Prabhudas Lilladher
POWERING YOUR FINANCIAL GROWTH

Restaurant Brands Asia (RBA IN)

Rating: ACCUMULATE | CMP: Rs107 | TP: Rs145

BK India on track; Indonesia strategy revamped

Quick Pointers:

- On track to meet FY23 store targets of 390 stores for BK India
- Success of BK Café, Breakfast Menu and Innovations key to ADS growth

We change our FY23/FY24/FY25 EPS by 1%/-32%/-5% given 1) higher corporate overheads (ESOP provision) and 2) lower than expected margin expansion. Restaurant Brands Asia (RBA) reported in-line margins despite increase in operating expenses due to sustained traction in older stores and cost control, despite ADS dropping to Rs120k on softer demand. We believe Jan'23 price hike will help neutralize the impact of increased overheads on store expansion. BK is looking to promote margin accretive chicken offerings in South market & compete vs incumbents. Indonesia operations has lower ADS vs pre COVID; new strategy is expected to improve ADS with 1) relaunch/innovation in Whopper range 2) increased focus on chicken offering 3) focus on FSDT format and store rationalization.

We believe RBA India operations are on track and should report mid-single digit pre IND AS EBIDTA with small profit in FY24 and full turnaround in FY25 given sustained customer traction and likely gains from BK Café in FY24. We believe Indonesia business will take time to turnaround given delay in post COVID recovery, business restructuring and initial losses in Popeyes (5/30 stores in FY23/FY24). We value the company at Rs 145 (Rs156 earlier) on SOTP basis. Maintain ACCUMULATE.

3Q23 SSSG of 8.6%: India revenues grew by 32.1% YoY to Rs3.7bn (PLe: Rs3.7bn). Gross margins expanded by 31bps YoY to 66.4% (PLe 68.3%). EBITDA grew by 45.8% YoY to Rs478.5mn (PLe Rs480mn); Margins expanded by 122bps YoY/151bps QoQ to 12.9% (PLe:13.1%). Adj loss stood at Rs 112.1mn in 3Q23 vs Rs 152mn in 3Q22 (PLe Rs -140mn). SSSG stood at 8.6%; ADS at Rs120k in 3Q23. Added 45 stores in 3Q23, total store count at 379. Added 72 BK Café in 3Q23, total BK Café count at 252. **Indonesia** revenues grew by 0.7% YoY to Rs1.6bn. Gross margins contracted by 272bps YoY/329bps QoQ to 57.2%. EBITDA Loss for 3Q23 stood at Rs 181mn vs profit of Rs 189mn in 3Q22.

Concall Takeaways: 1) India business saw softer traffic in Dec 2) ADS of Rs 120k optically lower due to new restaurants in base 3) Ticket sizes are higher vs pre COVID but dine-in cheques have not fully recovered 4) Able to maintain GM at 66.4% through internal efficiencies 5) Minimal price hikes taken across the portfolio to catchup with competition 6) Initial cohort of 18 BK Cafés have 1.7-2x higher ADS vs system avg. 7) Promotion of Chicken King range in Bengaluru, Hyderabad and Chennai 8) Confident of 7-10% SSSG in FY24 9) Indonesia strategy to focus on Whopper relaunch/innovations, increased chicken offerings and launch of Kings range 10) Bone in chicken at 30% of Indonesia sales has potential to double with spicy chicken offering 11) Popeyes to see 30 stores added in Indonesia by FY24 as brand receives favorable response

February 8, 2023

Q3FY23 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	145		156	
Sales (Rs. m)	19,720	25,604	20,023	25,755
% Chng.	*(1.5)*	*(0.6)*		
EBITDA (Rs. m)	3,136	4,757	3,251	4,874
% Chng.	*(3.5)*	*(2.4)*		
EPS (Rs.)	0.2	2.4	0.3	2.5
% Chng.	*(32.1)*	*(5.1)*		

