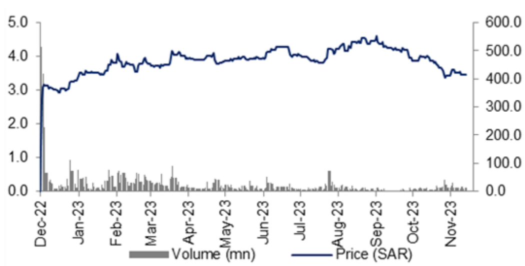
Restaurants

BUY: 12M TP @ 4.41

Valuation Summary (TTM)			
Price (SAR)			3.47
PER TTM (x)			27.0
P/Book (x)			22.8
P/Sales (x)			3.7
EV/Sales (x)			3.9
EV/EBITDA (x)			16
Dividend Yield (%)			2.7
Free Float (%)			32%
Shares O/S (mn)			8,424
YTD Return (%)			14%
Beta			1.0
(mn)		**SAR**	**USD**
Market Cap		29,230	7,794
Total Assets		30,650	8,172
Price performance (%)	**1M**	**3M**	**12M**
Americana	-13%	-21%	NA
Tadawul Index	7%	-3%	1%
Trading liquidity (,000)	**1M**	**3M**	**6M**
Avg daily turnover (SAR)	58,292	37,714	48,250
Avg Daily Volume (,000)	13,713	9,740	12,102
52 week	**High**	**Low**	**CTL***
Price (SAR)	4.65	2.63	31.9
* CTL is % change in CMP to 52wk low			
Major shareholders			
Adeptio AD Investmen			66%
Vanguard Group Inc/T			1.4%
BlackRock Inc			0.6%
Others			32.0%
Other details			
Exchange			Saudi Arabia
Sector			Retail
Index weight (%)			0.5%
Key ratios	**2020**	**2021**	**2022**
EPS (SAR)	0.01	0.02	0.03
BVPS (SAR)	0.01	0.02	0.04
DPS (SAR)	0.02	0.01	0.01
Payout ratio (%)	163%	40%	39%



Americana Restaurants – recipe for growth

Americana Restaurants (AMR) is the largest franchise operator in the Out Of Home Dining (OOHD) market across the MENA region. The company manages 13 brands (4 core brands – KFC, Hardee's, Pizza Hut and Krispy Kreme) across 12 countries operating 2,338 restaurants and employing 40,000+ people. Adeptio AD Investments Group (UAE) acquired 93% of the company from the Al Kharafi group (Kuwait) in 2017. Post-acquisition, the company underwent a massive transformation, as it closed down several legacy assets maintained by the previous owners, while simultaneously expanding its network into core markets and prime locations, thereby driving volume growth. Use of technology, hiring top talent and disposing loss making portfolios led to an improvement in operational efficiency and financial metrics between 2018-22. AMR witnessed like for like (LFL) growth improving by 13.6% in 2022, net store openings have been higher than historical average at +150 annually and leadership position continues unabated. MENA region has a young and affluent population that increasingly prefers dining outside. AMR has built several brands to entice these young customers, the success of which is vindicated in the growing revenues in the QSR segment, despite intense competition in the sector. We are positive on the developments taking place in the company and believe the OOHD market is underpenetrated. The fragmented nature of the market also offers scope for inorganic growth. We believe the company is embarking on the next stage of growth and forecast the group revenue to rise by 13.6% CAGR (2022-27e) and net profit to increase by 18.8% CAGR (2022-27e). The promoters through an IPO in December 2022 divested 30% stake in the company and AMR dual listed on the Saudi and Abu Dhabi exchange. The stock price has doubled post listing and recently reverted by 23% from the highs due to the selloff caused by the geo political situation in the region. We arrive at a blended fair value of SAR 4.41/share, which is higher than the current price by 27.2%. We believe at current price of AMR offers a good entry point into one of the most vibrant sectors in the region, hence we initiate coverage on AMR with a STRONG BUY rating.

Underpenetrated OOHD market provides scope for growth: The OOHD markets in which AMR operates is highly underpenetrated with annual spends per capita in AMRs core markets at USD 226 (vs USD 1,1616 in developed countries), outlets per 10,000 population at 6 (vs 21 in developed countries) and transactions per capita at 13 (vs 158 in developed countries). This coupled with a young affluent population base, where 78% of the people are below 45 years of age with high disposable income provide the perfect recipe for growth.

Organic network expansions falling in line, synergies to be evident from 2024 onwards: AMR under the new management has focused on closure of loss making units, measured expansions, growing LFL revenue and extensive use of technology. We expect the next phase of expansion to see the results of these plans fructifying. We expect lower closure rates, asset light operations, smaller format stores and use the full potential of aggregators and own platform to increase off premise volume to take place from 2024 onwards. We expect revenue growth to reach full potential when current additions start performing at steady state levels.

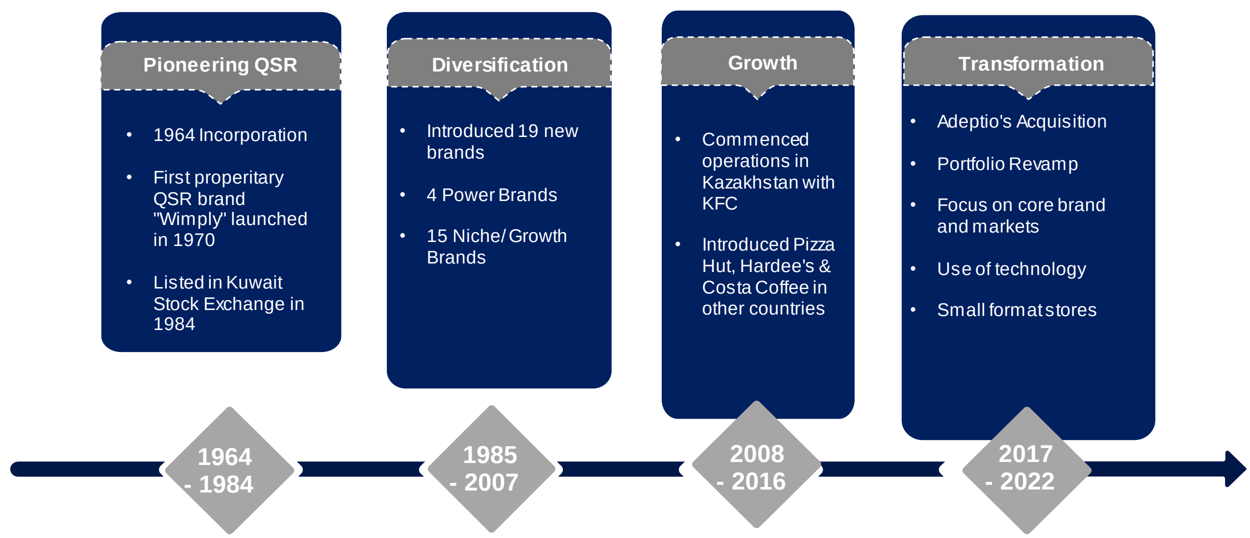
Valuation: AMR is the largest and fastest growing OOHD player in the region. The company has been able to maintain stability in operating costs over the years despite topline growth. The zero debt status, negative working capital cycle and above average margins provide adequate cushion to the revenue. We are optimistic based on the solid market potential, aggressive network expansions, and improved operational efficiencies. We value the stock on the basis of DCF and peer valuation to arrive at a blended target price of SAR 4.41/share. This provides an upside potential of 27.2% from the current price and we provide a STRONG BUY rating on AMR.

