Restaurant Brands Asia (RBA IN)

Rating: HOLD | CMP: Rs92 | TP: Rs109

October 29, 2024

Q2FY25 Result Update

☑ Change in Estimates | ☑ Target | ☑ Reco

Change in Estimates

	Current		Previous	
	FY26E	FY27E	FY26E	FY27E
Rating	HOLD		ACCUMULATE	
Target Price	109		129	
Sales (Rs. m)	24,822	29,892	25,421	30,614
% Chng.	*(2.4)*	*(2.4)*		
EBITDA (Rs. m)	3,985	5,075	4,177	5,311
% Chng.	*(4.6)*	*(4.4)*		
EPS (Rs.)	(0.5)	0.2	-	0.9
% Chng.	*NA*	*NA*		

Key Financials - Standalone

Y/e Mar	FY24	FY25E	FY26E	FY27E
Sales (Rs. m)	17,601	20,701	24,822	29,892
EBITDA (Rs. m)	2,377	2,909	3,985	5,075
Margin (%)	*13.5*	*14.1*	*16.1*	*17.0*
PAT (Rs. m)	(689)	(817)	(264)	96
EPS (Rs.)	(1.4)	(1.6)	(0.5)	0.2
Gr. (%)	*(4.3)*	*18.4*	*(67.6)*	*(136.3)*
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	*(3.7)*	*(4.5)*	*(1.5)*	*0.6*
RoCE (%)	*1.4*	*2.0*	*6.0*	*9.3*
EV/Sales (x)	2.5	2.3	1.9	1.6
EV/EBITDA (x)	18.8	16.1	11.9	9.4
PE (x)	(66.4)	(56.1)	(173.4)	478.2
P/BV (x)	2.5	2.6	2.7	2.7

Key Data	RESR.BO | RBA IN
52-W High / Low	Rs.134 / Rs.91
Sensex / Nifty	80,369 / 24,467
Market Cap	Rs.46bn/ $ 547m
Shares Outstanding	498m
3M Avg. Daily Value	Rs.348.54m

Shareholding Pattern (%)

Promoter's	13.17
Foreign	17.52
Domestic Institution	37.75
Public & Others	31.56
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(17.2)	(7.7)	(18.7)
Relative	(11.8)	(14.2)	(35.5)

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Demand visibility remains blurry, cut to hold

Quick Pointers:

- BK India ADS at Rs118k, SSG at -3.0% amidst slack in market demand.
- Indonesia to achieve cash breakeven in FY25

Restaurant Brands Asia (RBA) posted below estimate revenue with -3.0% SSG led by subdued demand environment, however gross margins expanded by 23bps YoY led by procurement efficiencies. EBITDA margins increased by 23bps aided by 100bps lower adspends YoY. However excluding cut in adspends and sharp jump in other income, PBT loss would have been Rs246mn. Burger King continues to focus on value strategy with combos (2 Pizza puff 2 veg Burgers at Rs79, Chicken at Rs99) and value meals at Rs99 to drive traffic in a tepid demand environment. Indonesia business saw yet another muted quarter (-18% sales growth) due to sustained geopolitical issues and scale down in number of BK stores.

India business is focusing on 1) steady improvement in store traffic 2) sustained benefits from value meal and 3) strong growth in smaller towns. RBA expects Indonesia business to show recovery post 3Q led by 1) Improving sentiments with time 2) new range of chicken offerings 3) desserts scalability 4) aggressive marketing and 5) sustained traction with higher ADS in Popeyes. Near term outlook looks hazy as higher food inflation is affecting demand. We value the company at Rs 109 (129 earlier) on SOTP basis. We cut the rating from Accumulate to Hold.

India Business - Revenues grew by 8.5% YoY to Rs4.9bn (PLe: Rs5.07bn). Gross margins expanded 67bps YoY to 67.5% (Ple: 67.3%). EBITDA grew 10.3% YoY to Rs699.7mn (PLe:Rs686mn); Margins expanded 23bps YoY to 14.2% (PLe:13.5%). Losses came at Rs165.8mn (PLe: Rs-254mn). SSG came at -3% with ADS at Rs118k. Added 8 store QoQ taking total stores to 464. Bk café count increased to 365 adding 15 café this quarter with ADS at Rs14k. **Indonesia** Revenues declined -18.2% YoY to Rs1.4bn. Gross margins contracted -152bps YoY to 55.8%. EBITDA grew 6.4% YoY to Rs67.2mn, Margins contracted -60bps YoY to -4.8%. Losses came at Rs488.7mn in 2QFY25 (Rs413mn in 2QFY24). BK SSG came at -15%