Key Financials - Standalone

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	9,437	14,703	19,720	25,604
EBITDA (Rs. m)	902	1,753	3,136	4,757
Margin (%)	*9.6*	*11.9*	*15.9*	*18.6*
PAT (Rs. m)	(929)	(606)	97	1,168
EPS (Rs.)	(1.9)	(1.2)	0.2	2.4
Gr. (%)	*(56.5)*	*(34.8)*	*(116.0)*	*1,105.8*
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	*(7.1)*	*(3.2)*	*0.5*	*6.0*
RoCE (%)	*(3.5)*	*(0.2)*	*4.7*	*10.5*
EV/Sales (x)	5.0	3.4	2.5	1.9
EV/EBITDA (x)	52.6	28.1	15.9	10.3
PE (x)	(56.5)	(86.6)	541.7	44.9
P/BV (x)	2.7	2.8	2.8	2.6

Key Data	RESR.BO | RBA IN
52-W High / Low	Rs.143 / Rs.87
Sensex / Nifty	60,664 / 17,872
Market Cap	Rs.53bn/ $ 638m
Shares Outstanding	494m
3M Avg. Daily Value	Rs.67.79m

Shareholding Pattern (%)

Promoter's	40.90
Foreign	28.16
Domestic Institution	9.06
Public & Others	21.88
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(4.1)	(13.9)	(22.3)
Relative	(5.3)	(16.4)	(26.0)

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Exhibit 1: 3QFY23 Results – India Net sales up 32%, Margins expand by 122bps YoY/151bps QoQ

(Rs mn)	3QFY23	3QFY22	YoY gr. (%)	2QFY23	9MFY23	9MFY22	YoY gr. (%)
Net Sales	**3,698**	**2,799**	***32.1***	**3,680**	**10,747**	**6,750**	***59.2***
Gross Profit	2,454	1,849	*32.7*	2,443	7,134	4,430	*61.0*
% of NS	*66.4*	*66.1*	*0.3*	*66.4*	*66.4*	*65.6*	*0.8*
EBITDA	**479**	**328**	***45.8***	**421**	**1,232**	**599**	***105.5***
Margins %	*12.9*	*11.7*	*1.2*	*11.4*	*11.5*	*8.9*	*2.6*
Depreciation	434	344	*26.1*	426	1,321	1,006	*31.3*
Interest	220	168		206	622	502	
Other Income	63	32	*99.0*	79	239	111	*114.5*
PBT	**(112)**	**(152)**	***(26.1)***	**(133)**	**(472)**	**(797)**	***(40.8)***
Tax	-	-		-	-	-	
Tax rate %	*0.0*	*0.0*	*-*	*0.0*	*0.0*	*0.0*	*-*
Adjusted PAT	**(112)**	**(152)**	***(26.1)***	**(133)**	**(472)**	**(797)**	***(40.8)***

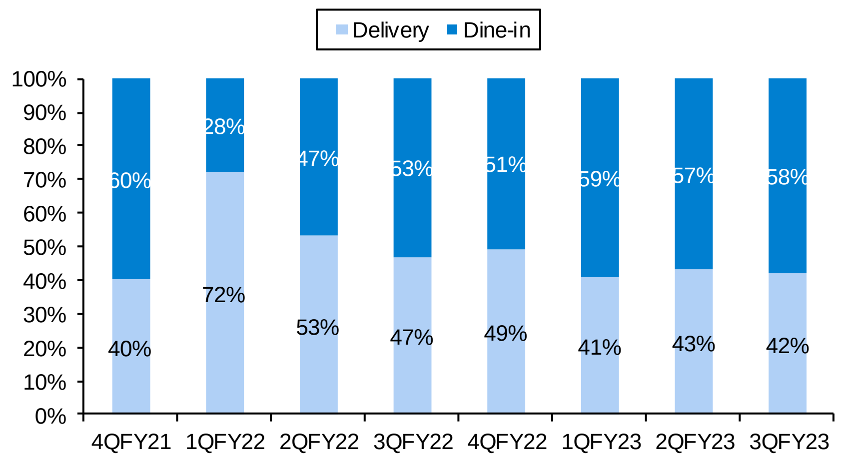
Source: Company, PL

Exhibit 2: 3QFY23 Results – Indonesia Net Sales up 0.7%; Margins contract by 78bps QoQ