AMR is the pioneer of QSR in the region…

Americana is one of the largest multi brand restaurant operator in the world and leader in the MENA region

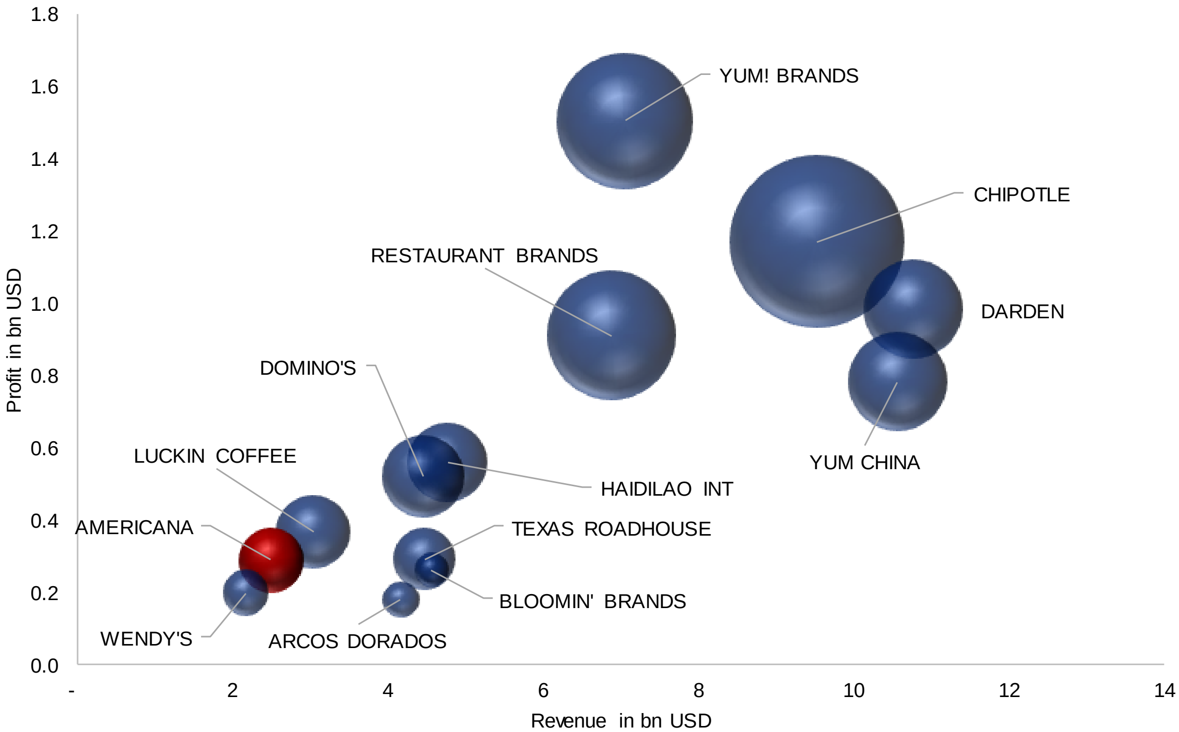
Americana Restaurants (AMR) is the largest franchise operator in the Out of Home Dining (OOHD) and Quick Service Restaurant (QSR) segment across the MENA region and amongst the top 15 globally. The company was incorporated in 1964 as the region's first QSR restaurant. It began operations in Kuwait with a proprietary brand "Wimpy" in 1970 making AMR the pioneer in the segment. AMR focused on adding multiple brands over 1985-2007 of which, KFC (1973), Pizza Hut (1979), Hardee's (1980), Krispy Kreme (2007), were the most successful, and later categorized as power brands. The franchise portfolio also included others such as, Costa Coffee, Peets Coffee, Baskin Robins, TGIF, Chicken Tikka, Grand Café, Fish market and Pavilion. In 2008, the company expanded to Kazakhstan with the purchase of an existing fast-food company Rostik's, which was later re-branded to KFC in 2009. AMR went on an expansion spree across the region and in Kazakhstan, totalling its restaurant counts to 1,761 and adding 19 brands with presence in 12 countries by the end of 2016.

Americana is a five decade old company and a first mover in the QSR segment



Source: Company reports, US Research

Globally Americana is placed 11th in terms of market cap and profit and 16th in terms of revenue



*some companies that have made unusual profit or losses have been removed, also companies less than USD 1bn in revenue are not in the list

**McDonalds and Startbucks are market leaders and occupay the first two positoins but not included as they are too big to fit the scale

Source: Bloomberg®, US Research

Changes in ownership leads to transformation of the company…

In 4Q16, a Dubai-based consortium Adeptio AD Investment led by Emaar Properties (UAE) and partnering with the Public Investment Fund (PIF) of Saudi, acquired the erstwhile promoter, Al Kharafi Group's stake (96.03%) in AMR. The company was eventually delisted from the Kuwait exchange in 2018. Following the acquisition, AMR restaurants underwent a significant overhaul in management and operational structure. By the end of 9M23, AMR managed 2,338 restaurants, which was more than the next four regional operators put together. Also the current restaurant network is approximately 4.7x bigger than Alamar's and 5.2x bigger than Herfy's (the top 2 listed competitors in the region). Alamar had net additions of 83 restaurants and Herfy's introduced only 5 in the past 2 years whereas AMR has added +328 during the period.

Re-listed at 3.7 x more than the acquisition valuation …

The changes in the operations and unbeatable leadership position provided the company a premium when it re-listed simultaneously on Saudi and ADX bourses in December 2022 through an IPO. The promoters divested 30% and raised USD 1.8bn, valuing the company at USD 6 bn (vs USD 1.6 bn when it de-listed in 2018). The appreciation in the company's market value was a vindication of the revised strategy, management quality, resulting growth and industry potential.

Americana operates 13 brands across 12 countries in the MENA region and Kazakhstan

Source: Company reports, US Research

AMR to focus on power brands and core geographies going forward

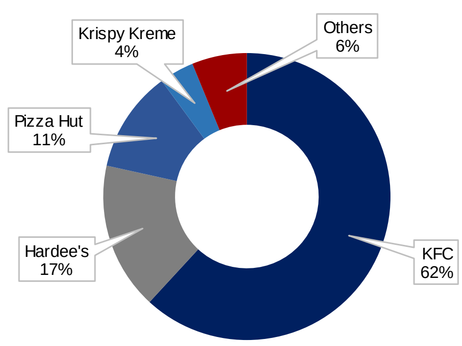
Attention to core competencies…

Despite being a multi brand franchise, AMR derived 93.7% (in 9M23) of its revenue from the 4 power brands – KFC, Hardees, Pizza hut and Krispy Kreme. The 9 other brands are classified as niche and their contribution to the group revenue is only 6.3%. Further the company has 4 key geographies (UAE, KSA, Kuwait and Egypt) which contributed 77% (in 9M23) of the revenue. This deliberate strategy of focusing on key markets and emphasis on most acceptable brands will auger well for the company going forward, compared to the earlier strategy of aggressive acquisition and having a scattered presence.

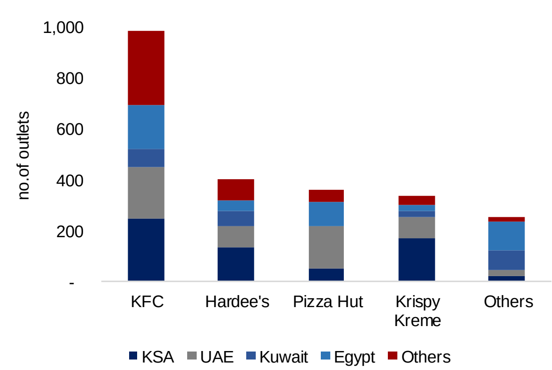
AMR has 4 core brands - KFC, Hardees, Pizza Hut, Krispe Kreme and 9 other niche ones

Brand name	KFC	Hardees	Pizza Hut	Krispy Kreme	Others
Category	Chicken	Burger	Pizza	Indugence	Coffee, FSR, Sweet, Indulgence
Market presence (no.of countries)	13	10	7	6	2-5
No.of outlets	985	404	359	337	253
Revenue (9M23) (in mn USD)	1173	315	217	74	117
Years of operations	49	42	40	30	Multiple
Avg payabck period (no.of yrs)	1.9	2.4	4.1	0.9	
AUV (mn USD/outlet)	1.6	1.0	0.8	0.3	

Revenue contribution - Brandwise - 9M23



Distribution of outlets - 9M23



Source: Company reports, US Research

KFC contributes to 61% of the total group revenue …

KFC has been the legacy asset of the company, with operations spanning over 49 years and across 985 outlets (42% of total as of 9M23) in the MENA region. It is a global leader in the chicken QSR segment and has a strong brand following amongst the younger population. In the region it is # 1 across the segment (chicken QSR) in all the countries that it operates. KFC faces minimal competition from local players such as Albaik, Texas chicken, Heart Attack and Bazooka. Brand building over the years and adapting to local flavours has helped it achieve an unbeatable position in the market. While AMR has been adding KFC outlets at a rapid pace (+48 in 2021, +43 in 2022 and +46 in 9M23) it has also focused on the per outlet profitability. The average unit volume (AUV) has risen by 30% since 2019 to USD 1.61mn per restaurant in 9M23. While expansion will continue in core markets, the company also plans to venture into Iraq. We expect revenue from this segment to grow at 12.8% CAGR over 2022-27e.

