

Restaurant Brands NZ

FY19 Delivers as Ordered; FY20 Adding to the Smorgasbord

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UNDERPERFORM

Restaurant Brands (RBD) has delivered another period of consistent sales growth across its core brands and in line with expectations. Group FY19 sales lifted +5.0% (on a like for like basis), led by KFC New Zealand and Taco Bell Hawaii. The adoption of IFRS 16 accounting for leases in combination with a change in balance date, provide challenges in comparing headline numbers and earnings changes. We have lifted our underlying earnings assumptions, which has driven an increase in our target price to NZ\$11.20 from NZ\$10.30. Whilst core brands continue to deliver robust sales growth, at 27x forward PE, we believe significant earnings growth is priced in. We rate RBD UNDERPERFORM.

| NZX Code | RBD | Financials: Dec/ | 19A | 20E | 21E | 22E | Valuation (x) | 19A | 20E | 21E | 22E |
|--------------------|------------------|------------------------------|-------|------|------|------|-------------------|------|------|------|------|
| Share price | NZ\$12.00 | NPAT* (NZ\$m) | 37.7 | 62.9 | 63.0 | 69.6 | EV/EBITDA | 19.8 | 12.4 | 11.9 | 11.0 |
| Target price | NZ\$11.20 | EPS* (NZc) | 30.5 | 44.9 | 45.2 | 51.5 | EV/EBIT | 29.9 | 18.2 | 18.7 | 16.7 |
| Risk rating | Medium | EPS growth* (%) | -10.8 | 47.3 | 0.8 | 13.8 | PE | 39.4 | 26.7 | 26.5 | 23.3 |
| Issued shares | 124.4m | DPS (NZc) | 0.0 | 0.0 | 0.0 | 0.0 | Price / NTA | n/a | n/a | n/a | n/a |
| Market cap | NZ\$1,493m | Imputation (%) | 100 | 100 | 100 | 100 | Cash div yld (%) | 0.0 | 0.0 | 0.0 | 0.0 |
| Avg daily turnover | 74.4k (NZ\$718k) | *Based on normalised profits | | | | | Gross div yld (%) | 0.0 | 0.0 | 0.0 | 0.0 |

KFC NZ and Taco Bell Hawaii deliver growth

Adjusting for the myriad of changes that cloud headline numbers (IFRS 16, balance date change), RBD reported normalised store EBITDA growth of +6.0% (FY19 NZ\$116m, 44 week period to December 2019). Within RBD's portfolio of brands/geographies, KFC New Zealand and Taco Bell Hawaii are the key stand outs, delivering same store sales (SSS) growth of +5.2% and +13.7% respectively. In New Zealand, growth of the delivery channel is providing a boost to sales as it rolls out across the regions. While in Hawaii, RBD's store refurbishment programme is delivering early gains. Of RBD's other brands, Pizza Hut continues to disappoint, KFC Australia is delivering strong growth, while Carl's Jr had a solid period off a weak base.

FY20 another transformational year

RBD has a clear growth mandate and FY20 is expected to be another transformational year as the company looks to introduce the Taco Bell brand to New Zealand and enter a new market. RBD is doubling down on the USA with the acquisition of a standalone Southern California franchisee operator in December 2019. The acquisition, still subject to conditions, is expected to settle in March 2020. The company also has a significant array of growth opportunities within its existing portfolio.

Underlying upgrades to our forecasts

We have made underlying upgrades to our forecasts on the back of (1) stronger near term SSS assumptions in New Zealand as RBD signals a focus on market share, and delivery services are rolled out across additional regions, and (2) we have factored in additional Hawaii store refurbishments and assume a larger lift in SSS as these get completed.

Restaurant Brands NZ Ltd (RBD)