Concall Takeaways: 1) 2Q SSSG was -3.0% as demand remained subdued, however SSTG was positive driven by continuous traction in value offerings. 2) Indonesia business continues to face headwinds as geopolitical issues continue to affect stores. 3) Gross margins continue to remain stable led by supply side initiative and efficiencies. 4) Innovations strengthening existing portfolio continue to drive additional traffic with new launches like pizza puff chicken in Q2. 5) Traffic growth is expected to grow led by focus on value proposition, innovation & digital first experience. 6) BK Indonesia's new spicy chicken to see aggressive marketing in 3Q and will contribute 50% towards overall chicken portfolio 7) No further capex to be expected in Indonesia as company will focus on profitability of existing stores 8) BK India is on track to reach 510 stores by FY25

Exhibit 1: 2QFY25 Results – India Net sales up 8.5%, EBITDA margins expand by 23bps YoY

(Rs mn)	Q2FY25	Q2FY24	YoY gr. (%)	Q1FY25	1HFY25	1HFY24	YoY gr. (%)
Net Sales	**4,921**	**4,535**	***8.5***	**4,905**	**9,826**	**8,756**	***12.2***
Gross Profit	3,322	3,031	*9.6*	3,318	6,640	5,837	*13.8*
% of NS	*67.5*	*66.8*	*0.7*	*67.6*	*67.6*	*66.7*	*0.9*
EBITDA	**699.7**	**634.2**	***10.3***	**625.2**	**1,324.8**	**1,118.9**	***18.4***
Margins %	*14.2*	*14*	*0.2*	*13*	*13*	*13*	*0.7*
Depreciation	611	494	*23.5*	633	1,244	1,002	*24.2*
Interest	326	273		319	644	537	
Other Income	71	40	*78.2*	57	128	105	*22.0*
PBT	**-166**	**-93**	***(77.5)***	**-269**	**-435**	**-315**	***(38.2)***
Tax	0.0	0.0		0.0	0.0	0.0	
Tax rate %	*0*	*0*	*0.0*	*0*	*0*	*0*	*0.0*
Adjusted PAT	**-166**	**-93**	***-78***	**-269**	**-435**	**-315**	***-38***

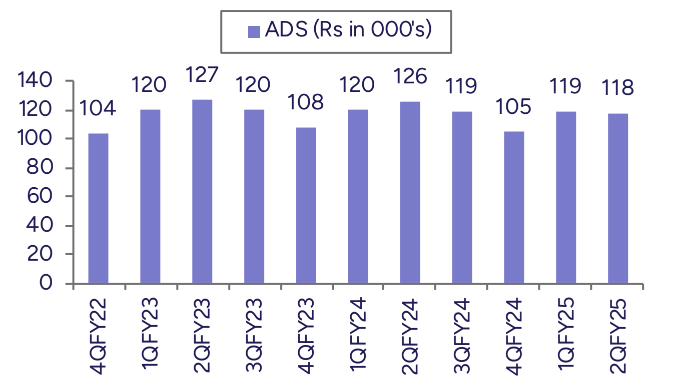
Source: Company, PL

Exhibit 2: 2QFY25 Results – Indonesia Net Sales decline by 18.2%

(Rs mn)	Q2FY25	Q2FY24	YoY gr. (%)	Q4FY24	1HFY25	1HFY24	YoY gr. (%)
Net Sales	**1,403**	**1,714**	***(18.2)***	**1,562**	**2,965.0**	**3,601**	***-18***
Gross Profit	783	982	*(20.3)*	853	1,635.6	2,088	*-22*
% of NS	*55.8*	*57.3*	*(1.5)*	*54.6*	*55.2*	*58.0*	*(2.8)*
EBITDA	**-67**	**-72**	***6.4***	**6**	**(60.9)**	**-73**	***-17***
Margins %	*-4.8*	*-4*	*(0.6)*	*0*	*(2.1)*	*-2*	*-0*
Depreciation	297	292	*2*	283	580	572	*1*
Interest	55	42	*29*	56	111	86	*29*
Other Income	-70	-7	*902.0*	80	10.3	-1	*-1,098*
PBT	**-489**	**-413**	***(18.3)***	**-252**	**(741.2)**	**-732**	***1***
Tax	0	0		0	0.0	0	
Tax rate %	*0*	*0*	*0.0*	*0*	*0.0*	*0*	*0*
Adjusted PAT	**-489**	**-413**	***-18***	**-252**	**-741**	**-732**	***1***