Hardee's modifies strategy to face intense competition…

Hardee's is a leader in the burger QSR segment and has been in exisitence for 42 years across and 10 countries in the MENA region. AMR operates 404 Hardee's resturants (17% of total in 9M23). It maintains #2 position in Egypt and #3 and #4 in UAE and Saudi respectively. The burger QSR segment is the most competitive with international players like McDonald's, Burger King, Five Guys, Shake Shack and local players such as Herfy, Burgerizzr and Hamburgini. Further, a new segment of premium burgers are being offered by brands such as Angus, Wagyu and Organica, which has increased the fragementation. Based on the increased competition and constant changes in the trends, the company implemented a set of strategies in 2021 to improve the brand awareness, refresh brand value proposition, refurbish old real estate assets and improve digital connect with customers. A new range of items were introduced in the menu to make Hardees the ultimate destination for burgers. Ten new outlets were added and in 2022, the segment witnessed a total revenue increase of 15% YoY, with LFL* sales increasing by 12.3% YoY. During the 9M23 period Hardees added 13 more outlets and LFL grew by 2.2% YoY. As the results of the strategy start effecting all outlets we expect revenues from Hardees to grow at a CAGR of 12.1% (2022-27e), albeit marginally slower pace compared to the other core brands. Net store openings (NSO) are also expected to be lower than other brands in the range of 25-35 (vs +70 for other power brands) annually over the next five years.

* LFL- Like for like revenues growth denotes the percentage increase/decrease in the revenues for those AMR restaurants which have generated monthly revenues over the 12-month period in a given financial year and excludes revenues of those restaurants which have not generated revenues for more than 6 consecutive month

Pizza Hut is numero uno in its segment, KSA relaunched …

Pizza Hut is another globally famous and favorite brand managed by AMR in the region. The brand had been built over 40+ years and has presence in Saudi, UAE, Bahrain, Egypt, Jordan, Iraq and Kazakhastan. It maintains #1 positions in pizza QSR across UAE (51% market share) and Egypt (28%). The erstwhile owner of the brand in KSA exited the operations leaving 150 outlets to AMR, which company closed down. It recently re-launched its operations in Saudi Arabia and has opened 52 restaurants with modernised assets and a refurbished look. As of 9M23, the group's total restaurant count improved to 359 restaurants (from 280 in 2021 and 15% of total in 9M23) placing them next only to the market leader in the region, Dominoes Pizza (500+ restaurants). We expect AMR to prioritize Pizza Hut's growth by enhancing the brand in Saudi Arabia, while bolstering its already strong presence in the UAE and Egypt. We expect 70-80 outlets to be added in this segment annually, which will drive revenue growth at 19.7% CAGR over 2022-27e.

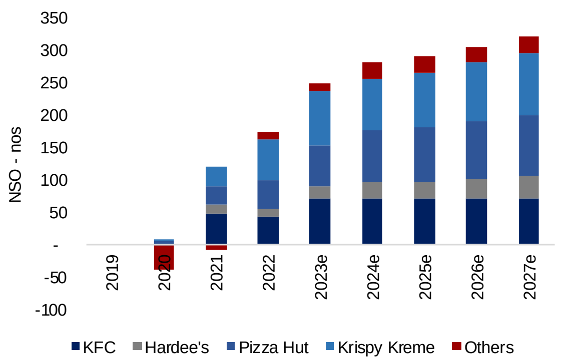
Krispy Kreme to witness the fastest growth …

The company ventured into the indulgence category 30 years ago, with the introduction of Baskin Robins in Kuwait and Egypt. However, the major growth in this category occurred in 2006, when AMR acquired the franchise to operate Krispy Kreme. It quickly expanded across the region to become one of the preferred brands and currently operates 337 restaurants as of 9M23. While it has already established presence in the core markets, the company plans to expand into Oman, Jordan, and Kazakhstan. Krispy Kreme has a lower AUV compared to other brands due to the smaller size of its outlets. The premium products, lower cost of operations and higher off premise orders reduces the payback period of these outlets to less than a year. However, the LFL revenue continues to remain negative, as most of the outlets are new and yet to receive the minimum threshold footfalls. We expect fastest addition of outlets (+80-90 annually) in this segment, which will drive revenue growth at 19.9% CAGR 2022-27e.

Other brands will add to group customer base …

The 9 Niche Brands contribute only 6.3% towards total revenue. The company operates these brands through 253 restaurants, with more emphasis on Costa Coffee and Peet's Coffee. These smaller brands are not expected to contribute significantly to the group, though we believe they will help in understanding the changes in trends and provide an additional customer base.

Upcoming outlets to be dominated by core brands



Pizza hut and Krispy cream outlets to double by 2027

KFC

2022	2027e
939	1290

Hardee's

2022	2027e
391	524

Pizza Hut

2022	2027e
325	739

Krispy Kreme

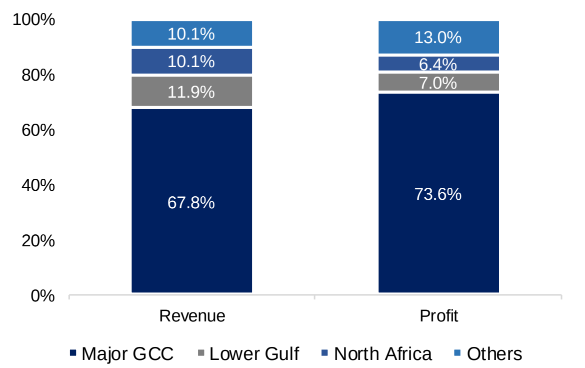
2022	2027e
284	717

Source: Company reports, US Research

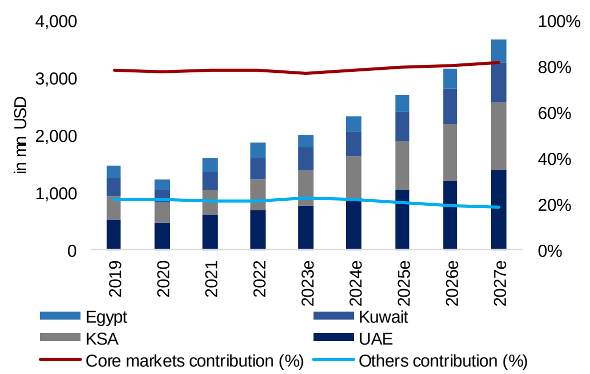
Focus on core geographies will be key to growth …

Similar to the re-balance strategy of the brand portfolio, the company has also re-organized its focus on specific geographies. More restaurant additions will take place in Saudi, UAE, Kuwait and Egypt, which together encompass an addressable population of 147 mn (55% of total addressable population of the group). These markets hold significant potential and currently contribute to 77% (as of 9M23) of the overall revenue. The core brands already have high market share in these markets and we believe it would be easier to retain them than to explore new geographies.

Nearly 80% of the revenue and profit from the Gulf



4 core geographies contribute 77%



Source: Company reports, US Research

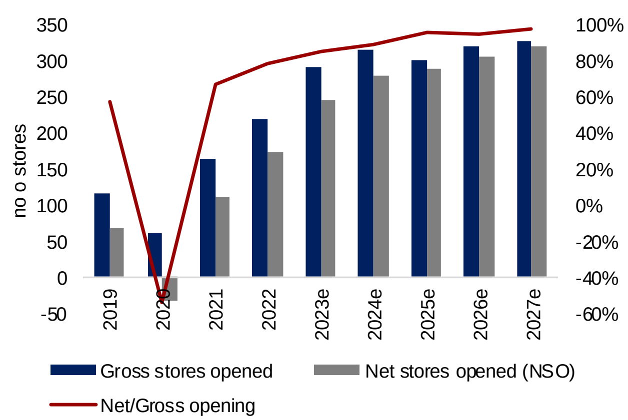
Next phase of growth will focus on lower closure rates

The new management of AMR has aimed at realigning the franchise portfolio to focus on its core brands and to optimize locations. In line with this strategy, AMR took the initiative to shutter 285 outlets. The company also divested 8 underperforming brands, including Red Lobster, Sbarro, Olive Garden, Longhorn, The Counter, Samadi, Maestro, and Fusion, resulting in a reduction of its brand portfolio from 20 to 12.