| | | | | | | | | | | | | |
|----------------------------------------|--------|--------|---------|---------|---------|--------------------------------------|------------------------------------|--------------|--------------|--------------|--------------|-------|
| Priced as at 28 Feb 2020 (NZ\$) | | | | | | 12.00 | | | | | | |
| 12-month target price (NZ\$)* | | | | | | 11.20 | Spot valuations (NZ\$) | | | | | |
| Expected share price return | | | | | | -6.7% | 1. DCF | | | | | 10.90 |
| Net dividend yield | | | | | | 0.0% | 2. Sum of the parts | | | | | 9.70 |
| Estimated 12-month return | | | | | | -6.7% | 3. n/a | | | | | n/a |
| Key WACC assumptions | | | | | | DCF valuation summary (NZ\$m) | | | | | | |
| Risk free rate | | | | | | 2.00% | Total firm value | | | | | 1,602 |
| Equity beta | | | | | | 1.02 | (Net debt)/cash | | | | | (230) |
| WACC | | | | | | 8.1% | Less: Capitalised operating leases | | | | | 0 |
| Terminal growth | | | | | | 1.5% | Value of equity | | | | | 1,372 |
| Profit and Loss Account (NZ\$m) | | | | | | Valuation Ratios | | | | | | |
| Sales revenue | 2018A | 2019A | 2020E | 2021E | 2022E | EV/EBITDA (x) | 2018A | 2019A | 2020E | 2021E | 2022E | |
| Normalised EBITDA | 826.4 | 733.7 | 996.2 | 1,082.2 | 1,134.2 | EV/EBIT (x) | 17.2 | 19.8 | 12.4 | 11.9 | 11.0 | |
| Depreciation and amortisation | 89.7 | 81.6 | 132.7 | 141.8 | 152.6 | PE (x) | 27.5 | 29.9 | 18.2 | 18.7 | 16.7 | |
| Normalised EBIT | (33.4) | (27.5) | (41.9) | (51.7) | (51.4) | Price/NTA (x) | 35.1 | 39.4 | 26.7 | 26.5 | 23.3 | |
| Net interest | 56.2 | 54.1 | 90.8 | 90.1 | 101.1 | Free cash flow yield (%) | n/a | n/a | n/a | n/a | n/a | |
| Associate income | (6.8) | (21.5) | (23.1) | (23.5) | (25.6) | Net dividend yield (%) | 2.3 | 1.9 | 3.6 | 3.3 | 3.8 | |
| Tax | 0 | 0 | 0 | 0 | 0 | Gross dividend yield (%) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| Minority interests | (13.7) | (12.8) | (22.1) | (22.6) | (25.7) | Capital Structure | | | | | | |
| Normalised NPAT | 0 | 0 | 0 | 0 | 0 | Interest cover EBIT (x) | 2018A | 2019A | 2020E | 2021E | 2022E | |
| Abnormals/other | 42.2 | 37.7 | 62.9 | 63.0 | 69.6 | Interest cover EBITDA (x) | 8.3 | 2.5 | 3.9 | 3.8 | 4.0 | |
| Reported NPAT | 0 | 12.1 | 5.3 | 5.0 | 4.3 | Net debt/ND+E (%) | 13.2 | 3.8 | 5.8 | 6.0 | 6.0 | |
| Normalised EPS (cps) | 35.7 | 42.2 | 68.2 | 68.0 | 73.9 | Net debt/EBITDA (x) | 36.8 | 36.5 | 46.0 | 42.6 | 37.0 | |
| DPS (cps) | 34.1 | 30.5 | 44.9 | 45.2 | 51.5 | 0 | 1.5 | 1.5 | 1.4 | 1.2 | 0.9 | |
| Growth Rates | | | | | | Key Ratios | | | | | | |
| Revenue (%) | 2018A | 2019A | 2020A | 2021A | 2022A | Return on assets (%) | 2018A | 2019A | 2020E | 2021E | 2022E | |
| EBITDA (%) | 59.7 | -11.2 | 35.8 | 8.6 | 4.8 | Return on equity (%) | 12.2 | 6.1 | 8.7 | 8.6 | 9.8 | |
| EBIT (%) | 31.2 | -8.9 | 62.6 | 6.8 | 7.6 | Return on funds employed (%) | 15.9 | 14.5 | 27.8 | 28.5 | 31.4 | |
