

Restaurant Brands Asia (RBA)

QSR | 1QFY25 Result Update

ACCUMULATE

CMP: Rs110 | Target Price (TP): Rs109 | Downside: 1%

July 30, 2024

In-line India results; Indonesia ADS facing near term headwinds

Key Points

- RBA's 1QFY25 performance was in line with expectations as far as India business is concerned. Indonesia business ADS, which had recovered in April-May'24, saw another wave of external problems from the last week of May.
- The management has guided for better SSSG in India in 2HFY25, but has still refrained from providing SSSG guidance - unlike in the past. For Indonesia business, the focus for FY25 is on cash breakeven and not on expansion. Further, the management expects demand recovery to now come October onwards.
- We have maintained ACCUMULATE rating on RBA since recovery in both India as well as Indonesia is uncertain and valuation appears fair.

1QFY25 performance update: RBA's consolidated performance was lower than our estimate on revenue, which grew by 5.9% YoY to Rs6.5bn (our est. Rs6.8bn). India business revenue grew by 16.2% YoY to Rs4.9bn (our est. Rs5bn), with SSSG of 3.1% YoY (our est. 2.5%). India business EBITDA stood at Rs625mn. After seeing some recovery in 4QFY24, the Indonesia business saw its revenue decline by ~17% YoY, with (-)5.4% SSSG in its Burger King business. At the EBITDA level, the Indonesia business reported a profit of Rs6mn (Rs2mn loss in 1QFY24). Consolidated gross margin at 64.5% was up by 40bps YoY (up 30bps QoQ). EBITDA margin at 9.8% saw an expansion of 190bps YoY, led by lower other expenses (down 170bps YoY), partially offset by higher employee costs (up 30bps YoY). Consolidated loss at Rs522mn was marginally lower compared to 1QFY24 loss of Rs541mn (Rs921mn loss in 4QFY24).

Network expansion: (1) RBA added only one new restaurant in India, taking the total count to 456. For FY25, it aims to take the total count to 510 i.e. likely to add 54 stores in the remaining 9MFY25. The company is targeting 700 stores by FY27-end. (2) BK Cafés count now stands at 352 stores [~77% of restaurants] (3) No addition made to Popeyes' Indonesia in 1QFY25; store count remains unchanged at 25 stores.

View and valuation: Changes made to the model have resulted in 1%/ 5% cuts to our estimates for FY25/FY26 at the consolidated EBITDA level largely as Indonesia business faces a delayed recovery. While the management's focus on the value platform in India and its technology initiatives will hold it in good stead from a medium term perspective, near term outlook remains weak. Popeyes' business scale-up in Indonesia is also still at an early stage in terms of expansion. We value RBA on SOTP basis and assign a pre Ind-AS EV/EBITDA multiple of 29x for BK India and 8x for BK Indonesia while rolling forward to June'26 EBITDA (from FY26 earlier), giving us a target price (TP) of Rs109 (Rs110 earlier). We maintain ACCUMULATE.

Est Change	Downward
TP Change	No change
Rating Change	Maintain

Company Data and Valuation Summary

Reuters:	RESR.BO
Bloomberg:	RBA IN Equity
Mkt Cap (Rsbn/US\$mn):	54.8 / 655.2
52 Wk H / L (Rs):	138 / 92
ADTV-3M (mn) (Rs/US\$):	424.3 / 5.1
Stock performance (%) 1M/6M/1yr:	10.8 / (3.6) / (4.2)
Nifty 50 performance (%) 1M/6M/1yr:	4.7 / 9.9 / 25.9

Shareholding	3QFY24	4QFY24	1QFY25
Promoters	15.4	15.4	15.3
DIIIs	23.7	23.1	28.4
FIIIs	26.9	24.9	18.8
Others	34.1	36.6	37.5
Pro pledge	0.0	0.0	0.0