(Rs mn)	3QFY23	3QFY22	YoY gr. (%)	2QFY23	9MFY23	9MFY22	YoY gr. (%)
Net Sales	**1,566**	**1,555**	***0.7***	**1,567**	**4,656**	**4,155**	***12.1***
Gross Profit	895	931	*(3.9)*	948	2,755	2,432	*13.3*
% of NS	*57.2*	*59.9*	*(2.7)*	*60.5*	*59.2*	*58.5*	*0.6*
EBITDA	**(181)**	**189**	***(196.0)***	**(169)**	**(391)**	**164**	***(338.8)***
Margins %	*(11.6)*	*12.2*	*(23.7)*	*(10.8)*	*(8.4)*	*3.9*	*(12.3)*
Depreciation	243	247	*(1.9)*	242	723	739	*(2.1)*
Interest	39	57	*(31.7)*	35	110	181	*(39.4)*
Other Income	16	2	*597.0*	28	77	17	*343.3*
PBT	**(447)**	**(113)**	***294.8***	**(418)**	**(1,146)**	**(739)**	***55.2***
Tax	-	-		-	-	-	
Tax rate %	*0.0*	*0.0*	*-*	*0.0*	*0.0*	*0.0*	*-*
Adjusted PAT	**(447)**	**(113)**	***294.8***	**(418)**	**(1,146)**	**(739)**	***55.2***