Emphasis on lower closure rate and higher net additions going forward…

This strategy of consolidation resulted in a slow annual net addition of outlets (approx. +50 outlets per year) during 2017-21. The company recorded a meagre revenue CAGR of 4.7% during this period (partially responsible also due to covid related lock downs). We believe this process of closing down the restaurants at inefficient locations have been phased out. This is evidenced by the net to gross opening ratio, which increased from 58% in 2019 to 78.6% in 2022 and 84.2% in 9M23. Further, the net store openings (NSO) in 2021 was 110, in 2022 it was 173 and as of 9M23 the company has registered a NSO of 155 outlets, significantly higher than historical average. The management has guided another 92 sites to come up by end of the year and 18 sites in different stages of planning taking the net additions in 2023e to 250-265.

Loss making outlets have been phased out



Source: Company reports, US Research

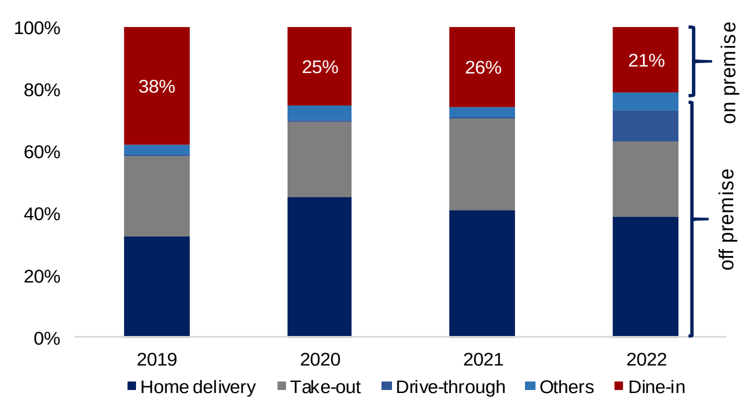
While the net increase in restaurants will support revenue growth, lower loss making outlets will lead to increase in profitability. As of June 2022, AMR had only 89 loss making restaurants which accounted for only 4% of the total restaurants count and contributed to less than 1% impact on the company's EBITDA.

Food aggregators along with AMRs own digital network will provide additional volumes

Food aggregators contribute to the alpha factor in demand but dilute margins…

OOHD restaurants took the biggest hit during the covid years, as sales declined severely due to the lock down. However, it also resulted in an unexpected growth of food aggregators across the world who have been responsible for the re-emergence of the sector. While the concept of dining outside has reverted to its earlier levels, the idea of home delivery and digital ordering has grown at a faster pace. This is especially true in the case of QSRs such as KFC, Pizza hut and Hardees. Food aggregators in the region such as Talabat, Deliveroo, Zomato, Jahez & Hungerstation have successfully enticed customers in the core markets and spoiled them for choice. These aggregators have managed to offer cheaper and faster services. They have played an intermediary role between the customer and the restaurants, bringing in volumes that in an ideal case wouldn't have been possible. While we are positive on this new trend and believe this will add to the growth of the sector, we believe there could be an incremental erosion in the margins, in case these players start dominating restaurant owners.

Increasing trend of off premise dining post covid pose challenge



Source: Company reports, US Research

AMR's own digital infra competes with other aggregators…

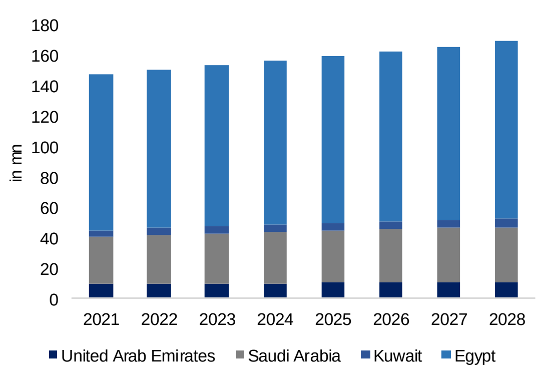
AMR has proactively managed this risk by investing significantly in its own digital infrastructure and SuperApps. AMR's own platform was responsible for about 44% of the home delivery revenue and 81% of the transactions in 2021. Transactions through the app has increased multifold (16x) since 2019-21, leading to a similar rise in revenues. Additionally, AMR operates about 7,800 delivery staffs that operate for all the brands and compete well with the aggregators. We are confident that AMR is in a position to utilize both the aggregators and its own established digital infrastructure to increase volumes going forward. At present we do not expect any erosion of margin on this account.

AMR operates in the MENA region which has a high growth potential for OOHD

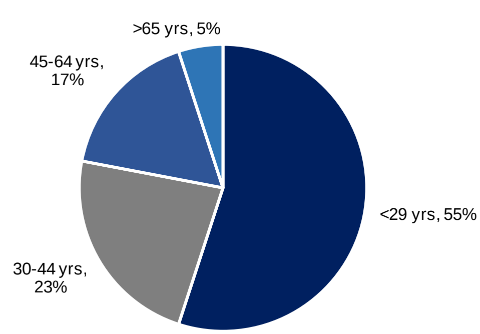
Young, affluent and fast growing population…

The OOHD markets in which AMR operates is valued at USD 56 bn (as of 2021) and is expected to grow at 14% CAGR (2022-26e) compared to 3% in developed market such as US, UK, Canada and Australia. This is due to the favorable demographic conditions existing in these countries, which encompass a young and fast growing population totaling to 270mn. About 78% of these people are below the age of 45 and are the prime customers for AMR. We are observing an increasing trend in education levels, employment opportunities and a westernized approach towards lifestyle in this generation. Additionally, there is also a significant rise in women in workforce. The region has become a tourist hub and the continuous influx of expats, who arrive for work and leisure add to the population and consumption trends.

Population expected to grow in core countries

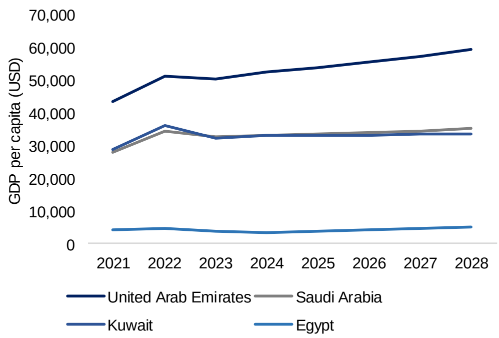


Population breakdown in core geographies

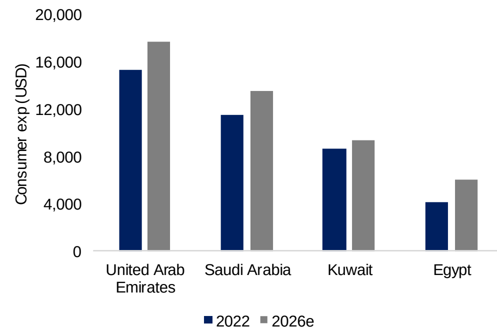


Source: Company reports, US Research

GDP per capita to improve over the period



Consumer expenditure per capita to rise during 2022-26

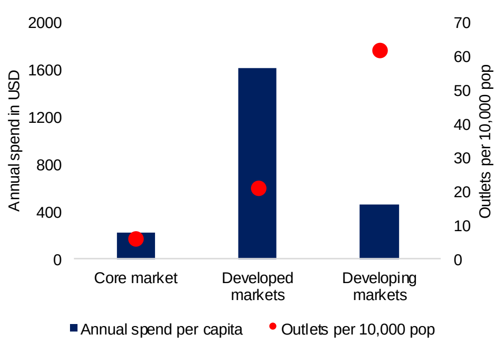


Source: Company reports, US Research

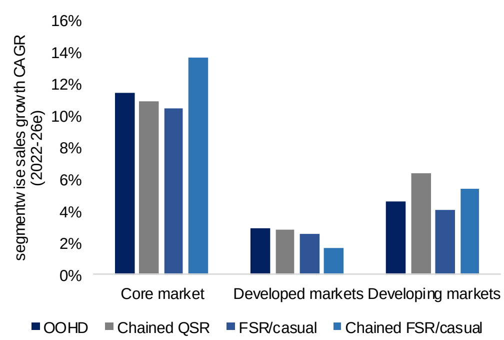
Lower penetration levels compared to developed markets…

Along with the demographics, the economies in which AMR operates are classified as fast growing, with the nominal GDP expected to grow at a CAGR of 6.8% (2022-26e). Despite an attractive socio economic situation conducive for the restaurant operators, the region remains under penetrated. The overall penetration of OOHD outlets remain almost three times lower than the developed markets and more than 8x lower in the chained restaurant segment where AMR operates. This puts companies like AMR, which already have an entrenched network of brands and leadership in a sweet spot.

