

Target Price: SAR4.5/share
Current Price: SAR3.5/share
Upside: 27% (+Div. Yield: 2.5%)
Rating: Overweight

Americana Restaurants International

3Q23 margin expansion fueled by lower cost of inventory

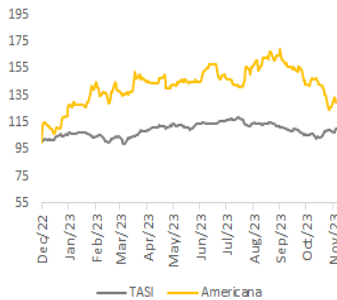
- Americana's 3Q23 adj. net income increased by 26% y/y, aided by gross margin expansion and better operating leverage.
- Poised to continue its growth trajectory aided by a) healthy momentum in LFL sales (+3% in 3Q23), b) NSO growth, and c) margin acceleration.
- We raise our TP to SAR4.5/sh., with an Overweight rating using both DCF and P/E valuations. After the recent correction in share price (~22% since September), the stock offers an attractive entry point with the 27% upside.

Stock data

TASI ticker	6015
Mcap (SARmn)	29,567
Trd. Val (3m) (SARmn)	38.2
Free float	34.0%
QFI holding	7.3%
TASI FF weight	0.52%

Source: Bloomberg

Prices indexed to 100



Source: Bloomberg

3Q23 performance: 3Q23 revenues increased by 5.9% y/y, around 5% lower than our estimates, mainly due to slow down in some of GCC markets like Saudi Arabia, Kuwait and Qatar. Store openings (~12% y/y) growth outpaced the top-line-growth. We note that the company has accelerated store openings this year (85% growth y/y in 9M23 vs. 9M22). As of 3Q23, the company opened 155 stores, with 92 stores under construction. Gross margin improved to 52.8% from 50.7% in 3Q22, mainly due to improvements in the cost of inventory aided by depleting the old inventory and easing commodity prices. This, coupled with better operating leverage, pushed the operating margin by 10bps y/y to 13.6%. Normalized net profit (adj. for hyperinflation, reversals, and impairments) grew by 26% y/y, with the net profit margin reaching 12.6% vs. 10.6% in 3Q22.

Outlook and guidance: The management has guided for 250-260 net store openings in 2023, with 155 new stores already opened as of 3Q23 and 92 stores under construction (110 total store pipeline; 2,338 store count as of 3Q23). We believe that the company could achieve its target, considering store openings are done mostly at the end of the year. The management has also guided that gross margins for next year should be largely in line with 3Q23. We expect Americana's top line to grow by CAGR 11.5% in 2022-25e, and gross profit margin to be 52.4% slightly lower than than guided. Accordingly, we expect net profit to outpace the top-line growth and is expected to rise by CAGR 18% in 2022-25e.

Figure 1: Key financial metrics

US\$m	2022a	2023e	2024e	2025e
Revenue	2,379	2,567	3,013	3,293
Revenue growth	16%	8%	17%	9%
Gross Profit	1,230	1,345	1,580	1,729
Gross Profit margin	51.7%	52.4%	52.4%	52.5%
EBITDA	540	583	714	758
Op. income	293	348	427	464
Net profit	263	317	399	434
Net profit margin	11.1%	12.3%	13.2%	13.2%
EPS (cents)	3.1	3.8	4.7	5.2
P/E	30.3x	25.2x	20.0x	18.4x

Source: Company, GIB Capital

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Valuation and risks: We continue to value Americana using an average of DCF and P/E (23x 2024 EPS) methods which yield us SAR4.6/share and SAR4.4/share respectively. Thereby, the average of SAR4.5/share is our target price. Key downside risks are boycotts due to geopolitical developments, an increase in competition leading to a decline in pricing, failure to deliver expansion targets and an increase in inflation.

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We use a rating system based on potential upside, 1 year from today, based on our valuation models. For "Overweight" ratings, the estimated upside is >10%, for "Underweight", the estimated downside is <10%. For returns in between +/- 10%, we have a Neutral rating.

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