| Normalised NPAT (%) | 28.2 | -3.8 | 67.9 | -0.8 | 12.3 | EBITDA margin (%) | 11.9 | 11.1 | 17.8 | 16.8 | 20.5 | |
| Normalised EPS (%) | 38.1 | -10.8 | 67.0 | 0.1 | 10.6 | EBIT margin (%) | 10.8 | 11.1 | 13.3 | 13.1 | 13.5 | |
| Ordinary DPS (%) | 20.4 | -10.8 | 47.3 | 0.8 | 13.8 | Capex to sales (%) | 6.8 | 7.4 | 9.1 | 8.3 | 8.9 | |
| Cash Flow (NZ\$m) | | | | | | Operating Performance | | | | | | |
| EBITDA | 2018A | 2019A | 2020E | 2021E | 2022E | Capex to depreciation (%) | 2018A | 2019A | 2020E | 2021E | 2022E | |
| Working capital change | 89.7 | 81.6 | 132.7 | 141.8 | 152.6 | Imputation (%) | 122 | 235 | 135 | 99 | 95 | |
| Interest & tax paid | 4.6 | 26.7 | 18.4 | 2.7 | 1.7 | Pay-out ratio (%) | 100 | 100 | 100 | 100 | 100 | |
| Other | (23.0) | (20.7) | (45.2) | (46.1) | (51.3) | 0 | 0 | 0 | 0 | 0 | 0 | |
| Operating cash flow | 71.3 | 87.6 | 106.0 | 98.5 | 103.0 | Store numbers | | | | | | |
| Capital expenditure | (36.9) | (59.7) | (52.9) | (48.6) | (46.1) | KFC - NZ | 94 | 100 | 102 | 104 | 107 | |
| (Acquisitions)/divestments | 10.2 | (0.1) | (108.9) | (2.8) | (3.3) | Other NZ | 48 | 47 | 47 | 45 | 43 | |
| Other | (0.0) | 0.1 | 0 | 0 | 0 | Total New Zealand | 142 | 147 | 149 | 149 | 150 | |
| Funding available/(required) | 44.5 | 28.0 | (55.8) | 47.1 | 53.5 | KFC - Australia | 61 | 63 | 62 | 66 | 71 | |
| Dividends paid | (17.7) | 0 | 0 | 0 | 0 | Hawaii | 80 | 74 | 74 | 73 | 74 | |
| Equity raised/(returned) | 0 | 0 | 0 | 0 | 0 | California | 0 | 0 | 0 | 70 | 70 | |
| (Increase)/decrease in net debt | 26.8 | 11.9 | (73.0) | 28.2 | 33.7 | Divisional EBITDA (NZ\$m) | | | | | | |
| Balance Sheet (NZ\$m) | | | | | | KFC - NZ | | | | | | |
| Working capital | 2018A | 2019A | 2020E | 2021E | 2022E | 70.4 | 66.1 | 80.8 | 84.5 | 88.8 | | |
| Fixed assets | (13.8) | (32.0) | (32.2) | (35.0) | (36.6) | Other NZ | 2.9 | 2.2 | 2.6 | 3.0 | 3.3 | |
| Intangibles | 153.4 | 175.8 | 294.5 | 293.1 | 290.1 | KFC - Australia | 29.1 | 25.9 | 30.9 | 32.9 | 35.9 | |
| Right of use asset | 249.1 | 249.1 | 246.4 | 243.7 | 240.8 | Hawaii | 23.7 | 22.9 | 26.9 | 30.7 | 34.4 | |
| Other assets | 0 | 0 | 0 | 0 | 0 | California | 0.0 | 0.0 | 13.4 | 18.7 | 19.0 | |
| Total funds employed | 20.4 | 41.9 | 41.9 | 41.9 | 41.9 | Other | 3.1 | 0.0 | 0.0 | 0.0 | 0.0 | |
| Net debt/(cash) | 409.1 | 434.8 | 550.7 | 543.7 | 536.3 | Total store EBITDA | 129.2 | 117.0 | 154.8 | 169.8 | 181.4 | |
| Lease liability | 130.8 | 119.4 | 192.4 | 164.2 | 130.5 | | | | | | | |
| Other liabilities | 0 | 0 | 0 | 0 | 0 | | | | | | | |
| Shareholder's funds | 53.6 | 33.3 | 33.3 | 33.3 | 33.3 | | | | | | | |
| Minority interests | 224.7 | 208.0 | 226.1 | 221.3 | 221.8 | | | | | | | |
| Total funding sources | 0 | 0 | 0 | 0 | 0 | | | | | | | |
| | 409.1 | 360.6 | 451.8 | 418.8 | 385.5 | | | | | | | |