Financial and Valuation Summary

Particulars (Rsmn)	FY23	FY24	FY25E	FY26E
Revenue	20,543	24,370	27,405	32,968
% Growth	37.8	18.6	12.5	20.3
EBITDA	1,115	2,421	3,087	4,456
EBITDA margin (%)	5.4	9.9	11.3	13.5
% growth	15.5	117.2	27.5	44.4
Adjusted PAT	-2,418	-2,368	-2,451	-1,681
APAT margin (%)	(11.6)	(9.6)	(8.8)	(5.0)
EPS	-4.9	-4.8	-4.9	-3.4
RoCE (%)	-12.6	-10.7	-9.3	5.3
EV/EBITDA (x)	48.4	22.9	17.9	12.6

Source: Bloomberg, Company, Nirmal Bang Institutional Equities Research

Key Links—

[1QFY25 Investor Presentation](#)

[FY23 Annual Report](#)

Please refer to the disclaimer towards the end of the document

Exhibit 1: 1QFY25 consolidated performance

Particulars (Rsmn)	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25E	3Q25E	4Q25E	FY24	FY25E	1Q25E	Var
No of stores – BK India	396	404	441	455	456	469	488	510	455	510	472	-
SSSG - India Business (%)	3.6	3.5	2.6	1.9	3.1	2.0	9.0	7.0	2.9	5.3	2.5	-
Net Revenue	6,108	6,249	6,042	5,971	6,467	6,718	7,221	7,000	24,370	27,405	6,780	-4.6%
YoY change (%)	24.8	19.1	14.8	16.2	5.9	7.5	19.5	17.2	18.6	12.5	11.0	-
Gross Profit	3,912	4,013	3,891	3,836	4,171	4,367	4,715	4,544	15,650	17,796	4,353	-
Gross margin (%)	64.0	64.2	64.4	64.2	64.5	65.0	65.3	64.9	64.2	64.9	64.2	-
EBITDA	483	562	684	692	631	732	910	813	2,421	3,087	590	7.1%
YoY change (%)	65.3	123.7	130.0	152.9	30.7	30.2	33.1	17.5	117	28	22.1	-
Margins (%)	7.9	9.0	11.3	11.6	9.8	10.9	12.6	11.6	9.9	11.3	8.7	-
Depreciation	787	786	801	1187	916	990	1020	1165	3,561	4,092	970	-
Interest	307	315	317	473	374	410	485	540	1,412	1,810	500	-
Other Income	71	33	35	46	137	60	70	96	185	363	20	-
PBT	-541	-507	-399	-921	-522	-608	-525	-796	-2,368	-2,451	-860	-
Adjusted PAT	-541	-507	-399	-921	-522	-608	-525	-796	-2,368	-2,451	-860	-39.3%
Adj. EPS	-1.1	-1.0	-0.8	-1.9	-1.0	-1.2	-1.1	-1.6	-4.8	-4.9	-1.7	-

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Common-size P&L (consolidated) over the quarters

Particulars (%)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25
Gross margin	64.3	64.6	63.6	64.1	64.0	64.2	64.4	64.2	64.5
Staff Cost	16.7	18.2	17.9	18.5	15.9	16.6	16.8	17.9	16.2
Other expenses	41.6	41.6	40.1	40.3	40.3	38.6	36.2	34.7	38.5
EBITDA	6.0	4.8	5.6	5.3	7.9	9.0	11.3	11.6	9.8
EBIT	-8.3	-7.9	-7.2	-10.2	-5.0	-3.6	-1.9	-8.3	-4.4
Adjusted PAT	-10.4	-10.5	-10.6	-15.6	-8.8	-8.1	-6.6	-15.4	-8.1

Source: Company, Nirmal Bang Institutional Equities Research;

Exhibit 3: Change in our estimates

Y/E March	Earlier Estimates		New Estimates		Change (%)	
(Rsmn)	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Net Sales	27,808	33,535	27,405	32,968	-1.5	-1.7
EBITDA	3,122	4,684	3,087	4,456	-1.1	-4.9
EBITDA margin (%)	11.2	14.0	11.3	13.5	0.0	-0.4
Adj PAT	-2,725	-1,936	-2,451	-1,681	NA	NA

