

September 15, 2022

Management Meet Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	156		148	
Sales (Rs. m)	14,953	20,023	14,536	19,136
% Chng.	2.9	4.6		
EBITDA (Rs. m)	1,844	3,251	1,998	3,039
% Chng.	(7.7)	7.0		
EPS (Rs.)	(1.2)	0.3	(1.0)	(0.4)
% Chng.	-	-		

Key Financials - Standalone

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	9,437	14,953	20,023	25,755
EBITDA (Rs. m)	902	1,844	3,251	4,874
Margin (%)	9.6	12.3	16.2	18.9
PAT (Rs. m)	(929)	(599)	143	1,231
EPS (Rs.)	(1.9)	(1.2)	0.3	2.5
Gr. (%)	(56.5)	(35.5)	(123.8)	763.1
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	(7.1)	(3.1)	0.8	6.3
RoCE (%)	(3.5)	0.1	5.0	10.8
EV/Sales (x)	6.2	4.0	3.0	2.3
EV/EBITDA (x)	64.9	32.7	18.7	12.2
PE (x)	(68.5)	(106.2)	446.3	51.7
P/BV (x)	3.3	3.4	3.3	3.1

Key Data

RESR.BO | RBA IN

52-W High / Low	Rs.172 / Rs.87
Sensex / Nifty	60,347 / 18,004
Market Cap	Rs.64bn/ \$ 802m
Shares Outstanding	493m
3M Avg. Daily Value	Rs.118.43m

Shareholding Pattern (%)

Promoter's	40.91
Foreign	27.06
Domestic Institution	8.92
Public & Others	23.11
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	4.9	23.7	(19.3)
Relative	3.3	15.8	(22.1)

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Restaurant Brands Asia (RBA IN)

Rating: ACCUMULATE | CMP: Rs129 | TP: Rs156

BK India on track, Indonesia not there as yet

Quick Pointers:

- India ADS at 130k vs Rs 110k (pre-COVID) despite 20% lower footfalls.
- Expect margin recovery from 3Q, given recovery in bill cuts and stabilization of BK café's initial costs.

We remain constructive on Restaurant Brands Asia (RBA) post recent management interaction and retain 'Accumulate' for long term gains. We believe RBA presents a compelling opportunity to play Burger King brand in India and Indonesia along with Popeyes in Indonesia. BK India remains on track to be PAT positive by FY24 led by 1) rising ADS in BK 2) sustained menu innovations (Kings and Stunner Collections) 3) ability to capture higher wallet share with café & breakfast and 4) aggressive store expansion targeting 475 BK and 350 BK Café by FY24. Though footfalls are 20% lower from pre-COVID levels there is scope to increase ADS, as India has skirted the 4th wave.

We expect Indonesia's turnaround to be back ended given 1) extensive restructuring of stores/ locations and menu 2) 80% post-COVID recovery 3) initial losses post launch of Popeyes in FY23 and 4) focus on FSDT format with BK, BK Café and Popeyes at one location. Retain 'Accumulate' with SOTP based TP of Rs156 (Rs148 earlier) for long term gains.

- Positive Industry Trends** - Food services trends indicate 1) organized food services will continue to outpace unorganized space and touch ~54% in FY25 vs 40% in FY21 2) Hotels, restaurants & malls have seen increased footfalls sequentially and will continue to increase 3) Corporates are returning to a hybrid working model, thereby leading to an increase in out-of-home consumption.
- BK India remains on track** – India is on track with rising store count & throughput, menu innovations (Whopper, King's & Stunner ranges), user acceptance of BK app with 3.7mn downloads and ramp up of BK Café (ADS - Rs8000). Addition of 215 new BK Café's in FY23 will impact margins in the short term, but we expect pace to stabilize at 80-100 BK Café's/annum in the medium term. We foresee scale benefits flowing through over 2HFY23-FY24 and build in 740bps pre-INDAS EBITDA margin expansion to 6% in FY24 (-1.4% in FY22).
- Indonesia's** pre-COVID recovery at 80% has been delayed in 1Q23, as the country is experiencing COVID waves with a lag. Indonesia has favorable opportunities to drive consumption, as its population consumes 3 meals out-of-home & is a coffee drinking nation. RBA will build Indonesia business and capitalize on burgers, coffee & fried chicken through its brands BK, BK Café and Popeyes. We believe shift in store format towards Free Standing Drive Through (FSDT) will provide higher operating hours, throughput coupled lower rentals and aid margin expansion. Popeyes franchisee is anticipated to open 20 stores in FY23 & generate revenues of Rs 10-11bn by FY24 with ADS of Rs 180-200k in FY24 (McDonald's – Rs 300k, Burger King at Rs 150k).

