployment, focusing on improving operations and achieving cost efficiencies.
4) **Iraq:** Launched KFC and Pizza Hut in Baghdad in April 2023.

Power brands update: Given the healthy performance, the share of power brands to the total revenue has increased to 94% in 1Q23 as compared to 93% in 1Q22.

1) **KFC:** Topline grew 3.8% y/y, supported by 4.2% LFL growth despite Ramadan seasonality. Also, the stores count increased; there were 14 new openings and two closures.
2) **Hardees:** Revenue declined 3.7% y/y due to softness in its performance in Kuwait and Qatar. Recorded 4.5% y/y decline in LFL.
3) **Pizza Hut:** The topline increased by 4.9% y/y with 1.7% LFL growth. Currently, six stores are under construction, and have a healthy pipeline of new stores for 2023.
4) **Krispy Kreme:** Revenue rose 10.6% y/y. LFL (-12.4% y/y) was impacted by KSA performance (50% of the store count is in KSA), given the competition in the sweet treat and indulgence category and robust new openings (77 stores – April 22 to March 23).
5) **Peet's Coffee:** The company opened two coffee shops in Dubai in January 2023. Three stores are under construction in KSA and are expected to launch in 3Q23.

Figure 2: Power brands performance

Power brands	Revenue ($m)		1Q23 growth	1Q23 LfL growth	LfL growth until the start of Ramadan
	1Q22	1Q23			
KFC	349	362	+3.8%	+4.2%	
Hardees	102	99	-3.7%	-4.5%	
Pizza Hut	64	67	+4.9%	+1.7%	
Krispy Kreme	22	25	+10.6%	-12.4%	
Total	578	589	+2.1%	+1.7%	+7.5%

Source: Company data, GIB Capital

Valuation and Risks: We continue to value using an average of DCF and PE (23x 2024 EPS) methods which yield us SAR4.2/share and SAR3.9/share respectively. Thereby the average of SAR4/share is our target price. Key downside risks are further currency devaluation in Egypt and Lebanon, an increase in competition leading to a decline in pricing, failure to deliver expansion targets and an increase in inflation.

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