

November 8, 2023

Q2FY24 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY25E	FY26E	FY25E	FY26E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	145		142	
Sales (Rs.m)	18,812	24,014	19,180	24,359
% Chng.	(1.9)	(1.4)		
EBITDA (Rs.m)	2,438	3,377	2,446	3,485
% Chng.	(0.3)	(3.1)		
EPS (Rs.)	-1.0	-0.4	-1.2	-0.5
% Chng.	NA	NA		

Key Financials - Standalone

Y/e Mar	FY23	FY24E	FY25E	FY26E
Sales (Rs. m)	14,397	18,812	24,014	30,192
EBITDA (Rs. m)	1,654	2,438	3,377	4,404
Margin (%)	11.5	13.0	14.1	14.6
PAT (Rs. m)	(718)	(511)	(189)	281
EPS (Rs.)	(1.5)	(1.0)	(0.4)	0.6
Gr. (%)	(23.0)	(28.8)	(63.1)	(249.0)
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	(3.7)	(2.7)	(1.0)	1.5
RoCE (%)	(0.8)	1.6	4.7	8.0
EV/Sales (x)	3.8	3.0	2.4	1.9
EV/EBITDA (x)	33.1	22.8	16.7	12.8
PE (x)	(78.6)	(110.4)	(298.9)	200.6
P/BV (x)	3.0	3.1	3.1	3.1

Key Data

RESR.BO | RBA IN

52-W High / Low	Rs.138 / Rs.84
Sensex / Nifty	64,976 / 19,444
Market Cap	Rs.56bn/ \$ 678m
Shares Outstanding	495m
3M Avg. Daily Value	Rs.387.32m

Shareholding Pattern (%)

Promoter's	15.43
Foreign	29.92
Domestic Institution	22.20
Public & Others	32.44
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(8.9)	7.4	(6.2)
Relative	(7.4)	2.1	(11.6)

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Restaurant Brands Asia (RBA IN)

Rating: ACCUMULATE | CMP: Rs114 | TP: Rs145

India – strong 2H guidance, Indonesia shows initial recovery

Quick Pointers:

- BK India ADS at Rs126k, SSG at 3.5%, 2H SSG expected at 8-9%
- Indonesia expected to be cash breakeven in FY24, Popeyes ADS 30% higher than BK ADS, 50% growth in chicken and 35% in Burgers

Restaurant Brands Asia (RBA) had shown broad based recovery in 2Q24 led by 3.5% SSG in India and margin beat lead by steady GM and lower increase in overheads. Indonesia business has reported strong 50% growth in chicken and 35% in burgers in a seasonally weak quarter. 2H24 outlook in India better with 1) seasonal uptick in 3Q resulting in improved store traffic 2) higher stores openings (46 in 2H) 3) sustained benefits from value meal and innovations and 4) strong growth in smaller towns. We believe margin expansion in India business will be slightly curtailed in 2H due to overheads associated with accelerated store openings. Indonesia operations is showing initial signs of recovery led by 1) relaunch/innovation in Whopper range 2) new range of chicken offerings 3) desserts scalability and 4) sustained traction with 30% higher ADS in Popeyes then BK.

Given strong SSG guidance beyond FY24, we now expect India business to report FY26 PBT from operations of Rs276mn versus Rs165mn earlier. We value the company at Rs 145 (Rs142 earlier) on SOTP basis. Accumulate.

2Q24 SSSG of 3.5%: India Business Revenues grew by 23.2% YoY to Rs4.5bn (PLe: Rs4.6bn). Gross margins expanded by 44bps YoY to 66.8% (PLe: 67%). EBITDA grew by 50.7% YoY to Rs634.2mn (PLe: Rs574.5mn); Margins expanded by 255bps YoY to 14% (PLe:12.6%). Loss stood at Rs-93.4mn (PLe: Rs-164mn). SSSG stood at 3.5%; ADS at Rs126k in 2Q24. Added 8 stores in 2Q24, total store count at 404. Added 11 BK Café in 2Q24, total BK Café count at 297. **Indonesia Business** Revenues grew by 9.4% YoY to Rs1.7bn. Gross margins contracted by -318bps YoY to 57.3%. EBITDA loss stood at Rs-71.8mn (PLe: Rs-323mn); Margins expanded by 662bps YoY to -4.2% (PLe:-47.2%). Loss stood at Rs 413.1m