* Forsyth Barr target prices reflect valuation rolled forward at cost of equity less the next 12-months dividend

FY19 result – Reporting complexity

RBD delivered an FY19 (44 weeks) result, largely in line with guidance and our expectations. Store EBITDA (excluding IFRS 16) of NZ \$116m, compares to our equivalent forecast NZ\$114m, with all brands performing to expectations. KFC New Zealand and Taco Bell Hawaii were stand outs, delivering robust same store sales (SSS) growth and margin expansion. RBD has suspended its dividend as it pursues growth through acquisition, store roll out, and store refurbishments.

Reporting complexity, arising from the adoption of IFRS 16 (accounting for leases) in combination with a change in balance date, makes comparisons against prior periods difficult. IFRS 16 and the change of balance date had a negative impact of -NZ\$4.5m and c. -NZ\$7.1m respectively to reported NPAT.

Figure 1. Result summary (NZ\$m)

| | FY19 (Feb) | FY19 (Dec) | % chg | Est. % chg (LFL) |
|---------------------------------|--------------|--------------|---------------|------------------|
| Store sales | 794.0 | 705.5 | -11.1% | 5.0% |
| Total revenue | 826.4 | 733.7 | -11.2% | 5.0% |
| Store EBITDA | 129.2 | 116.0 | -10.3% | 6.0% |
| Normalised profit | 42.2 | 37.7 | -10.8% | 8.3% |
| Reported profit (Incl. IFRS 16) | 35.7 | 30.1 | -15.8% | -0.5% |

Source: Company reports, Forsyth Barr analysis

Earnings changes

Earnings changes reflect a change in balance date (large changes to FY20 reflect timing of USA acquisition). EBITDA forecasts are stated on a pre-IFRS 16 basis, consistent with how RBD has signalled it will report going forward. We have made underlying upgrades to our forecasts, which are driven by (1) stronger New Zealand SSS assumptions as delivery is rolled out across more regions and RBD looks to take market share, and (2) higher Hawaii SSS assumptions as we give more credit to Taco Bell refurbishment led growth. We estimate our underlying EBITDA changes are ~+5% over the explicit forecast period.

Figure 2. Earnings changes (NZ\$m)

| | FY20E | | | FY21E | | | FY22E | | |
|-------------------|-------|-------|-------|---------|---------|-------|---------|---------|-------|
| | Old | New | chg % | Old | New | chg % | Old | New | chg % |
| Total Revenue | 856.6 | 996.2 | 16.3% | 1,059.9 | 1,082.2 | 2.1% | 1,134.2 | 1,134.2 | 0.0% |
| Store EBITDA | 135.1 | 154.8 | 14.6% | 147.5 | 169.8 | 15.1% | 159.8 | 181.4 | 13.5% |
| Total EBITDA | 106.0 | 132.7 | 25.2% | 129.5 | 141.8 | 9.5% | 141.9 | 152.6 | 7.5% |
| Normalised Profit | 46.7 | 62.9 | 34.6% | 57.9 | 63.0 | 8.7% | 65.8 | 69.6 | 5.9% |

Source: Forsyth Barr analysis

UNDERPERFORM; Target price NZ\$11.20

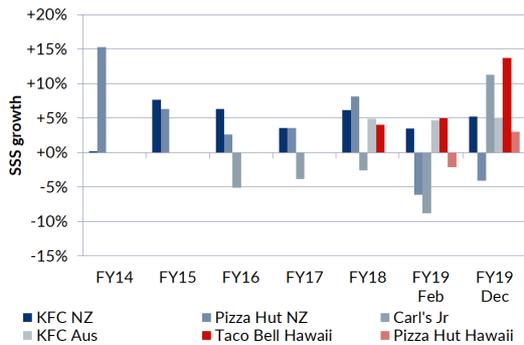
We lift our target price to NZ\$11.20 (from NZ\$10.30, up +8.7%) primarily driven by changes in our earnings assumptions.

RBD is a well run corporate franchisee with core brands that continue to deliver robust growth. Opportunities for material earnings expansion exist, such as Taco Bell NZ/Australia and its recent US acquisition (expected settlement March 2020); however, we see execution risk as the company introduces a new brand (mixed success in the past) and expands into a new, highly competitive market. Trading at ~27x forward PE we believe significant earnings growth is already being priced in. We have an UNDERPERFORM rating.

