

Restaurant Brands NZ

4Q20 Sales Checkout

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NEUTRAL

Restaurant Brands (RBD) delivered another period of robust sales growth in 4Q20, in line with our expectations, with the takeaway channel a net beneficiary of COVID-19 restrictions, which has more than offset dine-in limitations. Whilst safety precautions and drive through congestion have increased cost-to-serve, strong sales and operating leverage are likely to partially offset any margin impact. RBD operates in a historically defensive consumer segment, with a track record of performance, and a pipeline of growth opportunities. However, at 30x forward PE, 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\$11.75	NPAT* (NZ\$m)	42.2	44.6	48.6	58.4	PE	34.4	32.6	29.9	24.9
Target price	NZ\$12.75	EPS* (NZc)	34.1	36.1	39.3	47.3	EV/EBIT	28.5	23.5	24.4	20.7
Risk rating	Medium	EPS growth* (%)	2.9	5.7	9.0	20.2	EV/EBITDA	17.9	13.2	13.4	12.0
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\$1,461m	Imputation (%)	100	100	100	100	Cash div yld (%)	0.0	0.0	0.0	0.0
Avg daily turnover	37.4k (NZ\$428k)	*Based on normalised profits					Gross div yld (%)	0.0	0.0	0.0	0.0

What's changed?

- **Earnings:** We make limited changes to near-term earnings. We expect that COVID-19 restrictions may delay growth aspirations through extended consent and build times, and therefore lower our medium-term earnings expectations.
- **Target price:** We lower our target price -NZ\$0.75to NZ\$12.75, on the back of slower growth expectations.

Trading well through disruption, in line with expectations

RBD reported FY20 store sales of NZ\$892m, largely in line with our expectations, and up +2.1% on the prior year period (+8.4% when accounting for the acquisition of its California business). Trading remains restricted across its US businesses where COVID-19 case resurgences have forced the closure of its dine-in business, however, the uplift in its takeaway and drive through operations have more than offset lost sales. RBD reports FY20 earnings on 25 February 2021.

Positive 4Q20 same store sales across all markets

- **New Zealand (SSS +9.4% on the prior comparable period)** – Sales growth accelerated into 4Q20, with total sales up +7.3%. RBD continues with its programme of selling Pizza Hut stores to independent franchisees, with four more divested in the quarter, offsetting two Taco Bell store openings.
- **Australia (SSS +3.6%)** – Total quarterly sales increased +10.8% on the prior year, primarily driven by eight new store openings (four KFC, four Taco Bell).
- **Hawaii (SSS +6.1%)** – In-store dining remains restricted and is weighing on Taco Bell performance, with sales growth flat to negative. However, Pizza Hut has experienced an exceptional uplift in sales as consumers favour delivery options, more than offsetting weakness elsewhere.
 - Store refurbishment profile of Taco Bell is a key growth driver. COVID-19 restrictions are likely to create consent and construction delays.
- **California** – First full quarter of trading bodes well with performance “up on the prior year and pre-purchase expectations”.

Restaurant Brands NZ Ltd (RBD)

Priced as at 29 Jan 2021 (NZ\$) **11.75**

12-month target price (NZ\$)*	12.75
Expected share price return	8.5%
Net dividend yield	0.0%
Estimated 12-month return	8.5%

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

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

DCF valuation summary (NZ\$m)	
Total firm value	2,059
(Net debt)/cash	(241)
Less: Capitalised operating leases	0
Value of equity	1,818

Profit and Loss Account (NZ\$m)	2018A	2019A	2020E	2021E	2022E
Sales revenue	766.3	826.4	921.3	1,050.8	1,103.0
Normalised EBITDA	97.9	89.7	138.5	154.0	171.9
Depreciation and amortisation	(34.7)	(33.4)	(60.8)	(69.6)	(72.3)
Normalised EBIT	63.2	56.2	77.6	84.4	99.6
Net interest	(5.6)	(6.8)	(21.7)	(22.6)	(23.1)
Associate income	0	0	0	0	0
Tax	(16.7)	(13.7)	(17.4)	(18.9)	(22.7)
Minority interests	0	0	0	0	0
Normalised NPAT	40.8	42.2	44.6	48.6	58.4
Abnormals/other	(5.4)	0	0	0	0
Reported NPAT	35.5	35.7	44.6	48.6	58.4
Normalised EPS (cps)	33.2	34.1	36.1	39.3	47.3
DPS (cps)	28.0	0	0	0	0

