

Restaurant Brands NZ

3Q20 Sales Takeaway

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NEUTRAL

Restaurant Brands (RBD) delivered another period of robust sales growth in 3Q20, as the company navigates trading restrictions across its operating markets. Strong sales growth, particularly through the takeaway and delivery channels, has more than offset dine-in limitations. RBD offers a more defensive exposure to consumer spend with a track record of performance, and a pipeline of growth opportunities. RBD trades at a premium to the New Zealand market but a discount to international peers. We view the current risk/reward as fair, NEUTRAL.

NZX Code	RBD	Financials: Dec/	19A	20E	21E	22E	Valuation (x)	19A	20E	21E	22E
Share price	NZ\$12.23	NPAT* (NZ\$m)	35.7	44.3	47.9	60.1	PE	35.8	34.1	31.6	25.2
Target price	NZ\$13.50	EPS* (NZc)	34.1	35.8	38.7	48.6	EV/EBIT	29.6	24.8	23.7	19.3
Risk rating	Medium	EPS growth* (%)	2.9	4.9	8.1	25.5	EV/EBITDA	18.6	16.6	15.0	12.9
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\$1,521m	Imputation (%)	100	100	100	100	Cash div yld (%)	0.0	0.0	0.0	0.0
Avg daily turnover	40.0k (NZ\$461k)	*Based on normalised profits					Gross div yld (%)	0.0	0.0	0.0	0.0

Trading well through disruption, in line with expectations

RBD reported 3Q20 sales of NZ\$239.8m, up +12.8% on the prior comparable period (+6.5% excluding the acquisition of California). Trading restrictions as a result of COVID-19 remain fluid, with a number of mall stores closed and most of its international portfolio closed to in-store dining. However, this is more than offset by growth in other channels (delivery/takeaway) with positive same store sales (SSS) across all markets. In addition, RBD continues to open new stores, with a number of openings in Australia. Year-to-date (YTD) group sales are up +2.5% (+0.2% excluding California). This is largely consistent with our FY20 forecasts, which assume sales growth of +3.8% (flat excluding California).

Positive 3Q20 same store sales across all markets

- **New Zealand (SSS +5.9% on the prior comparable period)** — Strong SSS despite trading restrictions impacting Auckland stores during the period. KFC remains a standout performer, with Carl's Jr also delivering solid growth — with its availability over delivery platforms during lockdowns likely supporting sales growth. RBD continues to expand its delivery availability across its network, and is trialling offering KFC, Taco Bell, and Pizza Hut across the Uber Eats app (Carl's Jr already available).
- **Australia (SSS +3.3%)** — Total sales increased +9.1% on the prior year, driven by four new store openings (two KFC, two Taco Bell). This was a key highlight versus our expectations, particularly given trading across most stores remains restricted (with in-store dining unavailable).
- **Hawaii (SSS +8.7%)** — In-store dining remains restricted and is weighing on Taco Bell performance, with SSS growth muted. However, Pizza Hut has experienced an exceptional uplift in sales as consumers favour delivery options, more than offsetting weakness elsewhere.
- **California** — Strong start, albeit with only one month of ownership in the period. Trading is “up on the prior year and pre-purchase expectations”.

Restaurant Brands NZ Ltd (RBD)

Priced as at 22 Oct 2020 (NZ\$) **12.23**

12-month target price (NZ\$)*	13.50
Expected share price return	10.4%
Net dividend yield	0.0%
Estimated 12-month return	10.4%

Key WACC assumptions	
Risk free rate	1.30%
Equity beta	1.16
WACC	6.5%
Terminal growth	1.5%

Spot valuations (NZ\$)	
1. DCF	13.50
2. Sum of the parts	12.00
3. n/a	n/a

DCF valuation summary (NZ\$m)	
Total firm value	2,046
(Net debt)/cash	(241)
Less: Capitalised operating leases	0
Value of equity	1,805

Profit and Loss Account (NZ\$m)	2018A	2019A	2020E	2021E	2022E
Sales revenue	766.3	826.4	892.8	1,047.5	1,105.9
Normalised EBITDA	97.9	89.7	102.8	117.5	137.0
Depreciation and amortisation	(34.7)	(33.4)	(34.0)	(43.2)	(45.8)
Normalised EBIT	63.2	56.2	68.8	74.4	91.2
Net interest	(5.6)	(6.8)	(7.3)	(7.8)	(7.8)
Associate income	0	0	0	0	0
Tax	(16.7)	(13.7)	(17.2)	(18.6)	(23.4)
Minority interests	0	0	0	0	0
Normalised NPAT	40.8	35.7	44.3	47.9	60.1
Abnormals/other	(5.4)	0	0	0	0
Reported NPAT	35.5	35.7	44.3	47.9	60.1
Normalised EPS (cps)	33.2	34.1	35.8	38.7	48.6
DPS (cps)	28.0	0	0	0	0