Divisional highlights

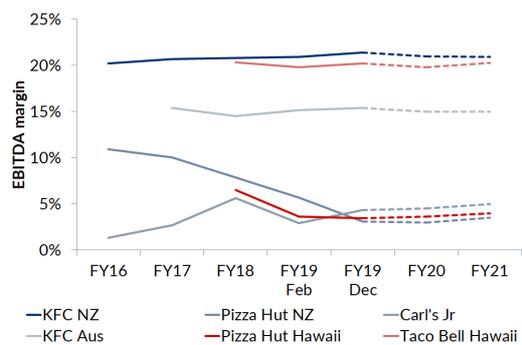
- **KFC New Zealand:** KFC NZ achieved same store sales (SSS) of +5.2% and reported EBITDA of NZ\$66.1m, slightly ahead of our expectations and up +10.1% when comparing on an equivalent full year like for like (excluding IFRS 16) basis. EBITDA margin increased to 21.4%, ahead of the prior period and above RBD's target range of ~20%. We expect this to return below 21% in the coming period.
 - The result was helped by an additional six store openings, ongoing execution on marketing programmes, and the roll out of delivery services. Delivery is now available at ~40% of stores.
- **KFC Australia:** FY20 was largely in line with expectations with robust SSS growth (up +5.2%) and EBITDA margins (15.4%, a slight improvement on the prior comparable period).
 - A number of stores were redeveloped in the period, providing strong SSS growth.
- **Hawaii:** Taco Bell was the highlight, Pizza Hut repositioning to come second. Total Hawaii SSS lifted +9.1%.
 - Taco Bell delivered SSS growth of +13.7%, lifted by the completion of two store refurbishments. RBD has a robust pipeline of refurbishments to come.
 - Seven Pizza Hut stores were closed during the period as RBD looks to refurbish and re-size (smaller foot print).
- **Other New Zealand**
 - Progress towards a master franchisee operating model for Pizza Hut NZ remains on track. In FY20 RBD expects to reduce company stores to 15 (FY19 30). In company owned stores, SSS fell -4.1%, a slow down in the decline experienced in the prior period, while EBITDA margins fell to 3.1%.
 - Carl's Jr posted another period of robust SSS growth, up +11.3%. The introduction of the delivery channel to Auckland stores (~60% of total footprint) was the primary driver of SSS growth. We expect another period of robust SSS as delivery is introduced in other regions, with growth moderating after that.
- **Taco Bell New Zealand & Australia:** Three Taco Bell stores have been opened in Auckland and New South Wales. The initial consumer response has been positive and another 12 stores are in the development pipeline for FY20.

Figure 3. Same store sales (SSS) growth



Source: Company reports, Forsyth Barr analysis

Figure 4. Store EBITDA margin



Source: Company reports, Forsyth Barr analysis

FY20 a transformational year

RBD has a clear growth mandate, as it illustrated in December 2019, when it announced the acquisition of a 70 store California based KFC franchisee for ~NZ\$111m. The transaction is expected to settle March 2020, although remains subject to a number of conditions. Alongside its venture into another market, RBD is targeting organic growth through store roll out, its refurbishment programme, and introduction of a new brand to additional markets.

- **USA Double down:** RBD's desire for a US beachhead had been well flagged, and was unlikely to have been a surprise to the market. The business is standalone and offers limited synergies. Growth is expected to be driven by further store roll out. Whilst, KFC per capita penetration is well below other markets, we note that California is a large and highly competitive market with US KFC same store sales (SSS) modest at best.
 - We have taken a cautious view of growth targets and see the transaction as adding considerable risk to RBD's existing portfolio. At this stage we assume SSS growth of +1.5% and no new store openings over the near term.
- **Mexican down under:** RBD opened three Taco Bell stores across New Zealand and Australia in FY19, to an encouraging consumer response. RBD has flagged an additional 12 stores are expected in FY20.
 - Whilst Taco Bell has had a good start, we note that initial openings are likely to see peak consumer enthusiasm. We remain cautious on a new brand introduction on the basis of past experience. Taco Bell is not expected to be earnings positive for a number of years.
- **Refitting Hawaii:** RBD completed two Taco Bell refurbishments in FY19, delivering significant SSS growth. Alongside a robust pipeline of further refurbishments, the company is repositioning six large format Pizza Hut stores as Taco Bell.
 - We have given RBD additional sales growth credit from its refurbishment programme in our forecasts.
- Alongside growth avenues above, RBD continues its KFC store roll out and refurbishment programme across New Zealand and Australia. The company has a good track record of delivering growth in these markets.

FY19 result summary

RBD has changed its balance date, limiting any comparison between the two most recently reported periods. The result summary below shows both the most recently reported period (44 weeks to year end December 2019) and prior reported period (52 weeks to year end February 2019). Where possible we have made comments on the underlying growth on a like for like basis.