BK India – Strong momentum; expect scale benefits from 3Q23

QSR Industry Trends

- QSR industry has received tailwinds due to closure of 35% restaurants (vs pre-COVID) which are unlikely to come back.
- Listed QSR's are cash rich through recent IPO's & strong cash flow generation, which will enable aggressive growth plans.
- IT/Tech parks have seen lower traffic, while High Street stores have seen traffic revert to prior levels.
- No significant dip in consumer sentiments despite inflationary trends, as Burger King India's products offer value proposition to consumers.

ADS: Current ADS ~20% higher than pre-COVID levels

- Current ADS at Rs 130k vs Rs 110k (pre-COVID).
- Check size has gone up from Rs 210 pre-COVID to current Rs 310, which has sustained across channels.
- In-store traffic is down 20% from 550 tickets to 420-440 tickets. Normal traffic can boost ADS by 40k.
- Stores opened in FY16 have an ADS of Rs 170k with restaurant level margins of 15-16%.

Margins – operating leverage to enable 9-10% Pre-INDAS margins by FY24

- Expect 200bps gross margin expansion by FY24 from 66% in FY22 through premiumisation, annual price increases of 3-4% and BK Café.
- Reduction of 150bps in rentals (13.5% in FY22), 200bps in utility costs (11%), 100-150bps in restaurant employee costs (11%), 100bps in corporate overheads (5-6%).
- 70% of store expansion to be in existing cities, while 30% to be in new cities.
- Metro store margins are lower vs smaller towns but have higher productivity & higher absolute profits.
- Expect 6% pre-INDAS EBITDA margins in FY23 and 9-10% in FY24.

BK Café and Breakfast

- Café Coffee Day has vacated the value coffee segment, which provides opportunity to capture the space.
- New restaurant additions to include BK Café with a target of 250/350 BK Café by FY23/FY24.

- Launch of breakfast options to increase dine-in occasions with ADS of Rs3000 per store.
- Efforts underway to improve menu architecture & increase visibility.