Concall Takeaways: 1) SSSG of 3.6% in Q2 was led by high single digit traffic growth in dine-in channel 2) BK Café adds Rs7k-R8k to overall ADS; ex-cannibalization ADS at Rs16k 3) Tier-2 & Tier-3 cities are doing well led by incremental volume growth 4) Newer store are taking relatively lower time to mature 5) India GM's stable despite no price hikes & value meal offering led by internal efficiencies and high SSTG. Expect GM to be at 67% for FY24 5) BK India FY24/FY25 SSSG expected at 6%/8% with 2HFY24 SSSG expected to be high single digit 6) Indonesia Business is recovering with 6% SSSG and 17% dine in growth in Q2 and expects to be cash break even by FY24 7) Popeyes continues to gain traction, as of now 10 stores are under construction and total store count to reach 25 by Dec'23 8) Indonesia store count at 325 (200 BK/125 Popeyes by FY27. 9) Capex for opening Popeyes store is ~\$400000.

Exhibit 1: 2QFY24 Results – India Net sales up 23.2%, EBITDA margins expand by 255bps YoY

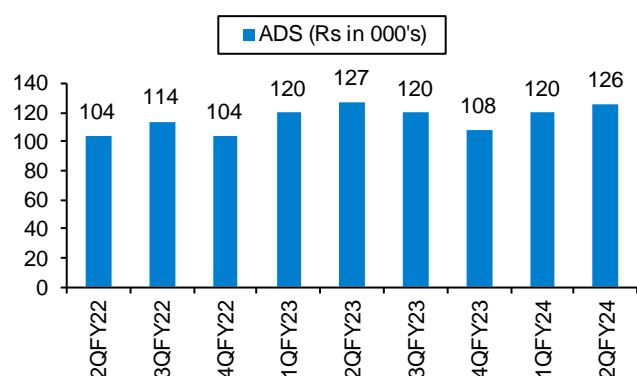
Y/e March (Rs mn)	Q2FY24	Q2FY23	YoY gr. (%)	Q1FY24	1HFY24	1HFY23	YoY gr. (%)
Net Sales	4,535	3,680	23.2	4,221	8,756	7,050	24.2
Gross Profit	3,031	2,443	24.0	2,806	5,837	4,679	24.7
% of NS	66.8	66.4	0.4	66.5	66.7	66.4	0.3
EBITDA	634	421	50.7	485	1,119	753	48.6
Margins %	14.0	11.4	2.55	11.5	12.8	10.7	2.1
Depreciation	494	426	15.9	507	1,002	887	12.9
Interest	273	206		264	537	402	
Other Income	40	79	(49.5)	65	105	176	(40.3)
PBT	(93)	(133)	29.6	(222)	(315)	(360)	12.5
Tax	-	-		-	-	-	
Tax rate %	0.0	0.0	-	0.0	0.0	0.0	-
Adjusted PAT	(93)	(133)	29.6	(222)	(315)	(360)	12.5

Source: Company, PL

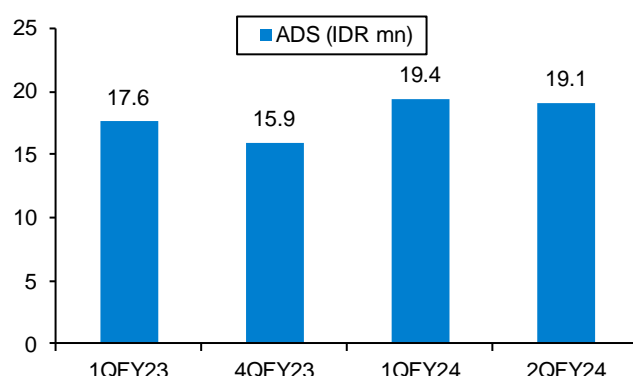
Exhibit 2: 2QFY24 Results – Indonesia Net Sales up 9.4%, EBITDA margins expanded by 662bps YoY, up 409bps QoQ