Figure 5. FY19 result summary

| | FY19 (Feb) | FY19 (Dec)* | % change | Comment |
|-------------------------------------------------|--------------|--------------|---------------|-------------------------------------------------------------------------------------|
| Profit and Loss Account (NZ\$m) | | | | |
| Sales | 794.0 | 705.5 | -11.1% | We estimate sales growth of ~+5% on a like for like basis |
| Total Revenue | 826.4 | 733.7 | -11.2% | |
| Cost of Sales | (677.2) | (587.9) | -13.2% | |
| Gross Profit | 149.2 | 145.8 | -2.3% | Gross margin of 21% (~19% in the equivalent prior period) |
| Store EBITDA | 129.2 | 116.0 | -10.3% | On a like for like basis, EBITDA is up ~+6% on the pcp |
| G&A | (30.6) | (29.4) | -3.8% | Higher costs associated with launching Taco Bell |
| Trading EBITDA | 98.7 | 86.5 | -12.3% | EBITDA margin 11.8% |
| Non-trading items | (9.0) | (4.9) | -45.3% | Franchise rights amort. & closure costs. Prior period includes Carl's Jr impairment |
| Total EBITDA | 89.7 | 81.6 | -8.9% | |
| Depreciation & Amortisation | (33.4) | (27.5) | -17.6% | Excluding IFRS 16 impact |
| EBIT | 56.2 | 54.1 | -3.8% | |
| Net Interest | (6.8) | (11.2) | 64.6% | Excluding IFRS 16 impact |
| Profit Before Tax | 49.4 | 42.9 | -13.2% | |
| Tax | (13.7) | (12.8) | -6.4% | Effective tax rate ~30% |
| Reported Profit pre abnormals | 35.7 | 30.1 | -15.8% | |
| After-tax impact of non-trading items | (6.5) | (7.6) | 16.9% | |
| Normalised profit | 42.2 | 37.7 | -10.8% | No formal guidance provided |
| IFRS 16 adjustment | - | 4.5 | - | RBD has significant exposure to operating leases |
| Reported Profit | 42.2 | 42.2 | -0.1% | Underlying NPAT, pre-IFRS 16 impacts, is up +8% on a like for like basis |
| Underlying EPS | 34.1 | 30.5 | -10.8% | |
| DPS | - | - | - | No dividend in order to fund RBD's strong growth mandate |
| Balance Sheet Summary (NZ\$m) | | | | |
| Operating Cashflow | 71.3 | 71.6 | 0.5% | Adjusted for IFRS 16, boosted by WC release |
| Fixed Assets | 153.4 | 175.8 | 14.6% | Higher store numbers |
| Net Debt | 130.8 | 119.4 | -8.8% | Net debt ~1.2x ahead of US acquisition |
| Divisional analysis (local currency \$m) | | | | |
| KFC (NZ\$m) | | | | |
| Sales | 336.5 | 365.0 | 8% | SSS +5.2% |
| EBITDA | 70.4 | 78.1 | 11% | 21.4% margin, slightly above target range |
| Pizza Hut (NZ\$m) | | | | |
| Sales | 35.4 | 32.3 | -9% | SSS down -4.1% |
| EBITDA | 2.0 | 1.0 | -50% | Operating deleverage, margin 3.1% |
| Carl's Jr (NZ\$m) | | | | |
| Sales | 31.9 | 34.1 | 7% | SSS +11%, helped by delivery |
| EBITDA | 0.9 | 1.5 | 63% | 4.4% margin, showing slight improvements |
| KFC Australia (A\$m) | | | | |
| Sales | 178.3 | 188.6 | 6% | SSS +5.1% |
| EBITDA | 27.0 | 29.0 | 7% | Margin 15.4% |
| Hawaii - Pizza Hut (US\$m) | | | | |
| Sales | 52.4 | 52.1 | -1% | SSS +3.0% (-2.1% in prior period) |
| EBITDA | 1.9 | 1.8 | -5% | 3.4% margin |
| Hawaii - Taco Bell (US\$m) | | | | |
| Sales | 72.3 | 78.6 | 8.7% | SSS +13.7%, led by store refurbishments |
| EBITDA | 14.3 | 15.9 | 11.2% | 20.2% margin |

Source: Company reports, Forsyth Barr analysis, *44 week period

Investment Summary

Restaurant Brands (RBD) is a well-run corporate franchisee, focussed on fast food. Recent earnings growth has been driven by KFC which continues to have positive momentum. Early signs from Taco Bell are encouraging in Hawaii, while Pizza Hut is under pressure and needs work. Carl's Jr continues to underperform but is no longer a growth priority for capital investment. We like the investment attributes of RBD, with above-WACC returns, a supportive industry backdrop and a material array of growth options; however, significant growth is already priced in at current multiples. Our rating is UNDERPERFORM.

Business quality

- **Business expansion:** RBD's expansion into Australia (KFC) and Hawaii (Taco Bell and Pizza Hut) through acquisition presents growth opportunities but also risks. We see Australia as a more natural fit but are more cautious on Hawaii.