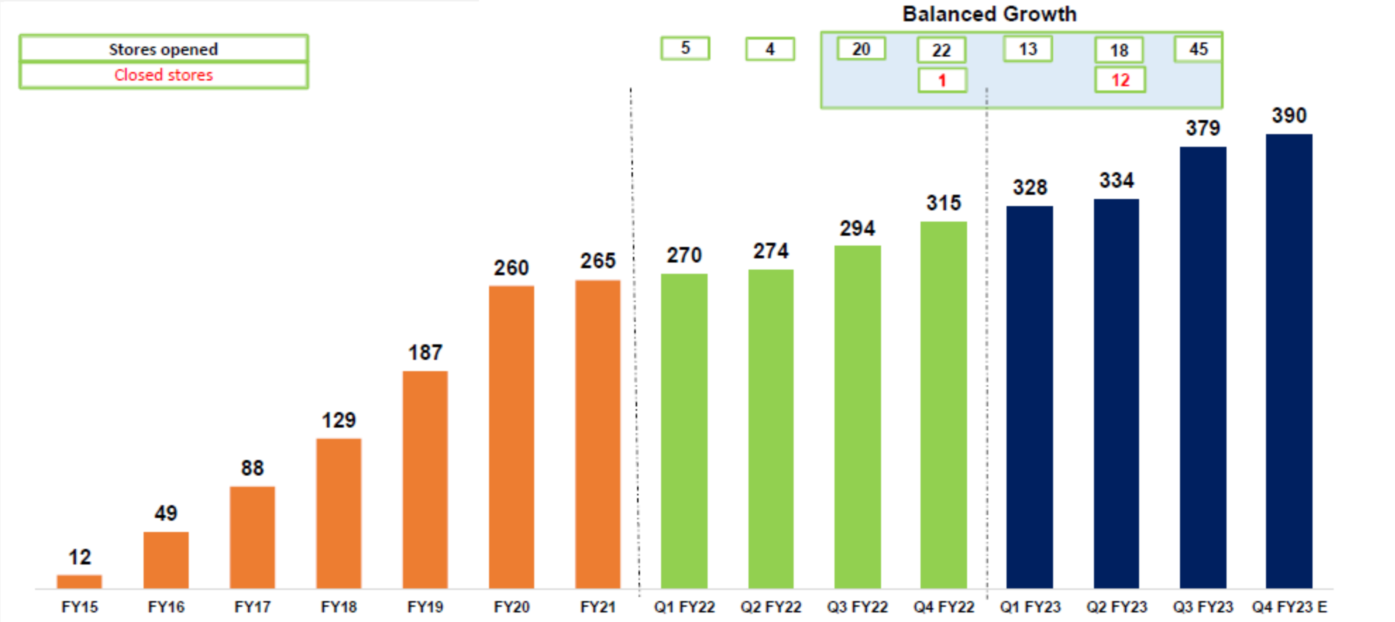
Source: Company, PL

Exhibit 3: Dine-in Sales at 58% during 3QFY23



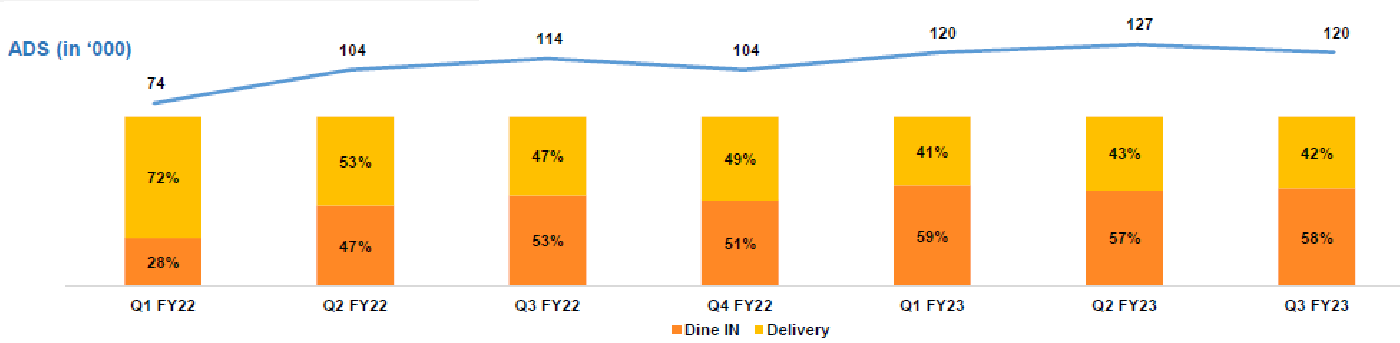
Source: Company, PL

Exhibit 4: Total store count at 379 in 3QFY23; on track to reach 390 by 4QFY23



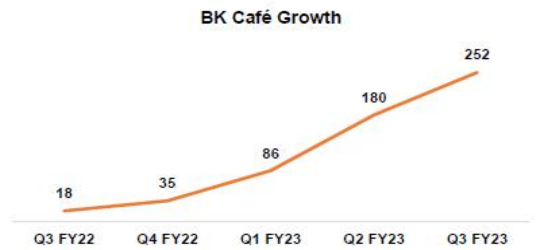
Source: PL, Company

Exhibit 5: ADS trends lower in 3QFY23 due to weakness in discretionary space



Source: PL, Company

Exhibit 6: BK Café saw sharp store additions in 3QFY23



- 230+ Cafés in 12 months
- +7K Incremental ADS in BK Café Restaurants
- Launched seasonal specials
  - Cinnamon Cappuccino & Cinnamon Hot Chocolate
- Launched Masala Chai to complete the hot beverages portfolio