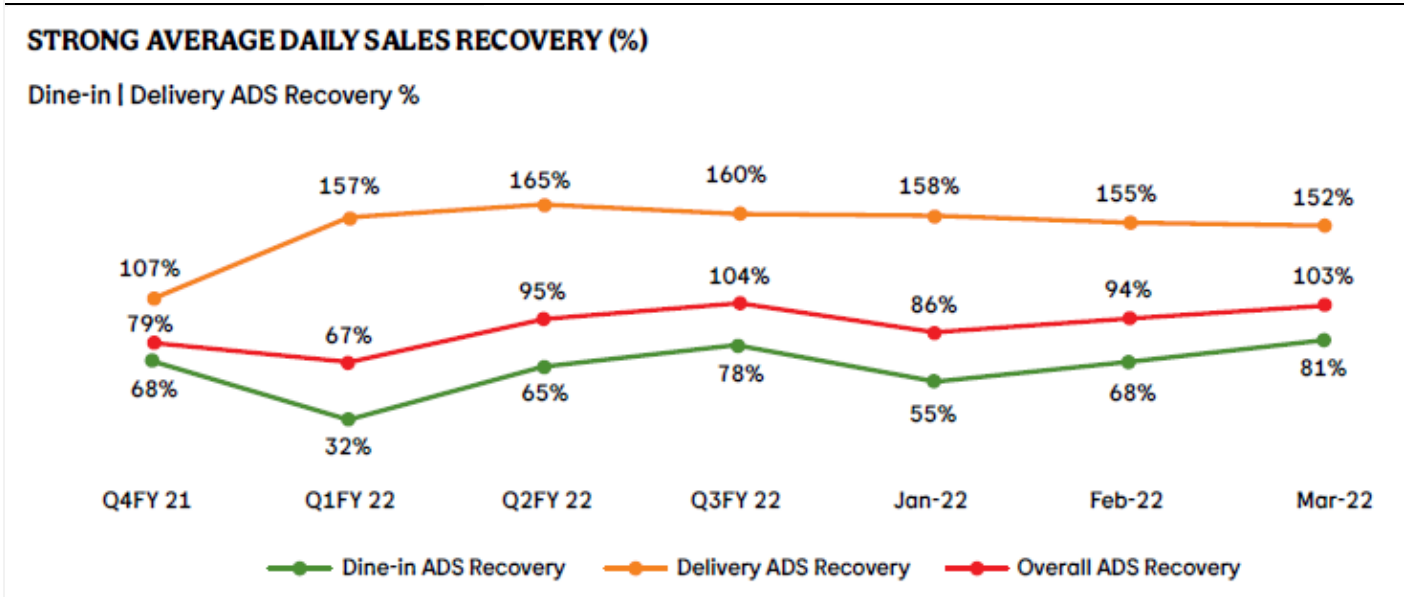
Delivery/Convenience

- BK amongst the highest number of delivery orders at 200 per store/day.
- Focus to increase own app deliveries from 20 orders (10%) to 40-50 orders.
- Discount share of 50:50 with Zomato was seen pre-COVID, which has now come down to 75:25.

Indonesia – Near term volatility with long term potential

- Indonesia has reached 80% of pre-COVID levels, as recovery is slow.
- Indonesia provides a large consumption opportunity, as its population consumes 3 meals out-of-home & is a coffee drinking country.
- The acquisition provides opportunity to expand margins through shift from beef towards chicken, closure/ relocation of 30/40 mall stores, focus on FSDT stores and launch of BK café and Popeyes.
- Move to capitalize on three pillars of burgers & coffee with BK and fried chicken with Popeyes.
- 30 new store additions will be FSDT (USD 0.7mn) with 25 stores to have all cuisines of burgers, coffee and fried chicken.
- Conscious strategy to move towards FSDT which will enable 24 hour operations.
- BK's ADS of 150k is lower than McDonald's at 300k; which offers scope to narrow the gap.
- Royalty rates capped at 5% till FY32.
- Pre-INDAS margins to be in the range of 10%.
- Signed a 10-year exclusive master franchise agreement to develop Popeyes stores till 2032. To open 100/300 restaurants over a period of 5/10 years.
- Expect to generate revenues of Rs 10-11bn by FY24 with an ADS of Rs 180-200k in first year of Popeyes operations.

Exhibit 1: Delivery channel ADS trends remain strong while dine-in is yet to recover



Source: Company, PL

Exhibit 2: BK Café stores to touch 250 in FY23



Source: Company, PL

Menu Innovations (India)