Earnings and cashflow outlook

- **Marketing and new products:** Marketing, product innovation and promotional appeal is key to keep the brands fresh and relevant to customers. It is important not to stand still in the quick services business.
- **Store rollout:** There is store rollout opportunity for KFC NZ (~15 stores) and in Australia for KFC through store rollout or bolt-on acquisitions. Hawaii also presents opportunities, albeit this will likely take time.
- **Input costs:** This is dominated by food and labour. RBD's main flexibility to respond to higher input costs is through the product mix of its sales. Customer purchases can be influenced by targeted promotions.

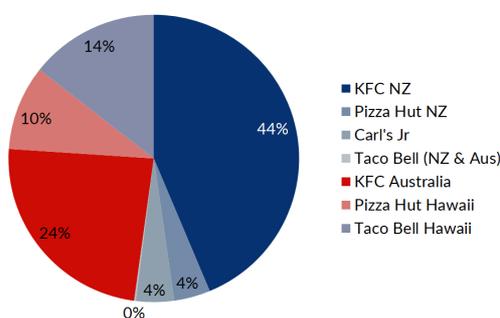
Financial structure

- **Balance sheet and dividends:** FY19 net debt was down NZ\$28m with no interim dividend and continued to fall in 1H20. Gearing is down from 44% to 35%. RBD has announced it has ceased dividend payments to retain funding for growth.

Risk factors

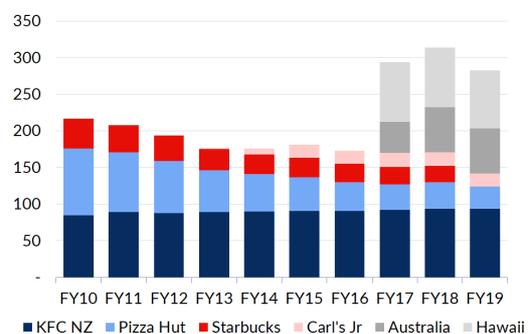
- **Corporate franchisee:** A relationship breakdown with its franchisor, particularly for KFC (its major earnings driver).
- **Fast food operator:** Any change in consumer preference away from fast food or change in government regulation or taxes on fast food.
- **Minimum wage:** Any increase can weigh on profitability, if RBD cannot offset this through price changes and/or menu mix. RBD has pricing power in its key KFC brand and labour productivity can help offset cost pressure. in its key KFC brand and labour productivity can help offset cost pressure.

Figure 6. Divisional revenue breakdown



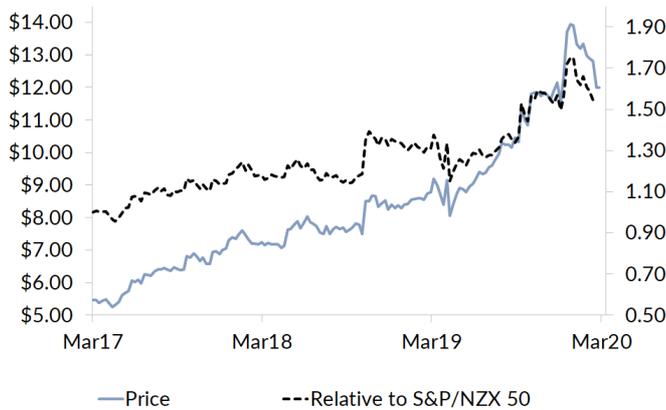
Source: Company reports, Forsyth Barr analysis

Figure 7. Store footprint



Source: Company reports, Forsyth Barr analysis

Figure 8. Price performance



Source: Forsyth Barr analysis

Figure 9. Substantial shareholders

| Shareholder | Latest Holding |
|-------------------|----------------|
| Global Valar S.L. | 75.0% |

Source: NZX, Forsyth Barr analysis, NOTE: based on SSH notices only

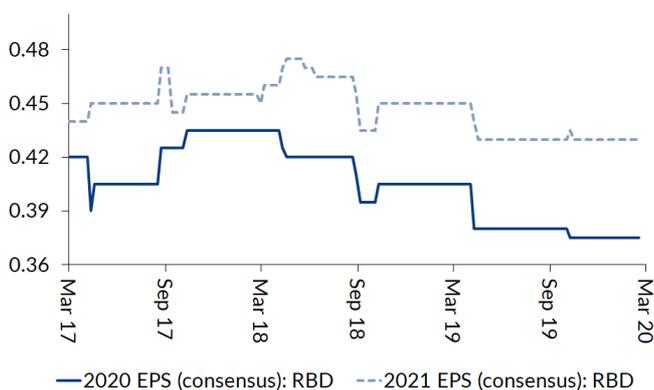
Figure 10. International valuation comparisons