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Standalone quarterly performance

Y/E March (Rsmn)	1QFY24	4QFY24	1QFY25	YoY (%)	QoQ (%)	FY23	FY24	YoY (%)
Net sales	4,221	4,391	4,905	16.2	11.7	14,397	17,601	22.3
COGS	1,415	1,419	1,587	12.2	11.8	4,841	5,802	19.9
Gross margin %	66.5	67.7	67.6	1.2	0.0	66.4	67.0	0.7
Employee costs	622	692	737	18.6	6.5	2,280	2,650	16.2
% of sales	14.7	15.8	15.0	0.3	-0.7	15.8	15.1	-0.8
Other expenses	1,700	1,728	1,955	15.0	13.1	5,621	6,771	20.4
% of sales	40.3	39.4	39.9	-0.4	0.5	39.0	38.5	-0.6
EBITDA	485	551	625	29.0	13.5	1,654	2,377	43.7
EBITDA margin %	11.5	12.5	12.7	1.3	0.2	11.5	13.5	2.0
Depreciation	507	586	633	24.8	8.1	1,802	2,110	17.1
EBIT	-23	-35	-8	-	-	-148	267	-
EBIT margin %	-0.5	-0.8	-0.2	-	-	-1.0	1.5	-
Interest expenses	264	324	319	20.7	-1.6	896	1,141	27.4
Other income	65	48	57	-12.2	18.3	325	185	-43.1
Exceptional items	0	0	0	-	-	0	0	-
PBT	-222	-310	-269	-	-	-718	-689	-
Adjusted PAT	-222	-310	-269	-	-	-718	-689	-
PAT margin %	-5.2	-7.1	-5.5	-	-	-5.0	-3.9	-
EPS	-0.4	-0.6	-0.5	-	-	-1.5	-1.4	-

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Consolidated segmental performance

Particulars (Rs. Mn)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25
Total Segment Revenue (Rsmn)	4,892	5,248	5,263	5,140	6,108	6,249	6,042	5,971	6,467
India	3,369	3,680	3,698	3,649	4,221	4,535	4,454	4,391	4,905
Indonesia	1,523	1,567	1,566	1,490	1,887	1,714	1,588	1,581	1,562
Revenue growth (% YoY)									
India	125.0	50.0	32.1	35.8	25.3	23.2	20.5	20.3	16.2
Indonesia	3.0	39.8	0.7	13.7	23.9	9.4	1.4	6.1	-17.2
Revenue mix (%)									
India	68.9	70.1	70.3	71.0	69.1	72.6	73.7	73.5	75.8
Indonesia	31.1	29.9	29.7	29.0	30.9	27.4	26.3	26.5	24.2
Total Segment EBITDA (Rsmn)	292	251	297	274	483	562	684	692	631
India	332	421	479	423	485	634	708	551	625
Indonesia	-40	-169	-181	-149	-2	-72	-24	141	6
EBITDA growth (% YoY)									
India	2,064.8	64.4	45.8	39.8	45.9	50.7	47.9	30.3	29.0
Indonesia	-	-	-	-	-	-	-	-	-
EBITDA mix (%)									
India	113.7	167.4	161.0	154.4	100.3	112.8	103.5	79.6	99.0
Indonesia	-13.7	-67.4	-61.0	-54.4	-0.3	-12.8	-3.5	20.4	1.0
Segment EBITDA margin (%)									
India	9.9	11.4	12.9	11.6	11.5	14.0	15.9	12.5	12.7
Indonesia	-2.6	-10.8	-11.6	-10.0	-0.1	-4.2	-1.5	8.9	0.4

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: SOTP valuation

Particulars	June'26E Pre Ind-AS EBITDA	Target EV/EBITDA Multiple	Enterprise Value (Rsmn)
BK India	1,925	29	55,829
BK Indonesia	2	8	15
Total Enterprise Value			55,844
Net Debt			1,916
Target Market Cap			53,928
Number of Shares (mn)			496
TP per share (Rs)			109
CMP (Rs)			110
Upside (%)			-1.3