Exhibit 3: New King's Collection priced at Rs 199



Source: Company, PL

Exhibit 4: Stunner range offers value at Rs 50 & 70



Source: Company, PL

Exhibit 5: Limited time launch for New Years



Source: Company, PL

Exhibit 6: Limited time launch to drive engagement



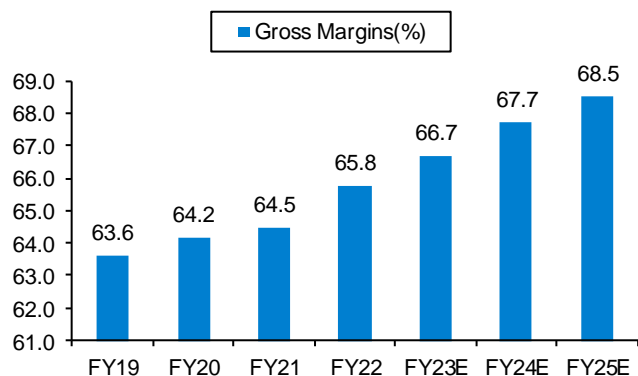
Source: Company, PL

Exhibit 7: We assign target price of Rs 165 for overall business

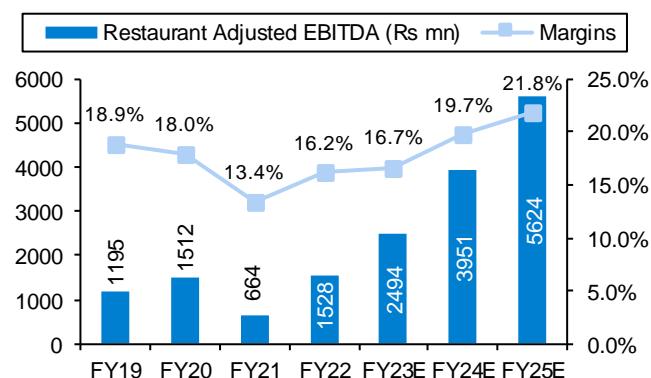
SOTP	Basis	X	EV	Value/Share
India	DCF			130
Indonesia	EV/EBIT	13.0	8643	18
Total Value/share				147
Cash and Invst			4250	9
Total Value/share				156