Penetration levels still low in core markets



Core markets to grow faster across all segments



Source: Company reports, US Research

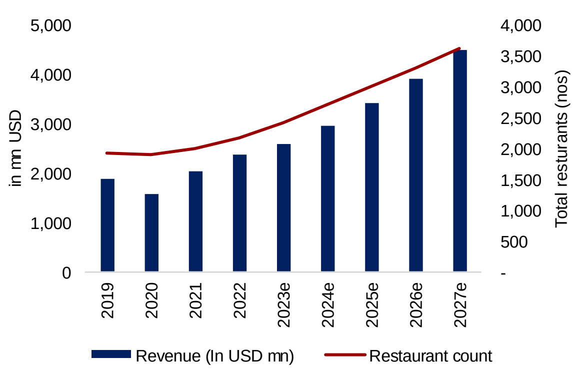
AMR has a clear leadership in all the markets that it operates and hence will be the biggest beneficiary of the growth currently witnessed in the sector. The rebalancing of the portfolio and expansion activities undertaken are coming in at the right time to capture the opportunity.

Revenue growth to stabilize while profits to increase with improvements in operational efficiency

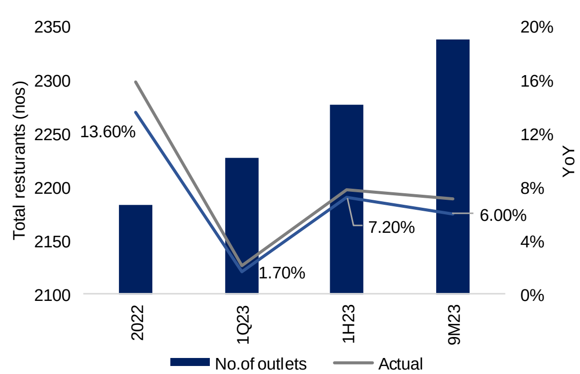
Expanded capacities, LFL growth and more footfalls to drive revenue growth going forward…

The group's revenue grew rapidly post covid at 30.9% YoY in 2021 and 15.9% YoY in 2022, due to a combination of network additions (438 restaurants added during 2020-9M23), increase in the power brand penetration across core markets and improvement in the LFL revenue growth. LFL growth which was weak during the consolidation phase (2017-21) later revived to 13.6% during 2022 and has slowed down again to 6% in 9M23. We expect LFL growth to improve from 2024e onwards, due to higher footfalls in the newly opened outlets and increase in the blended AUV. Going forward, we believe the aggressive expansion plan (+1,440 outlets between 2022-27e) with a particular focus on Pizza Hut (+414 between 2022-27e) and Krispy Kreme (+433 between 2022-27e) will drive revenue growth. We expect group revenue to grow at a CAGR of 13.5% in 2022-27e.

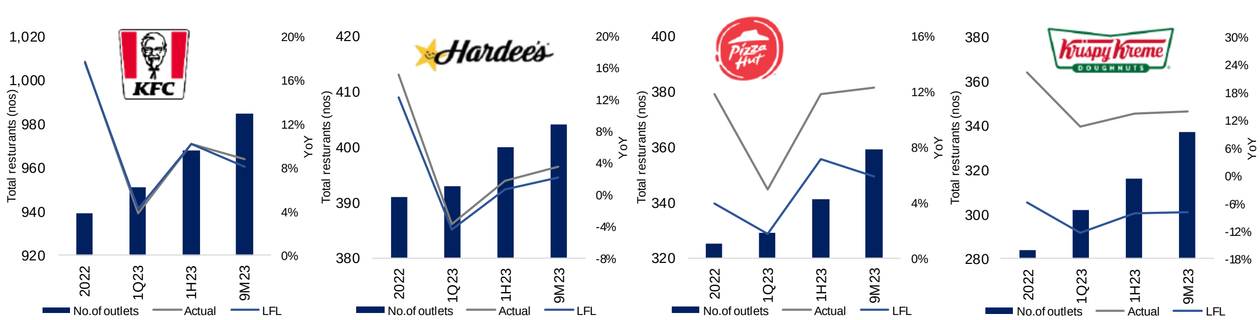
Additional outlets will drive volumes



… LFL growth will increase revenue



Increasing NSO of various power brands along with positive growth in LFL will drive revenue

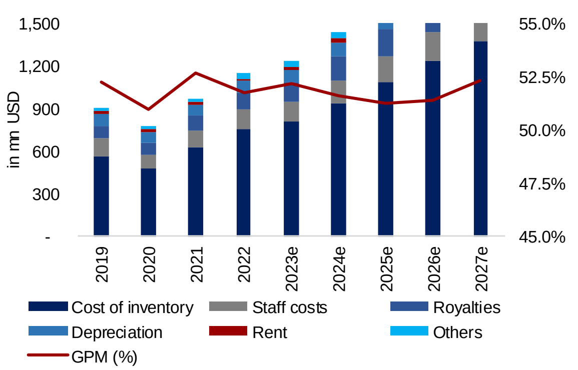


Source: Company reports, US Research

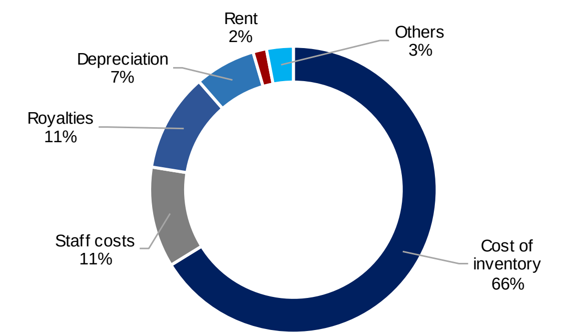
Raw material costs managed through bulk sourcing…

Raw materials cost (66%) and staff expenses (11%) are the largest cost components which together contributed to 77% of the total direct expenses for the group in 9M23. Key raw material components include chicken, beverages, vegetables and cheese. The company ensures stability of these items through centralized and joint purchasing for the group, multi brand warehouses, using the same fleet for distribution and smart pricing. Incremental local purchasing and distributed supplier base has also led to lower raw material costs for many items. Staff expenses as a percentage of revenue has been declining over the years, as store sizes have reduced and use of technology has increased.

Gross margins steady despite inventory cost variance



Inventory and staff contributes 77% of cost



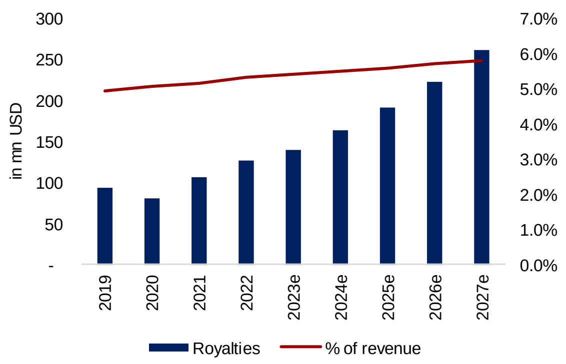
Source: Company reports, US Research

AMR being a franchise for famous brands has entered into multiple agreements with the brand owners to pay royalty expenses which contribute 11% of the total direct cost and is in most cases pegged to the revenue, and we do not expect this model to change.

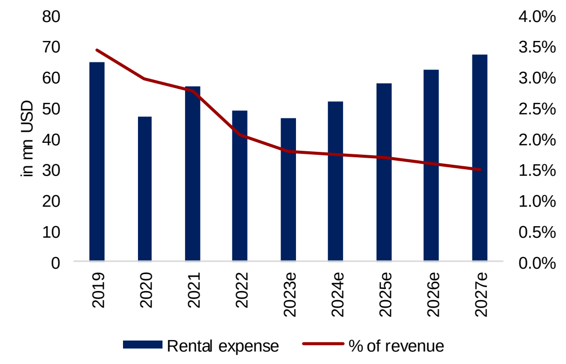
Asset light leasing model ensures cost effective quicker site additions…

AMR operates on an asset light leasing model, wherein 95% of the locations are on lease while only 5% are owned. This model reduces the cost and time of addition of outlets. Smaller format stores and co-hosting multiple brands at the same location increases the bargaining power for AMR. We observe that the trend in rent paid as percentage of revenue has been declining since 2021. The ratio of rent/revenue has declined from 3.4% in 2019 to 1.8% in 9M23.