Source: Nirmal Bang Institutional Equities Research

RBA1QFY25 earnings call and presentation highlights

India - Environment and outlook

- 456 stores as of June'24, ADS at Rs119k and SSSG up 3% YoY. Ninth successive quarter of positive SSSG.
- Added one store in the quarter; took a breather after adding 40 stores in 4QFY24.
- It will have total 510 stores by end-FY25 and 700 stores by FY27-end.
- 352 BK Cafes present in these restaurants. ADS for café business is Rs14,000-15,000. It has the potential to double from here.
- It is focusing on Dine-in segment's recovery and is looking to improve profitability in the Delivery segment.
- 67% gross margin was reported in FY24 and 67.6% in 1QFY25, flat sequentially. RBA expects ~69% gross margin by FY27-end, driven by increasing profitability, primarily in the Delivery business.
- The company expects a stronger performance in 2HFY25 on SSSG front.
- Delivery mix was 42% in 1QFY25 vs 39% in 1QFY24 but declined from 45% in 4QFY24.

Indonesia business

- Indonesia - Restaurant level EBITDA breakeven was achieved in FY24; reported cash loss of Rs69mn in 1QFY25 and will achieve cash breakeven at the country level possibly this year.
- Indonesia - After ADS spiked in April'24, there was a dip in the next couple of months. American brands were impacted during Nov'23-Jan'24 before recovering by April'24. But, in May'24, there was another Israeli strike in Gaza, which affected sentiments. Post Oct'24, it expects traffic to be back on track.
- BK Indonesia - 149 stores at present, down 1 QoQ and down 20 YoY. Focusing on cash breakeven in FY25, IDR 19.4mn ADS and (-)5% SSSG.
- Popeye Indonesia - 25 stores at present, up 15 stores YoY; ADS was at IDR 17.9mn in 1QFY25, down from an unsustainably high IDR 39mn in 1QFY24 because there were only 10 stores then.

- Indonesia ADS - Slower Dine-in being offset by better Delivery to some extent.
- Indonesia - once it reaches IDR 20.5mn-IDR 21mn ADS, it can achieve cash breakeven.
- New Whopper - 50% reduction from original price and improved quality as well. It is doing well and will roll out across the country by the end of FY25.
- Popeye is aiming to be a chicken destination with grilled chicken as a key differentiator and contributes one-third of sales. To extend grilled chicken to sandwiches as well.
- Breaded version of spiced chicken is being launched nationwide by 3QFY25-end.
- 95% of orders are handled through Self Ordering Kiosks (SOKs).

India- Innovation

- Continue Value Leadership with the launch of '2-for-79' campaign to drive incremental traffic over last year.
- Meal Strategy continues to have a dedicated guest base.
- Ice Cappuccino, Iced Americano and Iced Latte launched in Bk Café.
- SOKs present in 143 stores currently and 92% of ordering in these stores is being done digitally.

Costs and margins

- India - 8.9% store level EBITDA and 3.6% company level EBITDA.
- Leverage could have been higher, if not for heat waves affecting footfalls.
- India Restaurant EBITDA (Pre Ind-AS) stood at Rs435mn in 1QFY25, up 29% YoY.
- India company level EBITDA (Pre Ind-AS) stood at Rs175mn, up 72% YoY.

Financials (Consolidated)