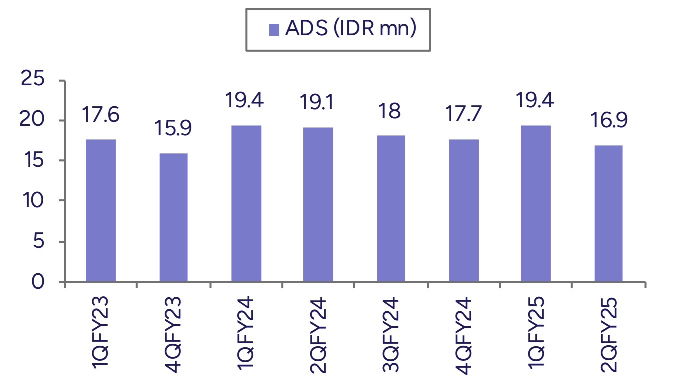
Source: Company, PL

Exhibit 3: India ADS down 6.3% YoY



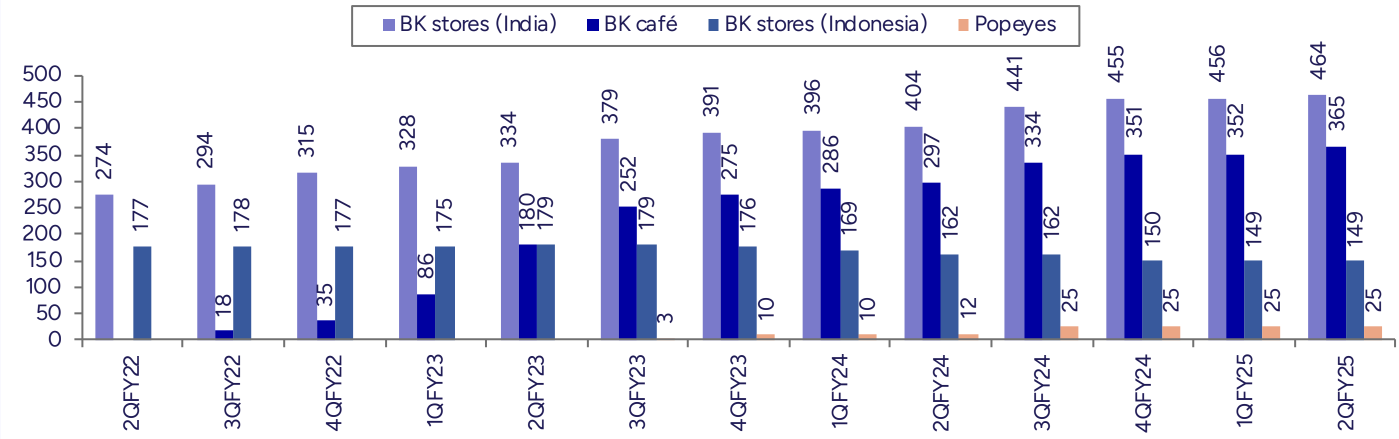
Source: Company, PL

Exhibit 4: Indonesia ADS down 11.5% YoY



Source: Company, PL

Exhibit 5: **India store count at 464 in 2QFY25; FY25 target at 510 stores**



Source: PL, Company

Exhibit 6: **Continue Strengthening Value Leadership by extending the 2 for Platform**

Source: PL, Company

Exhibit 7: **BK India – Added Pizza Puff to strengthen the snacking menu**

Source: PL, Company

Exhibit 8: **We assign SOTP based target price of Rs109**

SOTP	Basis	Value/Share
India	DCF	84
Indonesia	BV	25
Total Value/share		**109**

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
Net Revenues	**17,601**	**20,701**	**24,822**	**29,892**
YoY gr. (%)	*22.3*	*17.6*	*19.9*	*20.4*
Cost of Goods Sold	5,802	6,745	7,940	9,443
Gross Profit	11,798	13,955	16,882	20,450
Margin (%)	*67.0*	*67.4*	*68.0*	*68.4*
Employee Cost	2,650	3,121	3,612	4,225
Other Expenses	859	1,031	1,274	1,564
EBITDA	**2,377**	**2,909**	**3,985**	**5,075**
YoY gr. (%)	*43.7*	*22.4*	*37.0*	*27.4*
Margin (%)	*13.5*	*14.1*	*16.1*	*17.0*
Depreciation and Amortization	2,110	2,539	2,833	3,252
EBIT	**267**	**370**	**1,152**	**1,823**
Margin (%)	*1.5*	*1.8*	*4.6*	*6.1*
Net Interest	1,141	1,359	1,532	1,729
Other Income	185	173	28	34
Profit Before Tax	**(689)**	**(817)**	**(352)**	**128**
Margin (%)	*(3.9)*	*(3.9)*	*(1.4)*	*0.4*
Total Tax	-	-	(88)	32
Effective tax rate (%)	-	-	*25.0*	*25.0*
Profit after tax	**(689)**	**(817)**	**(264)**	**96**
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	**(689)**	**(817)**	**(264)**	**96**
YoY gr. (%)	*(4.0)*	*18.4*	*(67.6)*	*(136.3)*
Margin (%)	*(3.9)*	*(3.9)*	*(1.1)*	*0.3*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**(689)**	**(817)**	**(264)**	**96**
YoY gr. (%)	*(4.0)*	*18.4*	*(67.6)*	*(136.3)*
Margin (%)	*(3.9)*	*(3.9)*	*(1.1)*	*0.3*
Other Comprehensive Income	(8)	-	-	-
Total Comprehensive Income	(698)	(817)	(264)	96
Equity Shares O/s (m)	**496**	**496**	**496**	**496**
EPS (Rs)	**(1.4)**	**(1.6)**	**(0.5)**	**0.2**