Y/e March (Rs mn)	Q2FY24	Q2FY23	YoY gr. (%)	Q1FY24	1HFY24	1HFY23	YoY gr. (%)
Net Sales	1,714	1,567	9.4	1,887	6,146	3,090	98.9
Gross Profit	982	948	3.6	1,106	3,630	1,860	95.2
% of NS	57.3	60.5	(3.18)	58.6	59.1	60.2	(1.1)
EBITDA	(72)	(169)	57.6	(2)	(540)	(209)	157.7
Margins %	(4.2)	(10.8)	6.62	(0.1)	(8.8)	(6.8)	(2.0)
Depreciation	292	242	20.8	280	1,038	481	116.1
Interest	42	35	21.1	43	156	71	121.3
Other Income	(7)	28	(124.9)	6	34	61	(43.9)
PBT	(413)	(418)	1.2	(319)	(1,700)	(699)	143.0
Tax	-	-		-	-	-	
Tax rate %	0.0	0.0	-	0.0	0.0	0.0	-
Adjusted PAT	(413)	(418)	1.2	(319)	(1,700)	(699)	143.0

Source: Company, PL

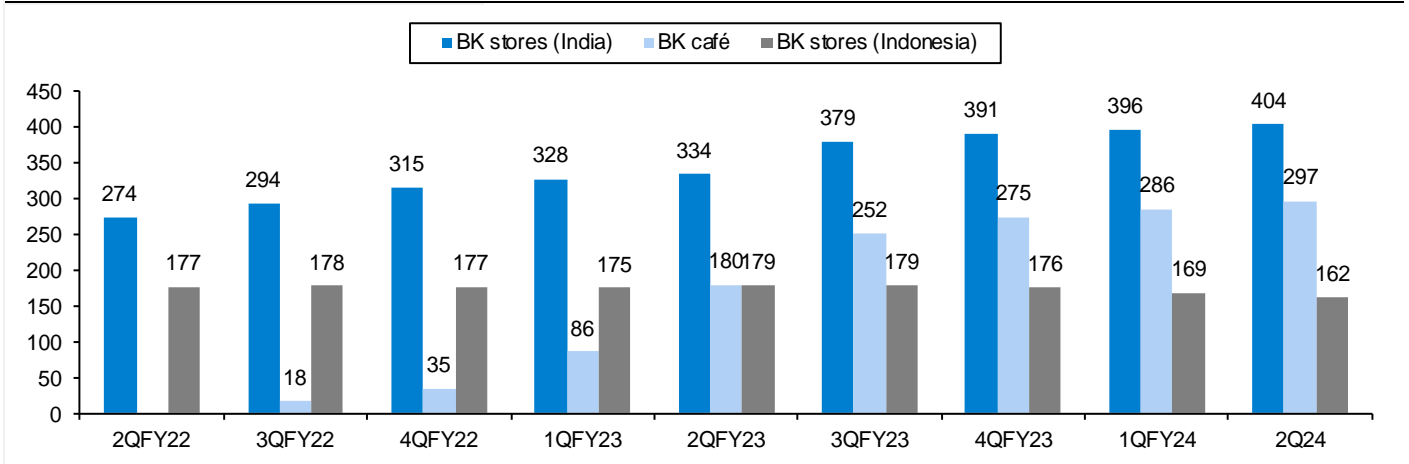
Exhibit 1: India ADS flat YoY, grew by 5% QoQ


Source: Company, PL

Exhibit 2: Indonesia ADS down 1.5% QoQ


Source: Company, PL

Exhibit 3: India store count at 404 in 2QFY24; FY24/FY27 target at 450/700 stores