Exhibit 7: Income statement

Y/E March (Rsmn)	FY22	FY23	FY24	FY25E	FY26E
Net Sales	14,903	20,543	24,370	27,405	32,968
% YoY Growth	48.4	37.8	18.6	12.5	20.3
COGS	5,498	7,357	8,720	9,609	11,278
Staff costs	2,668	3,669	4,097	4,466	5,226
Other expenses	5,771	8,402	9,133	10,243	12,007
Total expenses	13,937	19,428	21,949	24,318	28,511
EBITDA	965	1,115	2,421	3,087	4,456
% growth	286.9	15.5	117.2	27.5	44.4
EBITDA margin (%)	6.5	5.4	9.9	11.3	13.5
Other income	224	360	185	363	468
Interest costs	954	1,052	1,412	1,810	1,955
Depreciation	2,336	2,840	3,561	4,092	4,651
Profit before tax (before exceptional items)	-2,100	-2,418	-2,368	-2,451	-1,681
Exceptional items	-252	0	0	0	0
Tax	0	0	0	0	0
Adjusted PAT	-2,100	-2,418	-2,368	-2,451	-1,681
Reported PAT	-2,352	-2,418	-2,368	-2,451	-1,681
APAT margin (%)	(13.9)	(11.6)	(9.6)	(8.8)	(5.0)

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Balance sheet

Y/E March (Rsmn)	FY22	FY23	FY24	FY25E	FY26E
Share capital	4,927	4,946	4,964	4,964	4,964
Reserves	5,478	3,309	1,302	-1,149	-2,830
Net worth	10,405	8,254	6,266	3,815	2,133
Minority Interest	277	207	22	22	22
Lease liabilities	7,449	10,027	12,596	12,848	13,105
Other Long Term Liabilities	26	29	490	538	592
Borrowings	1,419	1,648	1,702	2,042	2,410
Total liabilities	19,577	20,166	21,075	19,265	18,262
Fixed Assets	8,384	10,165	11,786	11,308	11,031
Right-of-use assets	6,751	9,397	11,598	11,598	11,598
Capital work-in-progress	181	322	308	308	308
Investments	4,023	1,469	830	664	863
Other LTA	1,043	1,139	1,179	1,297	1,167
Inventories	228	315	347	369	433
Debtors	134	169	254	286	344
Cash	2,772	1,552	335	868	494
Other current assets	266	405	450	495	545
Total current assets	3,401	2,440	1,386	2,017	1,815
Creditors	2,294	2,675	2,850	3,817	4,017
Other current liabilities & provisions	1,912	2,091	3,161	4,109	4,503
Total current liabilities	4,205	4,766	6,011	7,927	8,519
Total assets	19,577	20,166	21,075	19,265	18,262

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Cash flow

Y/E March (Rsmn)	FY22	FY23	FY24	FY25E	FY26E
PAT	-2,406	-2,454	-2,373	-2,451	-1,681
Depreciation	1,313	1,652	1,926	4,092	4,651
Other income	1,941	1,986	3,200	1,446	1,487
(Inc.)/dec. in working capital	-73	59	708	1,699	551
Cash flow from operations	775	1,243	3,461	4,786	5,007
Capital expenditure (-)	-1,462	-3,524	-2,822	-3,640	-4,680
Net cash after capex	-687	-2,281	640	1,146	327
Inc./(dec.) in investments and other assets	-10,440	2,762	655	555	575
Cash from investing activities	-11,902	-762	-2,167	-3,085	-4,105
Issue of Shares	13,664	85	97	0	0
Incr in Debt	305	739	1,560	340	368
Interest Paid	0	0	0	-1,558	-1,698
Others	-2,845	-2,526	-4,168	49	54
Cash from financial activities	11,123	-1,702	-2,511	-1,168	-1,276
Opening cash balance	2,777	2,772	1,552	335	868
Closing cash balance	2,773	1,552	335	868	494
Change in cash balance	-4	-1,221	-1,217	533	-374