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
Non-Current Assets				
Gross Block	**27,747**	**32,521**	**37,863**	**43,740**
Tangibles	26,763	31,438	36,673	42,430
Intangibles	984	1,082	1,191	1,310
Acc: Dep / Amortization	**9,176**	**11,714**	**14,547**	**17,799**
Tangibles	8,996	11,475	14,244	17,427
Intangibles	180	239	302	372
Net fixed assets	**18,572**	**20,807**	**23,317**	**25,940**
Tangibles	17,768	19,963	22,428	25,002
Intangibles	804	843	888	938
Capital Work In Progress	420	413	457	495
Goodwill	-	-	-	-
Non-Current Investments	12,792	13,074	13,149	13,234
Net Deferred tax assets	-	-	-	-
Other Non-Current Assets	354	390	423	455
Current Assets				
Investments	830	300	500	500
Inventories	212	277	326	388
Trade receivables	169	142	170	287
Cash & Bank Balance	225	38	(28)	13
Other Current Assets	191	248	297	357
Total Assets	**33,833**	**35,764**	**38,694**	**41,762**
Equity				
Equity Share Capital	4,964	4,964	4,964	4,964
Other Equity	13,532	12,486	12,222	12,317
Total Networth	**18,496**	**17,450**	**17,185**	**17,281**
Non-Current Liabilities				
Long Term borrowings	-	498	650	750
Provisions	335	425	502	590
Other non current liabilities	483	5	5	6
Current Liabilities				
ST Debt / Current of LT Debt	-	850	1,500	1,750
Trade payables	1,553	2,235	2,615	3,096
Other current liabilities	1,841	2,152	2,432	2,660
Total Equity & Liabilities	**33,833**	**35,764**	**38,694**	**41,762**

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
PBT	(689)	(817)	(352)	128
Add. Depreciation	2,110	2,539	2,833	3,252
Add. Interest	1,141	1,359	1,532	1,729
Less Financial Other Income	185	173	28	34
Add. Other	456	(425)	45	56
Op. profit before WC changes	3,018	2,656	4,058	5,164
Net Changes-WC	577	891	526	462
Direct tax	-	-	88	(32)
Net cash from Op. activities	**3,596**	**3,547**	**4,672**	**5,594**
Capital expenditures	(5,391)	(4,987)	(5,386)	(5,915)
Interest / Dividend Income	-	-	-	-
Others	585	468	(275)	(85)
Net Cash from Invt. activities	**(4,806)**	**(4,519)**	**(5,661)**	**(6,000)**
Issue of share cap. / premium	248	(229)	-	-
Debt changes	2,183	2,374	2,456	2,175
Dividend paid	-	-	-	-
Interest paid	(1,141)	(1,359)	(1,532)	(1,729)
Others	-	-	-	-
Net cash from Fin. activities	**1,289**	**785**	**923**	**447**
Net change in cash	**79**	**(187)**	**(66)**	**41**
Free Cash Flow	(1,795)	(1,440)	(715)	(321)