| Company | Code | Price | Mkt Cap (m) | PE | | EV/EBITDA | | EV/EBIT | | Cash Yld 2021E |
|----------------------------------------------------------------|---------|------------|-------------|--------------|--------------|--------------|--------------|--------------|--------------|----------------|
| | | | | 2020E | 2021E | 2020E | 2021E | 2020E | 2021E | |
| (metrics re-weighted to reflect RBD's balance date - December) | | | | | | | | | | |
| Restaurant Brands NZ | RBD NZ | NZ\$12.00 | NZ\$1,493 | 26.7x | 26.5x | 12.1x | 11.4x | 17.7x | 17.9x | 0.0% |
| Briscoe Group * | BGP NZ | NZ\$3.85 | NZ\$855 | 13.2x | 13.6x | 8.2x | 8.4x | 8.7x | 9.0x | 6.0% |
| Kathmandu Holdings * | KMD NZ | NZ\$3.07 | NZ\$906 | 10.7x | 9.5x | 6.1x | 5.3x | 7.4x | 6.5x | 6.5% |
| Michael Hill Intl * | MHJ NZ | A\$0.60 | A\$233 | 8.8x | 8.6x | 4.3x | 4.1x | 6.4x | 6.2x | 8.7% |
| The Warehouse Group * | WHS NZ | NZ\$2.37 | NZ\$822 | 10.1x | 9.0x | 4.9x | 4.4x | 7.4x | 6.6x | 8.2% |
| DOMINO'S PIZZA ENTERPRISES L | DMP AT | A\$57.26 | A\$4,938 | 29.9x | 26.4x | 17.0x | 15.1x | 23.9x | 21.3x | 2.7% |
| MCDONALD'S CORP | MCD US | US\$208.17 | US\$155,180 | 24.4x | 22.6x | 18.0x | 17.0x | 21.2x | 20.1x | 2.6% |
| STARBUCKS CORP | SBUX US | US\$80.54 | US\$94,530 | 26.0x | 22.9x | 17.6x | 15.9x | 22.3x | 20.1x | 2.3% |
| WENDY'S CO/THE | WEN US | US\$21.07 | US\$4,699 | 33.3x | 27.3x | 18.8x | 17.4x | 27.6x | 24.4x | 2.4% |
| YUM! BRANDS INC | YUM US | US\$96.09 | US\$28,906 | 24.5x | 21.4x | 18.7x | 17.3x | 19.7x | 18.1x | 2.1% |
| DOMINO'S PIZZA INC | DPZ US | US\$356.40 | US\$13,781 | 32.5x | 28.8x | 23.2x | 21.5x | 25.4x | 23.4x | 0.9% |
| COLLINS FOODS | CKF AT | A\$9.24 | A\$1,077 | 20.9x | 18.4x | 12.8x | 11.4x | 18.7x | 16.3x | 2.8% |
| Compcpo Average: | | | | 21.3x | 18.9x | 13.6x | 12.5x | 17.2x | 15.6x | 4.1% |
| RBD Relative: | | | | 26% | 40% | -11% | -9% | 3% | 14% | -100% |

EV = Current Market Cap + Actual Net Debt

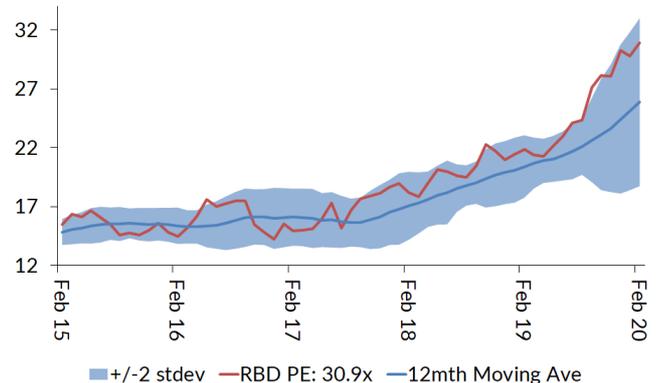
Source: *Forsyth Barr analysis, Bloomberg Consensus, Compcpo metrics re-weighted to reflect headline (RBD) companies fiscal year end

Figure 11. Consensus EPS momentum (NZ\$)



Source: Forsyth Barr analysis

Figure 12. One year forward PE (x)



Source: Forsyth Barr analysis

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