Royalties fixed as a percentage of revenues



Small sized stores and renegotiated rental contracts

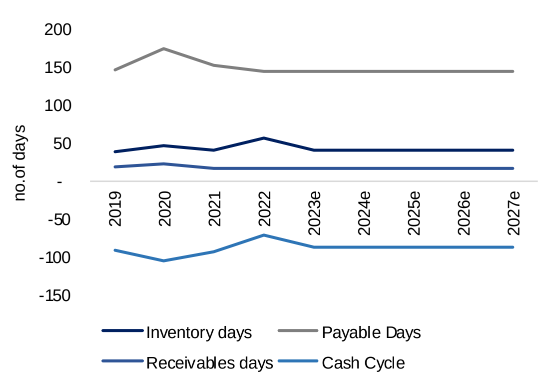


Source: Company reports, US Research

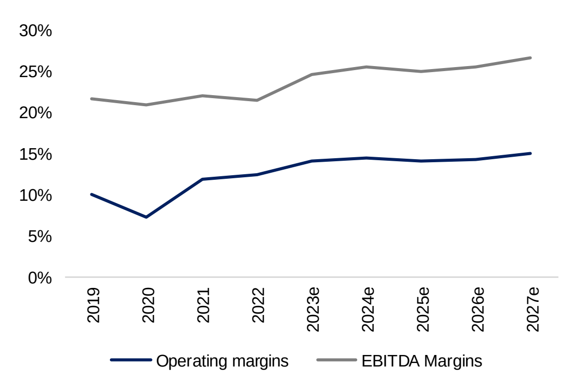
Margins to remain stable of robust cost control…

These factors have helped in maintaining gross margins in the range of 51-52% over 2019-22 despite inflationary pressures. Going forward, enhanced delivery channels, supported by downsized restaurants will help reduce costs further despite revenue growth and network additions. We expect gross margins to remain in the same range going forward and gross profit to grow in line with revenue. EBITDA is also expected to run parallel to the gross profits and with the margins hovering between 24-25%. Operating expenses, which include the selling and admin expenses have also been on a declining trend and we expect the same to stabilize around the current levels of 32%, which will help in maintain the operating margins at c.13-15%.

Negative working capital to fund operations



EBITDA and OPM to improve gradually



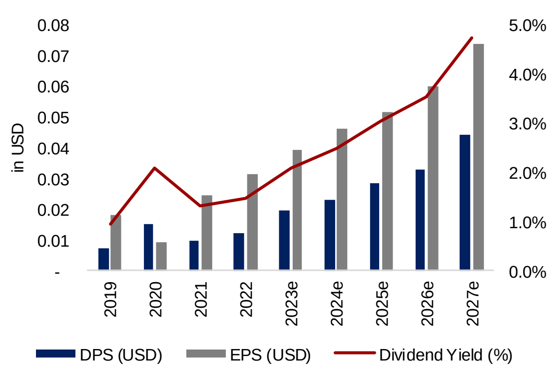
Source: Company reports, US Research

Working capital will fund operations…

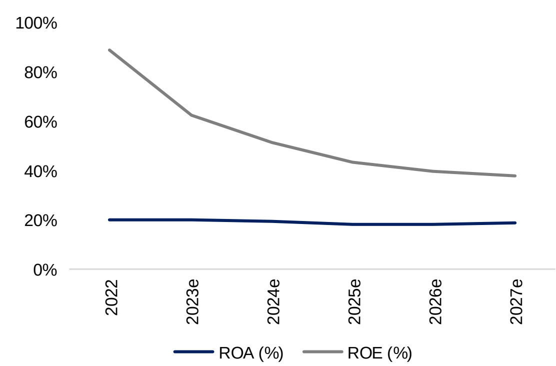
AMR had an operating cash position of USD 450mn as of 9M23, and a negative cash cycle of 80 days. We believe that the current operating cash levels and favorable working capital cycle is sufficient to fund the operations and expansions of the company. While inventory levels increased to 15% of cost of goods sold at the end of 2022 (higher than the average of 10-12%), it was a part of management's plan to maintain high inventory levels to avoid stock outs during the ongoing expansion phase. However, this has reverted to the mean levels by 9M23 and going ahead we expect it be in tangent with the increase in revenue.

Going forward, we expect the net margins to be in the range of 12.5-13% 2023-27e (vs 10-11% in 2021-22) and net profit to increase by 18.8% CAGR (2022-27e). The increase in profitability will translate into higher EPS and the management has guided a dividend payout of minimum 50% from 2023e onwards. The company paid its first dividend post listing at USD 0.0123 per share in February 2023 based on its 2022 results which was a payout of 40%. We expect the trend to move higher and reach the guidance of 50% in 2023. At current price the dividend yield for AMR is at 2.1%.

Guidance for dividend payout of atleast 50%



Return ratios to normalise going forward

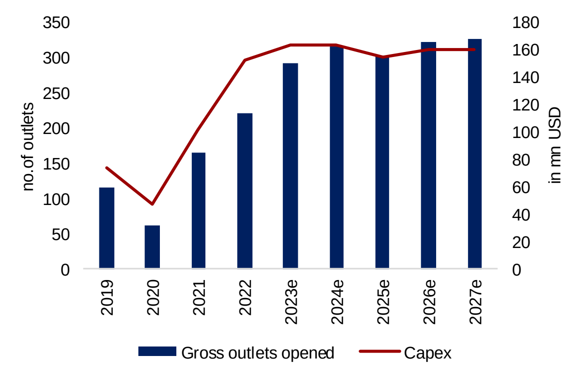


Source: Company reports, US Research

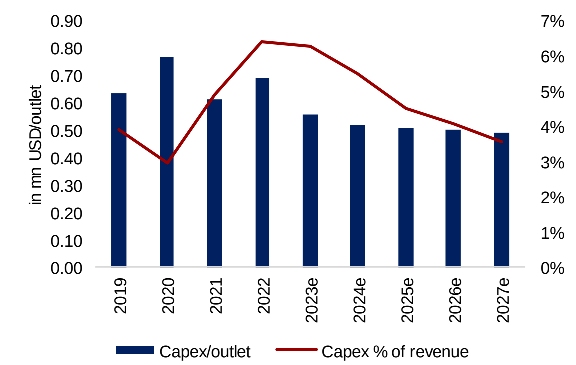
Capex per outlet to decline…

We expect 300-325 gross store openings annually over 2023e-27e and net store openings in the range of 280-315. While the average capex/restaurant is at USD 293k, the overall capex has been in the range of 5-6% of revenue. We observe the incremental capex per outlet declining from USD 620k (including maintenance capex) in 2019 to USD 590k in 9M23. The change in the format of new stores and co-hosting other brands are likely to reduce the per outlet cost even further going forward. We estimate an annual capex of USD 150-160mn during 2023-27e. Since the incremental capex will be on leased assets, we do expect any increase in the level of depreciation.

Gross outlet addition to be in the range of 300-320



Incremental capex per outlet likely to decline



Source: Company reports, US Research

Valuation

Blended target price at SAR 4.39/share provides an upside 28%…

AMR is currently the largest OOHD player in the MENA region listed on the ADX at AED 2.62/share and Tadawul exchange at SAR 2.68/share in December 2022. We have valued the company using DCF method with forecasts through 2023e-2027e. We considered the cost of equity at 12.2%, derived from a risk free rate of 4.5%, equity risk premium of 8.0%, and beta of 0.96x. We arrive at a WACC of 12.2% for the company. We assume a terminal growth rate of 2% post the forecast period. Our DCF valuation of AMR provides an intrinsic value of SAR 4.49 per share. We also provide a target EV/EBITDA multiple of 15x and PE multiple of 30x to arrive at a peer valuation of SAR 4.24/share and SAR 4.42/share respectively. Together we arrive at a blended intrinsic value of SAR 4.41/share, which is higher than the current price by 27.2%. Based on our blended target price we initiate coverage on AMR with a STRONG BUY rating.

