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Burger King India Limited

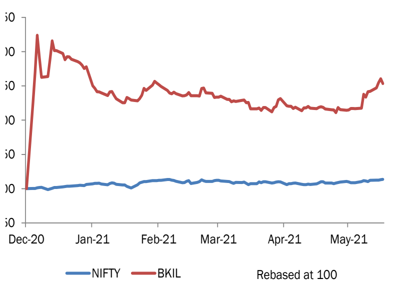
28 May 2021

Hungry for growth!

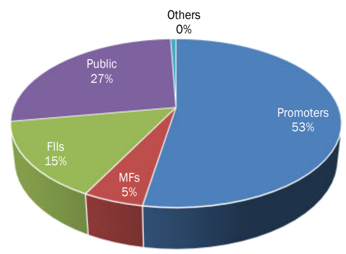
BUY

Sector	: Foodservice
Target Price	: Rs 217
Last Closing Price	: Rs 152
Market Cap	: Rs 5,823 crore
52-week High/Low	: Rs 214/60
Daily Avg Vol (12M)	: 80,89,493
Face Value	: Rs 10
Beta	: 1.54
Pledged Shares	: 0%
Year End	: March
BSE Scrip Code	: 543248
NSE Scrip Code	: BURGERKING
Bloomberg Code	: BURGERKI IN
Reuters Code	: BURG.NS
Nifty	: 15,338
BSE Sensex	: 51,115
Analyst	: Ritwik Bhattacharjee

Price Performance



Shareholding Pattern



4Q FY21 and FY21 Update

Result Analysis

Burger King India Limited's (BKIL's) revenues revived further in 4Q FY21 (+20% q-o-q). Monthly average daily sales (ADS) recovery continued to witness strong upward momentum during January to March 2021, clocking 85%, 92% and 111% on a y-o-y basis. Same store sales (SSS) growth regained powerfully with 4Q FY21 SSS declining by only 4.9% (vs -34.8% in 3Q FY21). The company achieved its FY22 target of 65.5% gross margin in advance in 4Q FY21 as successful negotiations for lower rental rates contributed to EBITDA margins.

Outlook & Valuation

The clarity in BKIL's medium-term plans and the ongoing marketing and operational initiatives are complemented by its early achievements and the strong bounce-back the brand has made in spite of covid. The advance realisation of the FY22 gross margin target gives us further confidence, suggesting that the company's management looks to under-promise and over-deliver. FY22 is expected to see robust full-year growth after 1H FY21 performance was significantly impacted by covid. After a deliberate slowdown in opening of new restaurants, BKIL looks to add 55/70/80 restaurants during FY22/23/24 (265 restaurants operational at the end of FY21) with the target of 700 restaurants by FY26 remaining intact. Along with new store additions, growth will be aided by SSS, driven by increase in traffic and 3% to 4% annual pricing growth, which is a norm for QSRs. Gross margin will be driven by operational efficiencies and the barbell strategy in menu. BKIL sees the BK app to drive sales from a more loyal customer base with 1 million downloads expected by June. Key marketing initiatives include the launch of the value "Stunner Menu" at Rs 50/70, the Whopper 360 campaign and ongoing social media activity. With its planned foray into the café space (target of 75 BK Cafés by March 2023), there exists an upside potential to our forecasts. Based on a target Price-to-Sales (P/S) multiple of 6.0x FY23 operating revenue (~20% discount to Westlife), our price target of Rs 217 informs a BUY rating with a 43% upside.

Key Financial Metrics (Standalone)*

Rs crore	FY19A	FY20A	FY21A	FY22E	FY23E
Operating revenue	632.7	841.2	494.5	965.8	1,384.5
Growth		*33.0%*	*-41.2%*	*95.3%*	*43.4%*
EBITDA*	79.0	104.0	32.7	111.1	214.6
EBITDA margin	*12.5%*	*12.4%*	*6.6%*	*11.5%*	*15.5%*
PAT	(38.3)	(76.6)	(173.9)	(105.5)	(44.3)
PAT margin	*-6.1%*	*-9.1%*	*-35.2%*	*-10.9%*	*-3.2%*
Diluted EPS (Rs)	(1.44)	(2.87)	(5.47)	(2.76)	(1.16)

Source: Company data; Khambatta Research

Guidance

Number of stores: 320/390/470 by the end of FY22/23/24.

SSS growth: Flat over FY20 in FY22; 5% to 7% FY23 onwards.

Gross profit: 66.0% in FY22; 68.0% in FY24.

Financial Performance (Standalone)*

Rs crore	4Q FY20	4Q FY21	Y-o-y	FY20	FY21	Y-o-y
Operating revenue	191.0	196.1	2.6%	841.2	494.5	-41.2%
EBITDA	20.9	24.6	17.7%	104.0	32.7	-68.6%
EBITDA margin	*10.9%*	*12.5%*	*160 bps*	*12.4%*	*6.6%*	*-575 bps*
PAT	(37.4)	(25.9)	-30.7%	(76.6)	(173.9)	127.1%
PAT margin	*-19.6%*	*-13.2%*	*636 bps*	*-9.1%*	*-35.2%*	*-2,607 bps*
Diluted EPS (Rs)	(1.38)	(0.68)	-50.7%	(2.87)	(5.47)	90.6%

Source: Company data; Khambatta Research

** 4Q FY21 and FY21 financials presented here are on pro-forma basis with the impact of IND AS 116 on rent concessions factored in at the EBITDA level. Further, the full impact of effective rental rates is factored in at the EBITDA level in the forecasts.*

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Guide to Khambatta's research approach

Valuation methodologies

We apply the following absolute/relative valuation methodologies to derive the 'fair value' of the stock as a part of our fundamental research:

DCF: The Discounted Cash Flow (DCF) method values an estimated stream of future free cash flows discounted to the present day, using a company's WACC or cost of equity. This method is used to estimate the attractiveness of an investment opportunity and as such provides a good measure of the company's value in absolute terms. There are several approaches to discounted cash flow analysis, including Free Cash Flow to Firm (FCFF), Free Cash Flow to Equity (FCFE) and the Dividend Discount Model (DDM). The selection of a particular approach depends on the particular company being researched and valued.

ERE: The Excess Return to Equity (ERE) method takes into consideration the absolute value of a company's return to equity in excess of its cost of equity discounted to the present day using the cost of equity. This methodology is more appropriate for valuing banking stocks than FCFF or FCFE methodologies.

Relative valuation: In relative valuation, various comparative multiples or ratios including Price/Earnings, Price/Sales, EV/Sales, EV/EBITDA, Price/Book Value are used to assess the relative worth of companies which operate in the same industry/industries and are thereby in the same peer group. Generally our approach involves the use of two multiples to estimate the relative valuation of a stock.

Other methodologies such as DuPont Analysis, CFROI, NAV and Sum-of-the-Parts (SOTP) are applied where appropriate.

Stock ratings

Buyrecommendations are expected to improve, based on consideration of the fundamental view and the currency impact (where applicable) by at least 15%.

Hold recommendations are expected to improve, based on consideration of the fundamental view and the currency impact (where applicable) between 5% and 15%.

Sell recommendations are expected to improve up to 5% or deteriorate, based on consideration of the fundamental view and the currency impact (where applicable).

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