Source: PL, Company

Exhibit 7: We assign target price of Rs 145 for overall business

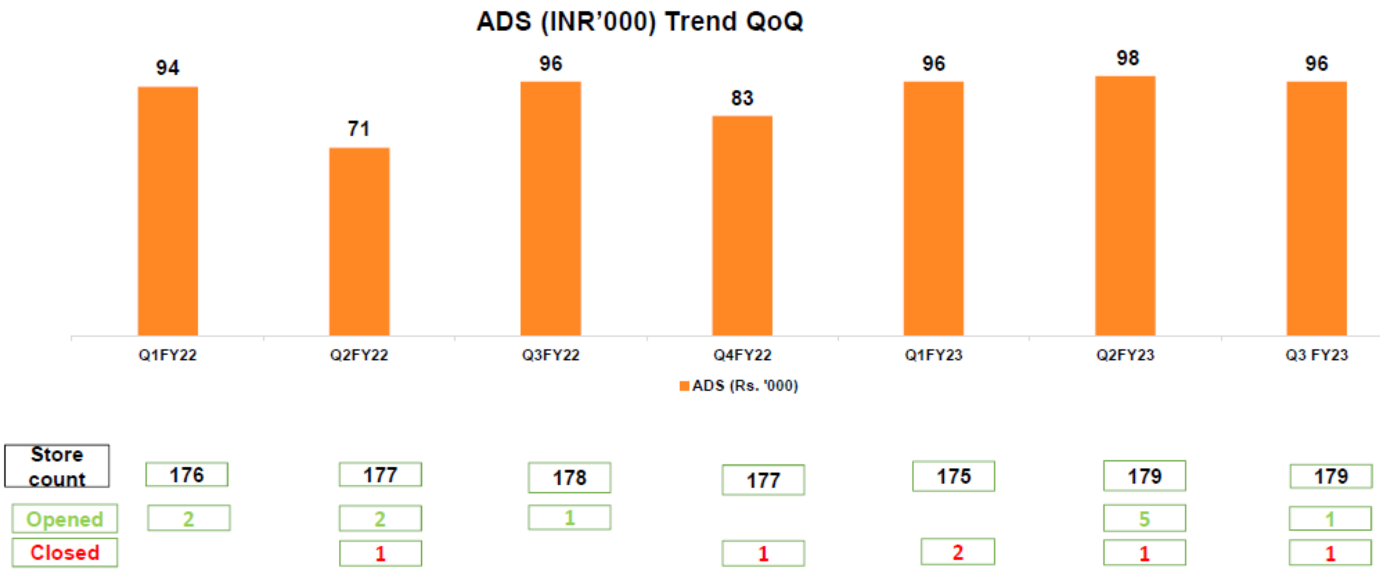
SOTP	Basis	X	EV	Value/Share
India	DCF			121
Indonesia	EV/EBIT	13.0	8643	18
Cash				6
Total Value/share				145

Source: Company, PL

Exhibit 8: Launch of Chicken King in South markets

Source: PL, Company

Exhibit 9: Indonesia ADS yet to cross 100k ADS



Source: PL, Company

Exhibit 10: Improvement in Indonesia menu architecture with Whopper relaunch & chicken offering

Source: PL, Company

Exhibit 11: Popeyes launched in Indonesia with 3 store openings in 3QFY23

Source: PL, Company

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Revenues	**9,437**	**14,703**	**19,720**	**25,604**
YoY gr. (%)	*90.9*	*55.8*	*34.1*	*29.8*
Cost of Goods Sold	3,231	4,911	6,409	7,937
Gross Profit	6,206	9,792	13,311	17,667
Margin (%)	*65.8*	*66.6*	*67.5*	*69.0*
Employee Cost	1,540	2,374	2,954	3,655
Other Expenses	424	703	982	1,276
EBITDA	**902**	**1,753**	**3,136**	**4,757**
YoY gr. (%)	*501.7*	*94.3*	*78.9*	*51.7*
Margin (%)	*9.6*	*11.9*	*15.9*	*18.6*
Depreciation and Amortization	1,357	1,796	2,247	2,693
EBIT	**(455)**	**(44)**	**889**	**2,064**
Margin (%)	*(4.8)*	*(0.3)*	*4.5*	*8.1*
Net Interest	680	869	1,019	1,127
Other Income	205	307	227	231
Profit Before Tax	**(929)**	**(606)**	**97**	**1,168**
Margin (%)	*(9.8)*	*(4.1)*	*0.5*	*4.6*
Total Tax	-	-	-	-
Effective tax rate (%)	-	-	-	-
Profit after tax	**(929)**	**(606)**	**97**	**1,168**
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	**(929)**	**(606)**	**97**	**1,168**
YoY gr. (%)	*(44.1)*	*(34.8)*	*(116.0)*	*1,105.8*
Margin (%)	*(9.8)*	*(4.1)*	*0.5*	*4.6*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**(929)**	**(606)**	**97**	**1,168**
YoY gr. (%)	*(46.6)*	*(34.8)*	*(116.0)*	*1,105.8*
Margin (%)	*(9.8)*	*(4.1)*	*0.5*	*4.6*
Other Comprehensive Income	(7)	-	-	-
Total Comprehensive Income	(936)	(606)	97	1,168
Equity Shares O/s (m)	**493**	**493**	**493**	**493**
EPS (Rs)	**(1.9)**	**(1.2)**	**0.2**	**2.4**