Americana, despite its size, profitability and superior margins trades at a discount to industry averages

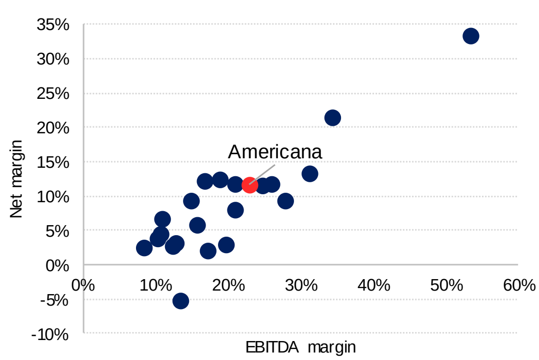
S.NO	Name	Country	Market Cap USD bn	Revenue (TTM) USD bn	Profit (TTM) USD bn	EBITDA (TTM) USD bn	EV USD bn	EBITDA margin (%)	Net margin (%)	PE (x)	EV/EBITDA (x)
1	MCDONALD'S CORP	United States	200.0	25.0	8.3	13.4	238.5	53.5%	33.3%	24.0	17.8
2	STARBUCKS CORP	United States	120.0	36.0	4.1	8.9	124.9	24.8%	11.5%	29.1	14.0
3	CHIPOTLE MEXICAN GRILL	United States	59.3	9.5	1.2	1.8	53.2	18.9%	12.3%	50.7	29.6
4	YUM! BRANDS INC	United States	35.8	7.1	1.5	2.4	47.2	34.5%	21.3%	23.8	19.4
5	RESTAURANT BRANDS	Canada	32.7	6.9	0.9	2.2	44.0	31.2%	13.2%	35.9	20.4
6	DARDEN RESTAURANTS	United States	18.8	10.8	1.0	1.6	24.3	15.0%	9.1%	19.1	15.0
7	DOMINO'S PIZZA INC	United States	13.0	4.5	0.5	0.9	18.8	21.0%	11.6%	25.0	20.0
8	HAIDILAO INTERNATIONAL	China	12.1	4.8	0.6	1.2	11.7	26.0%	11.8%	21.6	9.4
9	LUCKIN COFFEE INC	China	10.3	3.0	0.4	0.5	14.1	16.8%	12.1%	27.9	27.5
10	ZENSHO HOLDINGS CO LTD	Japan	9.2	6.2	0.2	0.5	8.3	8.5%	2.5%	59.8	15.9
11	**AMERICANA RESTAURANTS**	**UAE**	**7.9**	**2.5**	**0.3**	**0.6**	**9.8**	**22.9%**	**11.6%**	**27.4**	**17.0**
12	TEXAS ROADHOUSE INC	United States	7.4	4.5	0.3	0.5	7.0	10.9%	6.5%	25.3	14.4
13	JOLLIBEE FOODS CORP	Philippines	4.6	4.3	0.1	0.5	5.8	12.8%	3.0%	35.8	10.6
14	WENDY'S CO/THE	United States	4.0	2.2	0.2	0.6	7.9	27.9%	9.1%	20.0	12.9
15	ALSEA SAB DE CV	Mexico	2.9	4.1	0.1	0.8	5.3	19.8%	2.9%	24.1	6.4
16	TORIDOLL HOLDINGS CORP	Japan	2.6	1.5	0.0	0.3	3.1	17.2%	1.9%	90.7	12.0
17	ARCOS DORADOS	Uruguay	2.4	4.2	0.2	0.5	2.6	10.8%	4.3%	13.4	5.9
18	FOOD & LIFE COMPANIES	Japan	2.2	2.2	0.1	0.3	3.1	12.5%	2.6%	38.4	11.4
19	PAPA JOHN'S	United States	2.2	2.1	0.1	0.2	3.3	10.4%	3.8%	27.3	15.2
20	BLOOMIN' BRANDS	United States	2.1	4.6	0.3	0.7	4.6	15.7%	5.7%	8.0	6.4
	Global Average							**20.5%**	**9.5%**	**31.4**	**15.1**

*some companies that have made unusual profit or losses have been removed, also companies less than USD 1bn in revenue are not in the list

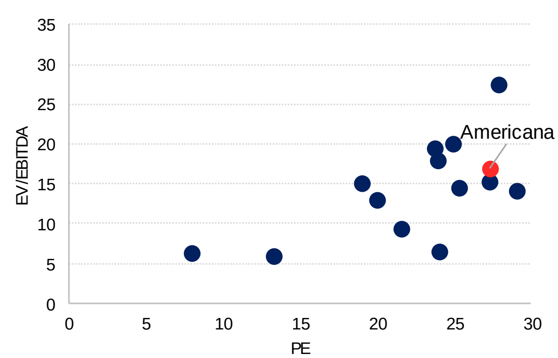
S.NO	Name	Country	Market Cap USD bn	Revenue (TTM) USD bn	Profit (TTM) USD bn	EBITDA (TTM) USD bn	EV USD bn	EBITDA margin (%)	Net margin (%)	PE (x)	EV/EBITDA (x)
1	**AMERICANA RESTAURANTS**	**UAE**	**7.94**	**2.50**	**0.29**	**0.57**	**9.78**	**22.9%**	**11.6%**	**27.4**	**17.0**
2	ALAMAR FOODS	Saudi Arabia	0.82	0.28	0.02	0.06	0.85	21.0%	7.8%	37.7	14.7
3	HERFY FOOD SERVICES CO	Saudi Arabia	0.53	0.32	-0.02	0.04	0.72	13.5%	-5.3%	-31.7	16.7
	Regional Average							**21.9%**	**9.7%**	**32.5**	**15.9**

* only AMR and Alamar have been considered for calculating average

Americana maintains industry average margins



Discounted on a peer valuation basis



Source: Bloomberg®, US Research

DCF Method (in USD mn)	Dec-23	Dec-24	Dec-25	Dec-26	Dec-27
Post-tax operating profit (NOPAT)	**345**	**406**	**454**	**527**	**644**
Add: Depreciation & amortization	273	330	376	444	516
Less: Change in working capital	61	40	44	46	43
Less: Capex	-163	-164	-154	-161	-160
Free Cash Flow to Firm	**516**	**612**	**720**	**856**	**1,044**
PV of Free Cash Flows	510	540	566	600	652
PV of Terminal Value					7,199
Enterprise Value					10,066
Less: Net debt					107
Less: Minorities & Pension liabilities					78
Equity value					**10,095**
No of shares					8424
Fair value per share (USD)					**1.20**
Fair value per share (SAR)					**4.49**

Valuation parameters	
Risk free rate (Rf)	4.5%
Beta	0.96
Equity Risk premium (Rm)	8.0%
Cost of equity (Ke)	12.2%
Terminal growth rate (g)	2.0%
Pre-tax Cost of Debt	5.2%
Effective tax rate	9.0%
After tax cost of debt	4.7%
Target Debt/Equity	0.0%
WACC	12.2%

Peer valuation	
EV/EBIDTA (TTM)	12.46
Target EV/EBIDTA	15.00
Fair value (SAR)	**4.24**
PE (TTM)	26.56
Target PE	30.00
Fair value (SAR)	**4.42**

Valuation type	Wtg	Fair value	Wtd value
DCF	50%	4.49	2.25
EV/EBIDTA	25%	4.24	1.06
PE	25%	4.42	1.10
Target price			**4.41**
CMP			3.47
Potential upside			27.2%

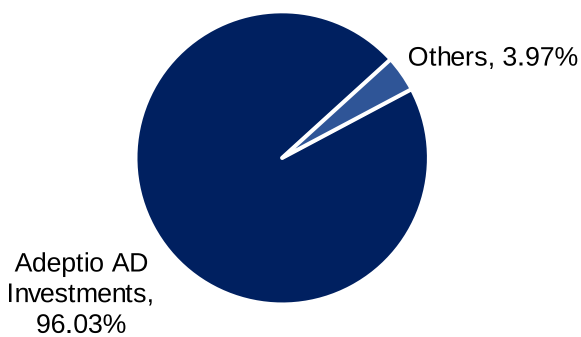
Key risks:

1. Slower restaurant opening than expected
2. Increase in rental and raw material costs
3. Currency devaluation in the markets that it operates
4. Disruptions in supply chain due to geo political events
5. Non-renewal of franchise agreements can cause revenue slowdown

Company Profile

Americana Restaurants (AMR) is the largest franchise operator in the Out of Home Dining (OOHD) market across the MENA region and Kazakhstan, with their core markets being Saudi, UAE, Kuwait, and Egypt. It has been operating within the region over the past 50+ years using a well-diversified portfolio of 13 brands (Core Brands – KFC, Hardee's, Pizza Hut & Krispy Kreme) across 4 segments namely FSR, Casual Dining, QSR & Indulgence maintaining 2,338 restaurants and employing 40,000+ people.