Growth Rates	2018A	2019A	2020E	2021E	2022E
Revenue (%)	48.1	7.8	8.0	17.3	5.6
EBITDA (%)	43.3	-8.4	14.6	14.4	16.6
EBIT (%)	44.1	-11.0	22.3	8.1	22.7
Normalised NPAT (%)	33.6	-12.5	24.0	8.1	25.5
Normalised EPS (%)	17.1	2.9	4.9	8.1	25.5
Ordinary DPS (%)	21.7	-100.0	n/a	n/a	n/a

Cash Flow (NZ\$m)	2018A	2019A	2020E	2021E	2022E
EBITDA	97.9	89.7	102.8	117.5	137.0
Working capital change	(8.7)	4.6	15.1	4.9	1.9
Interest & tax paid	(21.4)	(23.0)	(40.8)	(44.3)	(49.6)
Other	0	0	0	0	0
Operating cash flow	67.8	71.3	77.1	78.2	89.2
Capital expenditure	(31.1)	(36.9)	(64.7)	(64.7)	(64.7)
(Acquisitions)/divestments	(143.4)	10.2	(120.6)	1.6	1.6
Other	1.2	(0.0)	0	0	0
Funding available/(required)	(105.6)	44.5	(108.1)	15.1	26.2
Dividends paid	(23.7)	(17.7)	0	0	0
Equity raised/(returned)	0	0	0	0	0
(Increase)/decrease in net debt	(129.3)	26.8	(124.4)	(2.7)	7.7

Balance Sheet (NZ\$m)	2018A	2019A	2020E	2021E	2022E
Working capital	(13.7)	(13.8)	(29.0)	(33.9)	(35.7)
Fixed assets	157.2	153.4	323.2	343.6	405.7
Intangibles	246.3	249.1	246.4	243.7	240.8
Right of use asset	0	0	402.7	398.8	394.9
Other assets	17.9	20.4	41.9	41.9	41.9
Total funds employed	407.7	409.1	985.3	994.1	1,047.7
Net debt/(cash)	156.7	130.8	243.7	246.5	238.8
Lease liability	0	0	499.3	518.9	538.1
Other liabilities	49.4	53.6	33.3	33.3	33.3
Shareholder's funds	201.6	224.7	209.0	195.6	237.6
Minority interests	0	0	0	0	0
Total funding sources	407.7	409.1	985.3	994.1	1,047.7

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

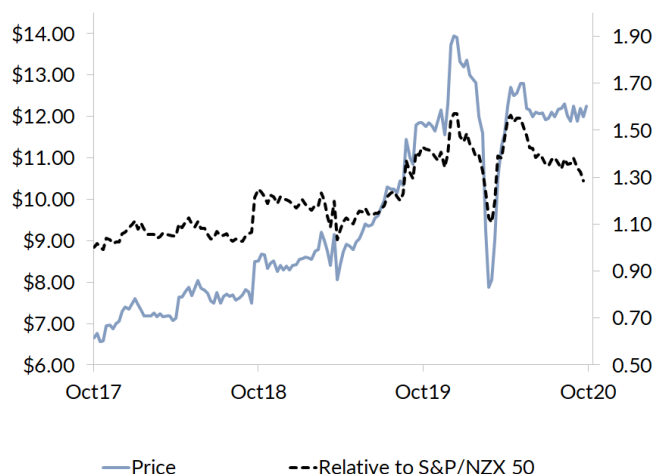
Valuation Ratios	2018A	2019A	2020E	2021E	2022E
EV/EBITDA (x)	16.2	18.6	16.6	15.0	12.9
EV/EBIT (x)	25.1	29.6	24.8	23.7	19.3
PE (x)	36.8	35.8	34.1	31.6	25.2
Price/NTA (x)	n/a	n/a	n/a	n/a	n/a
Free cash flow yield (%)	2.4	2.3	0.8	0.9	1.6
Net dividend yield (%)	2.3	0.0	0.0	0.0	0.0
Gross dividend yield (%)	3.2	0.0	0.0	0.0	0.0

Capital Structure	2018A	2019A	2020E	2021E	2022E
Interest cover EBIT (x)	11.3	8.3	9.5	9.5	11.8
Interest cover EBITDA (x)	17.5	13.2	14.1	15.0	17.6
Net debt/ND+E (%)	43.7	36.8	53.8	55.8	50.1
Net debt/EBITDA (x)	1.6	1.5	2.4	2.1	1.7

Key Ratios	2018A	2019A	2020E	2021E	2022E
Return on assets (%)	13.9	12.2	6.4	6.8	7.9
Return on equity (%)	20.3	15.9	21.2	24.5	25.3
Return on funds employed (%)	17.6	11.9	12.8	12.5	14.8
EBITDA margin (%)	12.8	10.8	11.5	11.2	12.4
EBIT margin (%)	8.2	6.8	7.7	7.1	8.2
Capex to sales (%)	4.1	4.5	7.2	6.2	5.8
Capex to depreciation (%)	105	122	207	160	151
Imputation (%)	100	100	100	100	100
Pay-out ratio (%)	84	0	0	0	0