Source: Company, PL

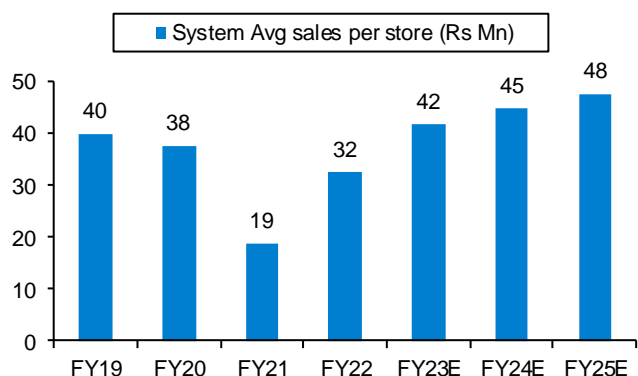
Story in Charts

Exhibit 8: Gross Margin to expand 270bps by FY25


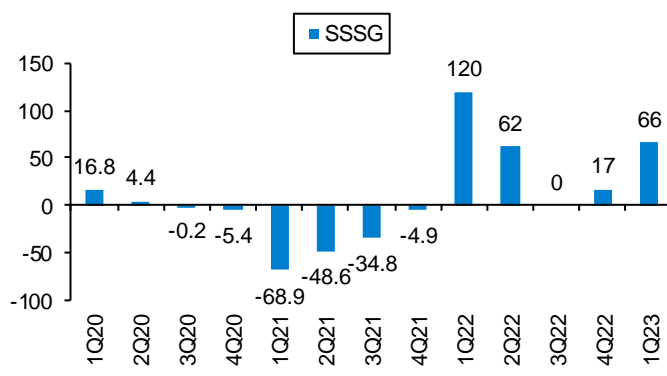
Source: Company, PL

Exhibit 9: ROM to expand 570bps by FY25


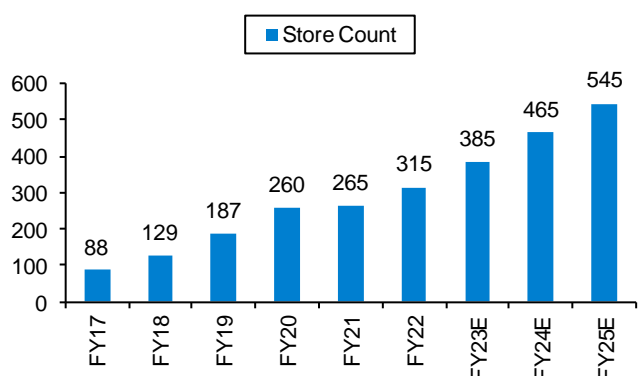
Source: Company, PL

Exhibit 10: System Avg sales/store to grow steadily


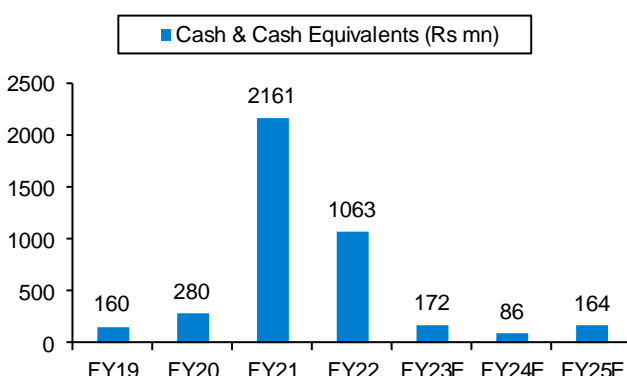
Source: Company, PL

Exhibit 11: Quarterly SSSG trends


Source: Company, PL

Exhibit 12: Store count to reach 545 by FY25


Source: Company, PL

Exhibit 13: India expected to remain cash positive


Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Revenues	9,437	14,953	20,023	25,755
YoY gr. (%)	90.9	58.4	33.9	28.6
Cost of Goods Sold	3,231	4,979	6,507	7,984
Gross Profit	6,206	9,973	13,515	17,771
Margin (%)	65.8	66.7	67.5	69.0
Employee Cost	1,540	2,346	2,925	3,625
Other Expenses	424	715	997	1,283
EBITDA	902	1,844	3,251	4,874
YoY gr. (%)	501.7	104.4	76.3	49.9
Margin (%)	9.6	12.3	16.2	18.9
Depreciation and Amortization	1,357	1,833	2,298	2,759
EBIT	(455)	11	953	2,116
Margin (%)	(4.8)	0.1	4.8	8.2
Net Interest	680	856	1,007	1,116
Other Income	205	246	197	231
Profit Before Tax	(929)	(599)	143	1,231
Margin (%)	(9.8)	(4.0)	0.7	4.8
Total Tax	-	-	-	-
Effective tax rate (%)	-	-	-	-
Profit after tax	(929)	(599)	143	1,231
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	(929)	(599)	143	1,231
YoY gr. (%)	(44.1)	(35.5)	(123.8)	763.1
Margin (%)	(9.8)	(4.0)	0.7	4.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	(929)	(599)	143	1,231
YoY gr. (%)	(46.6)	(35.5)	(123.8)	763.1
Margin (%)	(9.8)	(4.0)	0.7	4.8
Other Comprehensive Income	(7)	-	-	-
Total Comprehensive Income	(936)	(599)	143	1,231
Equity Shares O/s (m)	493	493	493	493
EPS (Rs)	(1.9)	(1.2)	0.3	2.5

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Non-Current Assets				
Gross Block	17,229	21,585	26,236	30,781
Tangibles	16,784	21,096	25,699	30,190
Intangibles	444	489	538	591
Acc: Dep / Amortization	5,654	7,487	9,785	12,544
Tangibles	5,564	7,371	9,641	12,370
Intangibles	91	116	144	175
Net fixed assets	11,574	14,098	16,451	18,237
Tangibles	11,220	13,725	16,057	17,820
Intangibles	354	373	394	417
Capital Work In Progress	107	385	440	440
Goodwill	-	-	-	-
Non-Current Investments	11,408	11,468	11,560	11,656
Net Deferred tax assets	-	-	-	-
Other Non-Current Assets	282	325	332	334
Current Assets				
Investments	4,023	3,250	2,800	3,800
Inventories	135	205	267	328
Trade receivables	92	143	192	247
Cash & Bank Balance	1,063	172	86	164
Other Current Assets	131	328	419	513
Total Assets	28,900	30,466	32,649	35,831
Equity				
Equity Share Capital	4,927	4,927	4,927	4,927
Other Equity	14,576	13,965	14,108	15,339
Total Network	19,503	18,893	19,035	20,266
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	256	310	377	458
Other non current liabilities	7	7	8	8
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	1,358	1,968	2,360	2,779
Other current liabilities	1,096	1,283	1,408	1,518
Total Equity & Liabilities	28,900	30,466	32,649	35,831

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	(929)	(599)	143	1,231
Add. Depreciation	1,357	1,833	2,298	2,759
Add. Interest	680	856	1,007	1,116
Less Financial Other Income	205	246	197	231
Add. Other	(206)	12	61	79
Op. profit before WC changes	901	2,101	3,508	5,184
Net Changes-WC	669	473	304	308
Direct tax	-	-	-	-
Net cash from Op. activities	1,570	2,573	3,812	5,493
Capital expenditures	(13,965)	(4,634)	(4,707)	(4,545)
Interest / Dividend Income	-	-	-	-
Others	(2,815)	712	358	(1,096)
Net Cash from Invst. activities	(16,779)	(3,922)	(4,348)	(5,641)
Issue of share cap. / premium	13,705	(11)	-	-
Debt changes	1,086	1,324	1,457	1,341
Dividend paid	-	-	-	-
Interest paid	(680)	(856)	(1,007)	(1,116)
Others	-	-	-	-
Net cash from Fin. activities	14,111	457	451	225
Net change in cash	(1,098)	(891)	(85)	77
Free Cash Flow	(12,395)	(2,061)	(894)	948