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Non-Current Assets				
Gross Block	**17,229**	**21,861**	**26,371**	**30,916**
Tangibles	16,784	21,372	25,834	30,325
Intangibles	444	489	538	591
Acc: Dep / Amortization	**5,654**	**7,451**	**9,698**	**12,391**
Tangibles	5,564	7,335	9,554	12,216
Intangibles	91	116	144	175
Net fixed assets	**11,574**	**14,410**	**16,673**	**18,525**
Tangibles	11,220	14,037	16,280	18,109
Intangibles	354	373	394	417
Capital Work In Progress	107	413	440	440
Goodwill	-	-	-	-
Non-Current Investments	11,408	11,473	11,565	11,661
Net Deferred tax assets	-	-	-	-
Other Non-Current Assets	282	340	332	334
Current Assets				
Investments	4,023	3,250	2,800	3,800
Inventories	135	202	263	326
Trade receivables	92	141	189	246
Cash & Bank Balance	1,063	(37)	(92)	(149)
Other Current Assets	131	322	412	510
Total Assets	**28,900**	**30,605**	**32,685**	**35,805**
Equity				
Equity Share Capital	4,927	4,927	4,927	4,927
Other Equity	14,576	13,959	14,056	15,224
Total Networth	**19,503**	**18,887**	**18,984**	**20,152**
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	256	311	377	458
Other non current liabilities	7	7	8	8
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	1,358	1,952	2,326	2,751
Other current liabilities	1,096	1,325	1,415	1,525
Total Equity & Liabilities	**28,900**	**30,605**	**32,685**	**35,805**

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	(929)	(606)	97	1,168
Add. Depreciation	1,357	1,796	2,247	2,693
Add. Interest	680	869	1,019	1,127
Less Financial Other Income	205	307	227	231
Add. Other	(206)	(2)	75	79
Op. profit before WC changes	901	2,057	3,438	5,067
Net Changes-WC	669	508	255	308
Direct tax	-	-	-	-
Net cash from Op. activities	**1,570**	**2,566**	**3,693**	**5,375**
Capital expenditures	(13,965)	(4,938)	(4,538)	(4,545)
Interest / Dividend Income	-	-	-	-
Others	(2,815)	707	358	(1,096)
Net Cash from Invt. activities	**(16,779)**	**(4,230)**	**(4,180)**	**(5,641)**
Issue of share cap. / premium	13,705	(11)	-	-
Debt changes	1,086	1,444	1,451	1,336
Dividend paid	-	-	-	-
Interest paid	(680)	(869)	(1,019)	(1,127)
Others	-	-	-	-
Net cash from Fin. activities	**14,111**	**565**	**433**	**209**
Net change in cash	**(1,098)**	**(1,100)**	**(54)**	**(57)**
Free Cash Flow	(12,395)	(2,372)	(845)	830

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Net Revenue	**2,799**	**2,687**	**3,369**	**3,680**
YoY gr. (%)	*71.5*	*37.1*	*125.0*	*50.0*
Raw Material Expenses	950	911	1,133	1,237
Gross Profit	1,849	1,776	2,236	2,443
Margin (%)	*66.1*	*66.1*	*66.4*	*66.4*
EBITDA	**328**	**302**	**332**	**421**
YoY gr. (%)	*115.9*	*23.5*	*2,064.8*	*64.4*
Margin (%)	*11.7*	*11.3*	*9.9*	*11.4*
Depreciation / Depletion	344	351	461	426
EBIT	**(16)**	**(48)**	**(129)**	**(6)**
Margin (%)	*(0.6)*	*(1.8)*	*(3.8)*	*(0.2)*
Net Interest	168	178	196	206
Other Income	32	94	97	79
Profit before Tax	**(152)**	**(132)**	**(227)**	**(133)**
Margin (%)	*(5.4)*	*(4.9)*	*(6.7)*	*(3.6)*
Total Tax	-	-	-	-
Effective tax rate (%)	-	-	-	-
Profit after Tax	**(152)**	**(132)**	**(227)**	**(133)**
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	**(152)**	**(132)**	**(227)**	**(133)**
YoY gr. (%)	*(47.8)*	*(35.1)*	*(48.7)*	*(34.4)*
Margin (%)	*(5.4)*	*(4.9)*	*(6.7)*	*(3.6)*
Extra Ord. Income / (Exp)	(8)	-	-	-
Reported PAT	**(159)**	**(132)**	**(227)**	**(133)**
YoY gr. (%)	*(45.1)*	*(49.1)*	*(48.7)*	*(34.4)*
Margin (%)	*(5.7)*	*(4.9)*	*(6.7)*	*(3.6)*
Other Comprehensive Income	(1)	(7)	-	2
Total Comprehensive Income	**(160)**	**(139)**	**(227)**	**(130)**
Avg. Shares O/s (m)	-	-	-	-
EPS (Rs)	**-**	**-**	**-**	**-**