Operating Performance	2018A	2019A	2020E	2021E	2022E
Store numbers					
New Zealand	142	148	151	152	158
Australia	61	64	70	75	84
USA	80	74	144	143	147
Total	283	286	365	370	389

Divisional EBITDA (NZ\$m)					
New Zealand	76.4	67.9	69.7	76.4	82.2
Australia	29.1	25.2	24.8	31.7	36.1
USA	23.7	22.9	32.6	44.4	53.9
Total store EBITDA	129.2	116.0	127.1	152.5	172.2

Figure 1. Price performance


Source: Forsyth Barr analysis

Figure 2. Substantial shareholders

Shareholder	Latest Holding
Global Valar S.L.	75.0%

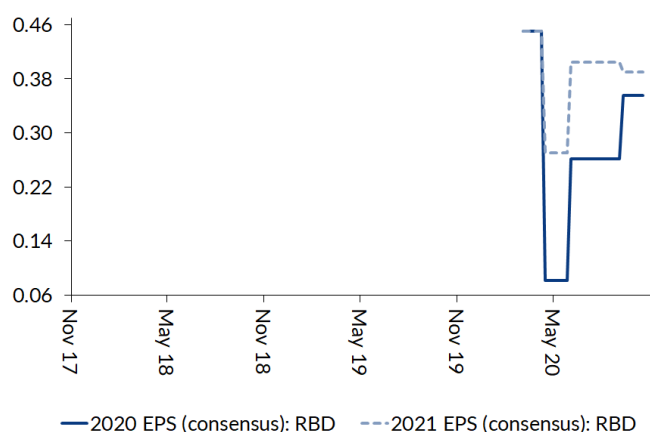
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

Figure 3. International valuation comparisons

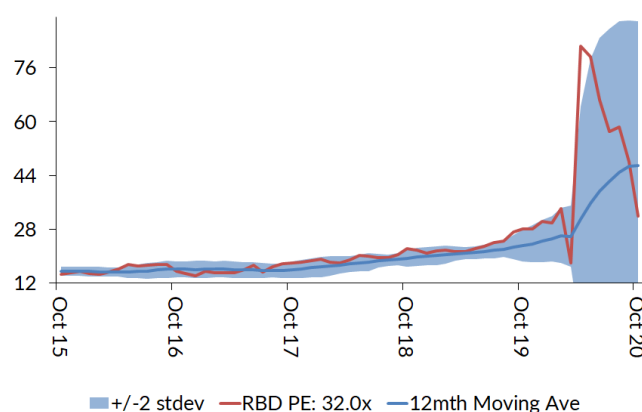
Company	Code	Price	Mkt Cap	PE		EV/EBITDA		EV/EBIT		Cash Yld	
(metrics re-weighted to reflect RBD's balance date - December)				2020E	2021E	2020E	2021E	2020E	2021E	2021E	
Restaurant Brands NZ	RBD NZ	NZ\$12.23	NZ\$1,521	34.1x	31.6x	16.1x	14.1x	24.0x	22.2x	0.0%	
COLLINS FOODS	CKF AT	A\$10.40	A\$1,212	30.6x	24.4x	11.1x	10.8x	19.9x	18.2x	2.1%	
YUM! BRANDS INC	YUM US	US\$99.57	US\$30,009	31.3x	25.4x	22.7x	19.1x	24.4x	20.4x	2.1%	
DOMINO'S PIZZA ENTERPRISES L	DMP AT	A\$87.52	A\$7,573	49.0x	40.9x	24.2x	21.3x	37.0x	30.8x	1.7%	
DOMINO'S PIZZA INC	DPZ US	US\$393.04	US\$15,467	31.6x	30.3x	24.7x	22.9x	26.8x	24.6x	0.9%	
WENDY'S CO/THE	WEN US	US\$24.04	US\$5,378	43.3x	34.4x	21.6x	19.9x	31.8x	28.0x	1.6%	
MCDONALD'S CORP	MCD US	US\$228.74	US\$170,206	38.4x	27.5x	24.7x	19.5x	30.3x	23.2x	2.4%	
STARBUCKS CORP	SBUX US	US\$88.90	US\$103,901	>50x	31.2x	35.4x	20.7x	58.5x	27.1x	2.1%	
Compco Average:				37.4x	30.6x	23.5x	19.2x	32.7x	24.6x	1.8%	
EV = Current Market Cap + Actual Net Debt				RBD Relative:	-9%	3%	-32%	-27%	-27%	-10%	-100%

EV = Current Market Cap + Actual Net Debt

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

Figure 4. Consensus EPS momentum (NZ\$)


Source: Forsyth Barr analysis

Figure 5. One year forward PE (x)


Source: Forsyth Barr analysis

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