Source: Company, PL

Exhibit 4: New innovative launches in limited time whoopers



Source: Company, PL

Exhibit 5: BK aggressive on marketing campaigns



Source: Company, PL

Exhibit 6: Value offerings across burger layers in Indonesia



Source: Company, PL

Exhibit 7: We assign target price of Rs145 for overall business

SOTP	Basis	Value/Share
India	DCF	117
Indonesia	BV	28
Total Value/share		145

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Net Revenues	14,397	18,812	24,014	30,192
YoY gr. (%)	52.6	30.7	27.7	25.7
Cost of Goods Sold	4,841	6,208	7,901	9,903
Gross Profit	9,555	12,604	16,113	20,289
Margin (%)	66.4	67.0	67.1	67.2
Employee Cost	2,280	2,920	3,703	4,634
Other Expenses	5,621	937	1,196	1,504
EBITDA	1,654	2,438	3,377	4,404
YoY gr. (%)	83.5	47.4	38.5	30.4
Margin (%)	11.5	13.0	14.1	14.6
Depreciation and Amortization	1,802	2,138	2,525	2,944
EBIT	(148)	300	852	1,460
Margin (%)	(1.0)	1.6	3.5	4.8
Net Interest	896	1,092	1,056	1,183
Other Income	325	281	15	5
Profit Before Tax	(718)	(511)	(189)	281
Margin (%)	(5.0)	(2.7)	(0.8)	0.9
Total Tax	-	-	-	-
Effective tax rate (%)	-	-	-	-
Profit after tax	(718)	(511)	(189)	281
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	(718)	(511)	(189)	281
YoY gr. (%)	(22.7)	(28.8)	(63.1)	(249.0)
Margin (%)	(5.0)	(2.7)	(0.8)	0.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	(718)	(511)	(189)	281
YoY gr. (%)	(22.7)	(28.8)	(63.1)	(249.0)
Margin (%)	(5.0)	(2.7)	(0.8)	0.9
Other Comprehensive Income	(4)	-	-	-
Total Comprehensive Income	(722)	(511)	(189)	281
Equity Shares O/s (m)	495	495	495	495
EPS (Rs)	(1.5)	(1.0)	(0.4)	0.6

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Non-Current Assets				
Gross Block	23,138	26,215	31,295	35,995
Tangibles	22,427	25,433	30,435	35,049
Intangibles	711	782	860	946
Acc: Dep / Amortization	7,724	9,862	12,387	15,331
Tangibles	7,578	9,676	12,156	15,051
Intangibles	146	187	231	281
Net fixed assets	15,414	16,352	18,908	20,664
Tangibles	14,849	15,757	18,279	19,998
Intangibles	565	595	629	666
Capital Work In Progress	297	325	440	440
Goodwill	-	-	-	-
Non-Current Investments	12,738	12,793	12,676	12,738
Net Deferred tax assets	-	-	-	-
Other Non-Current Assets	303	324	386	394
Current Assets				
Investments	1,469	400	40	100
Inventories	192	255	325	407
Trade receivables	115	180	164	207
Cash & Bank Balance	146	334	(59)	(26)
Other Current Assets	177	393	299	602
Total Assets	30,898	31,411	33,238	35,590
Equity				
Equity Share Capital	4,946	4,946	4,946	4,946
Other Equity	14,000	13,332	13,143	13,425
Total Network	18,946	18,278	18,089	18,370
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	298	376	458	557
Other non current liabilities	5	8	8	8
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	1,391	2,270	2,706	3,292
Other current liabilities	1,316	1,253	1,498	1,684
Total Equity & Liabilities	30,898	31,411	33,238	35,590

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
PBT	(718)	(511)	(189)	281
Add. Depreciation	1,802	2,138	2,525	2,944
Add. Interest	896	1,092	1,056	1,183
Less Financial Other Income	325	281	15	5
Add. Other	17	59	20	91
Op. profit before WC changes	1,996	2,778	3,413	4,500
Net Changes-WC	165	465	716	339
Direct tax	-	-	-	-
Net cash from Op. activities	2,161	3,244	4,129	4,839
Capital expenditures	(7,081)	(3,104)	(5,196)	(4,700)
Interest / Dividend Income	-	-	-	-
Others	2,473	1,013	477	(122)
Net Cash from Invst. activities	(4,608)	(2,091)	(4,719)	(4,822)
Issue of share cap. / premium	164	(157)	-	-
Debt changes	2,262	284	1,253	1,200
Dividend paid	-	-	-	-
Interest paid	(896)	(1,092)	(1,056)	(1,183)
Others	-	-	-	-
Net cash from Fin. activities	1,530	(964)	197	16
Net change in cash	(917)	188	(393)	33
Free Cash Flow	(4,920)	139	(1,067)	139