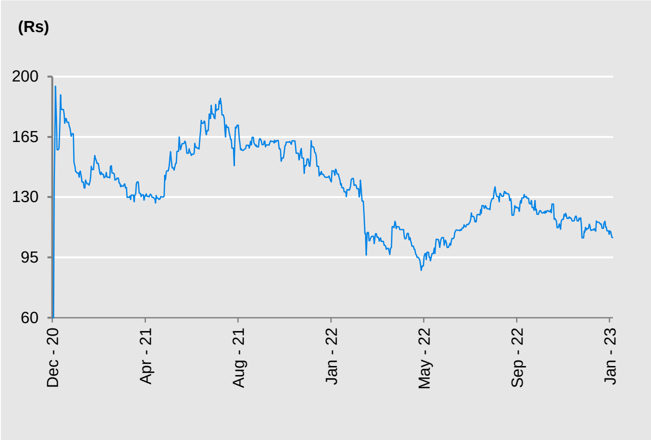
Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
Per Share(Rs)				
EPS	(1.9)	(1.2)	0.2	2.4
CEPS	0.9	2.4	4.8	7.8
BVPS	39.6	38.3	38.5	40.9
FCF	(25.2)	(4.8)	(1.7)	1.7
DPS	-	-	-	-
Return Ratio(%)				
RoCE	(3.5)	(0.2)	4.7	10.5
ROIC	(1.9)	(0.2)	3.0	6.4
RoE	(7.1)	(3.2)	0.5	6.0
Balance Sheet				
Net Debt : Equity (x)	(0.3)	(0.2)	(0.1)	(0.2)
Net Working Capital (Days)	(44)	(40)	(35)	(31)
Valuation(x)				
PER	(56.5)	(86.6)	541.7	44.9
P/B	2.7	2.8	2.8	2.6
P/CEPS	122.8	44.1	22.4	13.6
EV/EBITDA	52.6	28.1	15.9	10.3
EV/Sales	5.0	3.4	2.5	1.9
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Jan-23	Accumulate	156	111
2	11-Nov-22	Accumulate	156	126
3	04-Oct-22	Accumulate	156	132
4	15-Sep-22	Accumulate	156	129
5	12-Aug-22	Accumulate	148	123
6	07-Jul-22	UR	-	111
7	31-May-22	UR	-	97
8	08-Apr-22	BUY	220	113

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Accumulate	3,150	2,866
2	Avenue Supermarts	BUY	4,675	3,864
3	Britannia Industries	Hold	4,580	4,573
4	Colgate Palmolive	Hold	1,578	1,459
5	Dabur India	Accumulate	609	554
6	Emami	Accumulate	516	420
7	Hindustan Unilever	Accumulate	2,800	2,650
8	ITC	Accumulate	438	381
9	Jubilant FoodWorks	BUY	567	456
10	Kansai Nerolac Paints	Accumulate	485	416
11	Marico	Hold	532	494
12	Mold-tek Packaging	UR	-	1,063
13	Nestle India	Accumulate	20,201	19,890
14	Pidilite Industries	Hold	2,500	2,315
15	Restaurant Brands Asia	Accumulate	156	111
16	Titan Company	BUY	2,905	2,308
17	Westlife Foodworld	BUY	852	735

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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