Shareholding Pattern of AMR



BOARD OF DIRECTORS

S.NO.	NAME	POSITION	CATEGORY
1	Mohamed Ali Rashed Alabbar	Chairman	Non-independent
2	Abdulmalik Al Hogail	Vice Chairman	Non-independent
3	Raid Abdullah Ismail	Board Member	Non-independent
4	Kesri Singh	Board Member	Non-independent
5	Graham Denis Allan	Board Member	Independent
6	Tracy Ann Gehlan	Board Member	Independent
7	Arif Abdullah Abdulrahman Albastaki	Board Member	Independent

Source: Bloomberg®, US Research

Income Statement (In USD mn)	2022	2023e	2024e	2025e	2026e	2027e
Revenue	**2,379**	**2,593**	**2,976**	**3,410**	**3,915**	**4,499**
Direct Costs	-1,148	-1,240	-1,440	-1,662	-1,902	-2,146
Gross profit	**1,230**	**1,354**	**1,536**	**1,748**	**2,012**	**2,353**
Selling and marketing expenses	-739	-804	-908	-1,040	-1,194	-1,372
General and administrative expenses	-193	-198	-223	-256	-294	-337
Other expenses	-5	10	22	26	29	34
Operating Profit	**293**	**362**	**427**	**477**	**554**	**677**
EBITDA	**512**	**636**	**757**	**854**	**998**	**1,194**
Finance Income	4	13	13	13	13	13
Finance costs	-25	-27	-29	-32	-34	-34
Profit before Zakat (PBT)	**272**	**348**	**411**	**459**	**533**	**656**
Income Tax and Zakat	-9	-17	-21	-23	-27	-33
Net Profit (PAT)	**263**	**331**	**391**	**436**	**507**	**623**

Balance Sheet (in USD mn)	2022	2023e	2024e	2025e	2026e	2027e
Property, plant and equipment	270	360	439	498	552	594
Right of use assets	418	496	532	592	633	649
Intangible assets	50	64	65	67	71	76
Other non-current assets	18	-	-	-	-	-
Non-current assets	**755**	**920**	**1,036**	**1,157**	**1,255**	**1,319**
Inventories	174	136	158	183	209	236
Trade and other receivables	107	120	137	156	179	205
Cash and cash equivalents	305	468	669	916	1,193	1,569
Current assets	**585**	**724**	**965**	**1,255**	**1,581**	**2,010**
ASSETS	**1,341**	**1,643**	**2,000**	**2,413**	**2,837**	**3,329**
Share capital	168	168	168	168	168	168
Reserves	-23	-25	-25	-25	-25	-25
Retained earnings	139	366	592	832	1,099	1,443
Non-controlling interest	11	20	25	35	40	55
EQUITY	**296**	**530**	**760**	**1,011**	**1,283**	**1,642**
Lease liability	275	323	346	385	412	422
Provision for employees	66	67	76	87	100	115
Trade and other payables	58	56	65	75	86	97
Non-current liabilities	**399**	**446**	**486**	**547**	**597**	**633**
Lease liability	179	174	186	207	222	227
Trade payable and other liabilities	401	434	504	582	666	751
Other current liabilities	66	60	64	66	70	76
Current liabilities	**646**	**668**	**754**	**855**	**957**	**1,054**
LIABILITIES	**1,045**	**1,114**	**1,240**	**1,402**	**1,554**	**1,687**
EQUITY AND LIABILITIES	**1,341**	**1,643**	**2,000**	**2,413**	**2,837**	**3,329**

Cash Flow (In USD mn)	2022	2023e	2024e	2025e	2026e	2027e
Cash from operations	453	668	766	866	1,010	1,199
Investing cash flow	-79	-168	-171	-163	-172	-175
Financing cash flow	-287	-558	-133	-456	-561	-648
Change in cash	**99**	**-58**	**462**	**246**	**277**	**376**
Beginning cash	167	266	208	670	916	1,193
Ending cash	**266**	**208**	**670**	**916**	**1,193**	**1,569**

Ratio Analysis	2022	2023e	2024e	2025e	2026e	2027e
Per Share						
EPS (USD)	0.03	0.04	0.05	0.05	0.06	0.07
BVPS (USD)	0.04	0.06	0.09	0.12	0.15	0.19
DPS (USD)	0.01	0.02	0.02	0.03	0.03	0.04
FCF per share (USD)	-0.04	-0.06	-0.07	-0.07	-0.08	-0.08
Valuation						
Market Cap (USD mn)	7,028	7,892	7,892	7,892	7,892	7,892
EV (USD mn)	7,177	7,921	7,755	7,569	7,333	6,973
EBITDA	512	636	757	854	998	1,194
P/E (x)	27	24	20	18	16	13
EV/EBITDA (x)	14.0	12.5	10.2	8.9	7.4	5.8
Price/Book (x)	23.8	14.9	10.4	7.8	6.2	4.8
Dividend Yield (%)	1.5%	2.1%	2.5%	3.0%	3.5%	4.7%
Price to sales (x)	3.0	3.1	2.6	2.2	1.9	1.5
EV to sales (x)	3.0	3.1	2.6	2.2	1.9	1.5
Liqiudity						
Cash Ratio (x)	0.5	0.3	0.9	1.1	1.2	1.5
Current Ratio (x)	0.9	1.1	1.3	1.5	1.7	1.9
Quick Ratio (x)	0.6	0.9	1.1	1.3	1.4	1.7
Returns Ratio						
ROA (%)	19.6%	20.1%	19.5%	18.1%	17.9%	18.7%
ROE (%)	88.9%	62.4%	51.4%	43.1%	39.5%	37.9%
ROCE (%)	37.9%	33.9%	31.4%	28.0%	27.0%	27.4%
Cash Cycle						
Inventory turnover (x)	6.6	9.1	9.1	9.1	9.1	9.1
Accounts Payable turnover (x)	2.5	2.5	2.5	2.5	2.5	2.5
Receivables turnover (x)	23	22	22	22	22	22
Inventory days	55	40	40	40	40	40
Payable Days	144	144	144	144	144	144
Receivables days	16	16	16	16	16	16
Cash Cycle	-73	-88	-88	-88	-88	-88
Profitability Ratio						
Net Margins (%)	11.1%	12.7%	13.1%	12.8%	12.9%	13.8%
EBITDA Margins (%)	21.5%	24.5%	25.4%	25.0%	25.5%	26.5%
PBT Margins (%)	11.4%	13.4%	13.8%	13.5%	13.6%	14.6%
EBIT Margins (%)	12.3%	14.0%	14.4%	14.0%	14.2%	15.1%
Effective Tax Rate (%)	3.2%	5.0%	5.0%	5.0%	5.0%	5.0%
Leverage						
Total Debt (USD mn)	453	496	532	592	633	649
Net Debt (USD mn)	149	28	-138	-324	-560	-920
Debt/Equity (x)	1.53	0.94	0.70	0.59	0.49	0.40
Net Debt/Equity (x)	0.50	0.05	-0.18	-0.32	-0.44	-0.56

Key contacts

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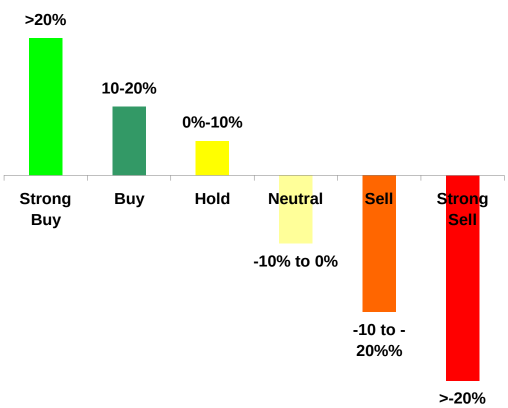
Rating Criteria and Definitions

Rating



Rating Definitions

Strong Buy	This recommendation is used for stocks whose current market price offers a deep discount to our 12-Month target price and has an upside potential in excess of 20%
Buy	This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 10% to 20%
Hold	This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 0% to 10%
Neutral	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between 0% to -10%
Sell	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between -10% to -20%
Strong Sell	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential in excess of 20%
Not rated	This recommendation used for stocks which does not form part of Coverage Universe

Disclaimer