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
Per Share(Rs)				
EPS	(1.9)	(1.2)	0.3	2.5
CEPS	0.9	2.5	5.0	8.1
BVPS	39.6	38.3	38.6	41.1
FCF	(25.2)	(4.2)	(1.8)	1.9
DPS	-	-	-	-
Return Ratio(%)				
RoCE	(3.5)	0.1	5.0	10.8
ROIC	(1.9)	0.0	3.2	6.6
RoE	(7.1)	(3.1)	0.8	6.3
Balance Sheet				
Net Debt : Equity (x)	(0.3)	(0.2)	(0.2)	(0.2)
Net Working Capital (Days)	(44)	(40)	(35)	(31)
Valuation(x)				
PER	(68.5)	(106.2)	446.3	51.7
P/B	3.3	3.4	3.3	3.1
P/CEPS	148.9	51.6	26.1	16.0
EV/EBITDA	64.9	32.7	18.7	12.2
EV/Sales	6.2	4.0	3.0	2.3
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Net Revenue	2,454	2,799	2,687	3,369
YoY gr. (%)	153.7	71.5	37.1	125.0
Raw Material Expenses	849	950	911	1,133
Gross Profit	1,605	1,849	1,776	2,236
Margin (%)	65.4	66.1	66.1	66.4
EBITDA	256	328	302	332
YoY gr. (%)	7,973.2	115.9	23.5	2,064.8
Margin (%)	10.4	11.7	11.3	9.9
Depreciation / Depletion	334	344	351	461
EBIT	(78)	(16)	(48)	(129)
Margin (%)	(3.2)	(0.6)	(1.8)	(3.8)
Net Interest	167	168	178	196
Other Income	43	32	94	97
Profit before Tax	(202)	(152)	(132)	(227)
Margin (%)	(8.2)	(5.4)	(4.9)	(6.7)
Total Tax	-	-	-	-
Effective tax rate (%)	-	-	-	-
Profit after Tax	(202)	(152)	(132)	(227)
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	(202)	(152)	(132)	(227)
YoY gr. (%)	(46.4)	(47.8)	(35.1)	(48.7)
Margin (%)	(8.2)	(5.4)	(4.9)	(6.7)
Extra Ord. Income / (Exp)	-	(8)	-	-
Reported PAT	(202)	(159)	(132)	(227)
YoY gr. (%)	(47.5)	(45.1)	(49.1)	(48.7)
Margin (%)	(8.2)	(5.7)	(4.9)	(6.7)
Other Comprehensive Income	-	(1)	(7)	-
Total Comprehensive Income	(202)	(160)	(139)	(227)
Avg. Shares O/s (m)	-	-	-	-
EPS (Rs)	-	-	-	-

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	12-Aug-22	Accumulate	148	123
2	07-Jul-22	UR	-	111
3	31-May-22	UR	-	97
4	08-Apr-22	BUY	220	113
5	25-Jan-22	BUY	220	133
6	06-Jan-22	BUY	242	140
7	12-Nov-21	BUY	242	163
8	06-Oct-21	BUY	251	159

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	BUY	3,363	3,109
2	Avenue Supermarts	BUY	4,636	4,239
3	Britannia Industries	Hold	3,880	3,775
4	Colgate Palmolive	Accumulate	1,701	1,564
5	Dabur India	Accumulate	603	574
6	Emami	Accumulate	611	452
7	Hindustan Unilever	Accumulate	2,699	2,568
8	ITC	Accumulate	327	308
9	Jubilant FoodWorks	BUY	700	565
10	Kansai Nerolac Paints	Accumulate	558	499
11	Marico	Hold	523	523
12	Mold-tek Packaging	Accumulate	830	765
13	Nestle India	Accumulate	19,721	19,112
14	Pidilite Industries	Hold	2,673	2,641
15	Restaurant Brands Asia	Accumulate	148	123
16	Titan Company	Accumulate	2,608	2,433
17	Westlife Development	BUY	781	589

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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