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: Key ratios

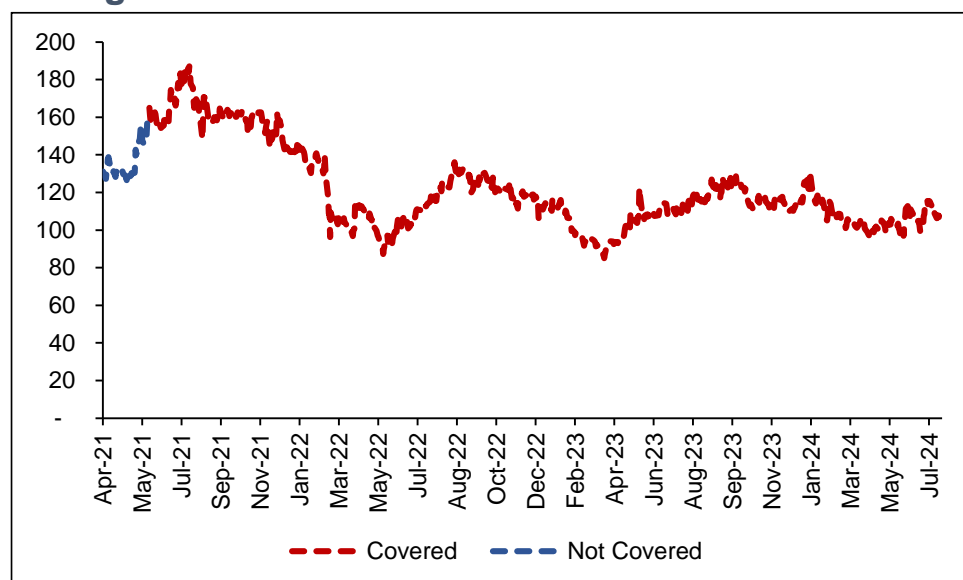
Y/E March	FY22	FY23	FY24	FY25E	FY26E
Per share (Rs)					
EPS	-4.3	-4.9	-4.8	-4.9	-3.4
Book value	21.1	16.7	12.6	7.7	4.3
Valuation (x)					
EV/sales	3.5	2.6	2.3	2.0	1.7
EV/EBITDA	54.2	48.4	22.9	17.9	12.6
P/Sales	3.6	2.6	2.2	2.0	1.7
P/E	NA	NA	NA	NA	NA
P/BV	5.2	6.6	8.7	14.3	25.6
Return ratios (%)					
RoCE	-15.2	-12.6	-10.7	-9.3	5.3
RoE	-37.3	-25.9	-32.6	-48.6	-56.5
RoIC (Pre-tax)	-15.0	-11.7	-6.3	-5.4	-1.1
Profitability ratios (%)					
Gross margin	63.1	64.2	64.2	64.9	65.8
EBITDA margin	6.5	5.4	9.9	11.3	13.5
EBIT margin	-9.2	-8.4	-4.7	-3.7	-0.6
PAT margin	-13.9	-11.6	-9.6	-8.8	-5.0
Liquidity ratios (x)					
Current ratio	0.8	0.5	0.2	0.3	0.2
Quick ratio	0.6	0.3	0.0	0.1	0.1
Solvency ratio (x)					
Debt to Equity ratio	0.1	0.2	0.3	0.5	1.1
Net Debt to Equity ratio	-0.2	-0.1	0.1	0.1	0.6
Turnover ratios					
Total asset turnover ratio (x)	0.8	1.0	1.2	1.4	1.8
Fixed asset turnover ratio (x)	1.8	2.0	2.1	2.4	3.0
Inventory days	5	5	5	5	4
Debtors days	3	3	3	4	3
Creditor days	58	44	41	44	43

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
7 June 2021	Accumulate	157	155
16 August 2021	Accumulate	168	165
30 August 2021	Under Review	172	NA
23 September 2021	Under Review	160	NA
14 November 2021	Under Review	162	NA
25 January 2022	Under Review	133	NA
14 February 2022	Accumulate	130	135
21 February 2022	Accumulate	128	135
1 June 2022	Accumulate	97	105
14 August 2022	Accumulate	123	125
14 September 2022	Accumulate	129	140
13 November 2022	Accumulate	126	135
9 February 2023	Accumulate	107	105
22 March 2023	Accumulate	91	100
18 May 2023	Accumulate	123	120
8 August 2023	Accumulate	117	115
9 November 2023	Accumulate	114	125
30 January 2024	Accumulate	114	120
17 May 2024	Accumulate	106	102
10 July 2024	Accumulate	114	110
30 July 2024	Accumulate	110	109

Rating chart



DISCLOSURES

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Stock Ratings Absolute Returns

BUY > 15%

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