Source: Company Data, PL Research

Key Financial Metrics

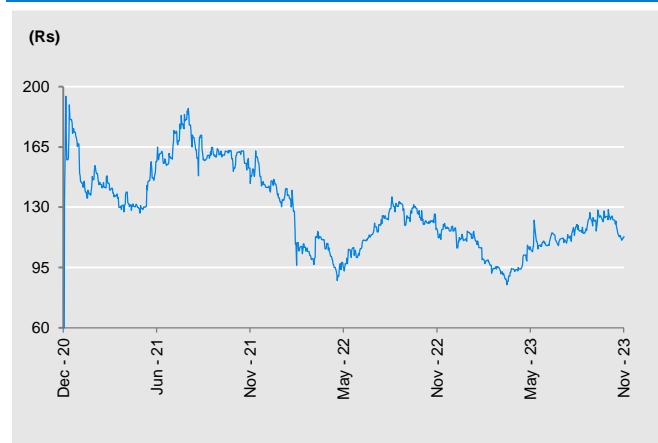
Y/e Mar	FY23	FY24E	FY25E	FY26E
Per Share(Rs)				
EPS	(1.5)	(1.0)	(0.4)	0.6
CEPS	2.2	3.3	4.7	6.5
BVPS	38.3	37.0	36.6	37.1
FCF	(9.9)	0.3	(2.2)	0.3
DPS	-	-	-	-
Return Ratio(%)				
RoCE	(0.8)	1.6	4.7	8.0
ROIC	(0.5)	1.0	2.6	4.1
RoE	(3.7)	(2.7)	(1.0)	1.5
Balance Sheet				
Net Debt : Equity (x)	(0.1)	0.0	-	-
Net Working Capital (Days)	(28)	(36)	(34)	(32)
Valuation(x)				
PER	(78.6)	(110.4)	(298.9)	200.6
P/B	3.0	3.1	3.1	3.1
P/CEPS	52.1	34.7	24.2	17.5
EV/EBITDA	33.1	22.8	16.7	12.8
EV/Sales	3.8	3.0	2.4	1.9
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Net Revenue	3,698	3,649	4,221	4,535
YoY gr. (%)	32.1	35.8	25.3	23.2
Raw Material Expenses	1,243	1,227	1,415	1,504
Gross Profit	2,454	2,422	2,806	3,031
Margin (%)	66.4	66.4	66.5	66.8
EBITDA	479	423	485	634
YoY gr. (%)	45.8	39.8	45.9	50.7
Margin (%)	12.9	11.6	11.5	14.0
Depreciation / Depletion	434	481	507	494
EBIT	45	(58)	(23)	140
Margin (%)	1.2	(1.6)	(0.5)	3.1
Net Interest	220	274	264	273
Other Income	63	86	65	40
Profit before Tax	(112)	(246)	(222)	(93)
Margin (%)	(3.0)	(6.7)	(5.2)	(2.1)
Total Tax	-	-	-	-
Effective tax rate (%)	-	-	-	-
Profit after Tax	(112)	(246)	(222)	(93)
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	(112)	(246)	(222)	(93)
YoY gr. (%)	(26.0)	86.2	(2.6)	(29.6)
Margin (%)	(3.0)	(6.7)	(5.2)	(2.1)
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	(112)	(246)	(222)	(93)
YoY gr. (%)	(29.6)	86.2	(2.6)	(29.6)
Margin (%)	(3.0)	(6.7)	(5.2)	(2.1)
Other Comprehensive Income	(1)	1	-	(4)
Total Comprehensive Income	(113)	(245)	(222)	(97)
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	07-Oct-23	Accumulate	142	125
2	08-Aug-23	Accumulate	142	117
3	06-Jul-23	Accumulate	146	112
4	18-May-23	Accumulate	132	123
5	11-Apr-23	Accumulate	121	94
6	08-Feb-23	Accumulate	145	107
7	06-Jan-23	Accumulate	156	111
8	11-Nov-22	Accumulate	156	126

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Accumulate	3,387	2,960
2	Avenue Supermarts	BUY	4,724	3,920
3	Britannia Industries	Hold	4,801	4,527
4	Colgate Palmolive	Hold	1,948	2,034
5	Dabur India	Accumulate	597	530
6	Emami	Accumulate	564	519
7	Hindustan Unilever	Hold	2,786	2,548
8	ITC	Accumulate	492	450
9	Jubilant FoodWorks	Hold	505	529
10	Kansai Nerolac Paints	Accumulate	351	306
11	Marico	Hold	556	532
12	Metro Brands	Accumulate	1,231	1,208
13	Mold-tek Packaging	Hold	956	892
14	Nestle India	Accumulate	25,471	24,245
15	Pidilite Industries	Hold	2,610	2,454
16	Restaurant Brands Asia	Accumulate	142	125
17	Titan Company	Accumulate	3,387	3,275
18	Westlife Foodworld	Hold	844	883

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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