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY24	Q4FY24	Q1FY25	Q2FY25
Net Revenue	**4,454**	**4,392**	**4,906**	**4,922**
YoY gr. (%)	*20.5*	*20.4*	*16.2*	*33.1*
Raw Material Expenses	1,464	1,419	1,587	1,599
Gross Profit	2,990	2,972	3,319	3,323
Margin (%)	*67.1*	*67.7*	*67.6*	*67.5*
EBITDA	**708**	**552**	**626**	**701**
YoY gr. (%)	*47.9*	*30.6*	*29.2*	*46.4*
Margin (%)	*15.9*	*12.6*	*12.8*	*14.2*
Depreciation / Depletion	522	586	633	611
EBIT	**185**	**(34)**	**(7)**	**90**
Margin (%)	*4.2*	*(0.8)*	*(0.1)*	*1.8*
Net Interest	281	324	319	326
Other Income	32	48	57	71
Profit before Tax	**(64)**	**(309)**	**(268)**	**(165)**
Margin (%)	*(1.4)*	*(7.0)*	*(5.5)*	*(3.3)*
Total Tax	-	-	-	-
Effective tax rate (%)	-	-	-	-
Profit after Tax	**(64)**	**(309)**	**(268)**	**(165)**
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	**(64)**	**(309)**	**(268)**	**(165)**
YoY gr. (%)	*(42.8)*	*25.8*	*21.2*	*47.1*
Margin (%)	*(1.4)*	*(7.0)*	*(5.5)*	*(3.3)*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**(64)**	**(309)**	**(268)**	**(165)**
YoY gr. (%)	*(42.8)*	*25.8*	*21.2*	*47.1*
Margin (%)	*(1.4)*	*(7.0)*	*(5.5)*	*(3.3)*
Other Comprehensive Income	(2)	(2)	-	-
Total Comprehensive Income	**(66)**	**(312)**	**(268)**	**(165)**
Avg. Shares O/s (m)	-	-	-	-
EPS (Rs)	-	-	-	-

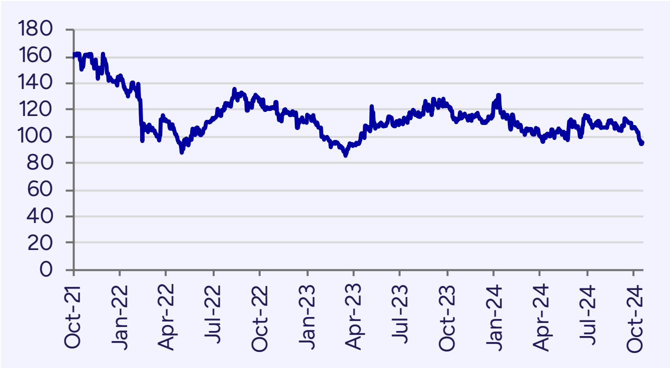
Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY24	FY25E	FY26E	FY27E
Per Share(Rs)				
EPS	(1.4)	(1.6)	(0.5)	0.2
CEPS	2.9	3.5	5.2	6.7
BVPS	37.3	35.2	34.6	34.8
FCF	(3.6)	(2.9)	(1.4)	(0.6)
DPS	-	-	-	-
Return Ratio(%)				
RoCE	1.4	2.0	6.0	9.3
ROIC	0.8	1.0	3.0	4.4
RoE	(3.7)	(4.5)	(1.5)	0.6
Balance Sheet				
Net Debt : Equity (x)	(0.1)	0.1	0.1	0.1
Net Working Capital (Days)	(24)	(32)	(31)	(30)
Valuation(x)				
PER	(66.4)	(56.1)	(173.4)	478.2
P/B	2.5	2.6	2.7	2.7
P/CEPS	32.2	26.6	17.8	13.7
EV/EBITDA	18.8	16.1	11.9	9.4
EV/Sales	2.5	2.3	1.9	1.6
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Oct-24	Accumulate	129	110
2	30-Jul-24	Accumulate	134	110
3	09-Jul-24	Accumulate	134	114
4	18-May-24	Accumulate	134	106
5	09-Apr-24	Accumulate	137	101
6	30-Jan-24	Accumulate	151	114
7	08-Jan-24	Accumulate	145	116
8	08-Nov-23	Accumulate	145	114

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Reduce	2,605	3,073
2	Avenue Supermarts	Hold	4,748	4,573
3	Britannia Industries	Accumulate	6,397	6,206
4	Colgate Palmolive	Reduce	2,973	3,219
5	Dabur India	Hold	603	572
6	Emami	Hold	836	743
7	Hindustan Unilever	Hold	2,744	2,659
8	ITC	Accumulate	539	472
9	Jubilant FoodWorks	Hold	582	629
10	Kansai Nerolac Paints	Reduce	286	292
11	Marico	Hold	681	690
12	Metro Brands	Hold	1,208	1,165
13	Mold-tek Packaging	Accumulate	853	749
14	Nestle India	Accumulate	2,689	2,379
15	Pidilite Industries	Accumulate	3,339	3,122
16	Restaurant Brands Asia	Accumulate	129	110
17	Titan Company	Accumulate	3,969	3,670
18	Westlife Foodworld	Hold	797	802

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

ANALYST CERTIFICATION

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