Valuation Ratios	2018A	2019A	2020E	2021E	2022E
EV/EBITDA (x)	15.6	17.9	11.5	10.3	9.2
EV/EBIT (x)	24.2	28.5	20.5	18.8	15.9
PE (x)	35.4	34.4	32.6	29.9	24.9
Price/NTA (x)	n/a	n/a	n/a	n/a	n/a
Free cash flow yield (%)	2.8	2.6	1.2	0.8	-0.1
Net dividend yield (%)	2.4	0.0	0.0	0.0	0.0
Gross dividend yield (%)	3.3	0.0	0.0	0.0	0.0

Capital Structure	2018A	2019A	2020E	2021E	2022E
Interest cover EBIT (x)	11.3	8.3	3.6	3.7	4.3
Interest cover EBITDA (x)	17.5	13.2	6.4	6.8	7.4
Net debt/ND+E (%)	51.3	45.8	44.4	42.4	43.2
Net debt/EBITDA (x)	1.6	1.5	0.9	0.7	0.7

Growth Rates	2018A	2019A	2020E	2021E	2022E
Revenue (%)	48.1	7.8	11.5	14.0	5.0
EBITDA (%)	43.3	-8.4	54.4	11.2	11.7
EBIT (%)	44.1	-11.0	38.0	8.7	18.0
Normalised NPAT (%)	33.6	3.4	5.7	9.0	20.2
Normalised EPS (%)	17.1	2.9	5.7	9.0	20.2
Ordinary DPS (%)	21.7	-100.0	n/a	n/a	n/a

Key Ratios	2018A	2019A	2020E	2021E	2022E
Return on assets (%)	13.9	12.2	7.2	7.6	8.7
Return on equity (%)	27.5	23.1	28.9	31.4	37.8
Return on funds employed (%)	21.9	14.4	21.4	24.0	28.5
EBITDA margin (%)	12.8	10.8	15.0	14.7	15.6
EBIT margin (%)	8.2	6.8	8.4	8.0	9.0
Capex to sales (%)	3.9	4.0	6.9	6.1	8.3
Capex to depreciation (%)	100	109	109	97	131
Imputation (%)	100	100	100	100	100
Pay-out ratio (%)	84	0	0	0	0

Cash Flow (NZ\$m)	2018A	2019A	2020E	2021E	2022E
EBITDA	97.9	89.7	138.5	154.0	171.9
Working capital change	(8.7)	4.6	(18.8)	(36.3)	(36.0)
Interest & tax paid	(21.4)	(23.0)	(39.1)	(41.5)	(45.8)
Other	0	0	0	0	0
Operating cash flow	67.8	71.3	80.6	76.3	90.1
Capital expenditure	(29.6)	(33.1)	(63.2)	(64.6)	(91.3)
(Acquisitions)/divestments	(138.7)	14.0	(120.6)	0.4	0.4
Other	1.2	0.0	(2.3)	(2.5)	(2.6)
Funding available/(required)	(99.3)	52.2	(105.6)	9.5	(3.5)
Dividends paid	(23.7)	(17.7)	0	0	0
Equity raised/(returned)	(0.1)	(0.1)	0	0	0
(Increase)/decrease in net debt	(838.7)	(695.0)	(105.6)	9.5	(3.5)

Operating Performance	2018A	2019A	2020E	2021E	2022E
Store numbers					
New Zealand	142	148	152	154	158
Australia	61	64	70	75	81
USA	80	74	144	143	147
Total	283	286	366	372	386

Divisional EBITDA (NZ\$m)					
New Zealand	76.4	67.9	66.7	77.3	82.5
Australia	29.1	25.2	29.8	29.1	31.2
USA	23.7	22.9	31.4	44.4	53.9
Total store EBITDA	129.2	116.0	127.9	150.7	167.5

Balance Sheet (NZ\$m)	2018A	2019A	2020E	2021E	2022E
Working capital	(13.7)	(13.8)	(29.9)	(34.0)	(35.6)
Fixed assets	157.2	153.4	326.2	349.6	396.8
Intangibles	246.3	249.1	249.1	249.1	249.1
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	990.1	1,005.5	1,047.2
Net debt/(cash)	156.7	130.8	123.4	113.9	117.4
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	334.2	339.5	358.4
Minority interests	0	0	0	0	0
Total funding sources	407.7	409.1	990.1	1,005.5	1,047.2

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

Forecast changes

We make limited changes to our near-term earnings forecasts. We expect COVID-19 restrictions are likely to lead to congestion and delays in the development pipeline, slowing the growth profile. We lower our medium-term earnings expectations.

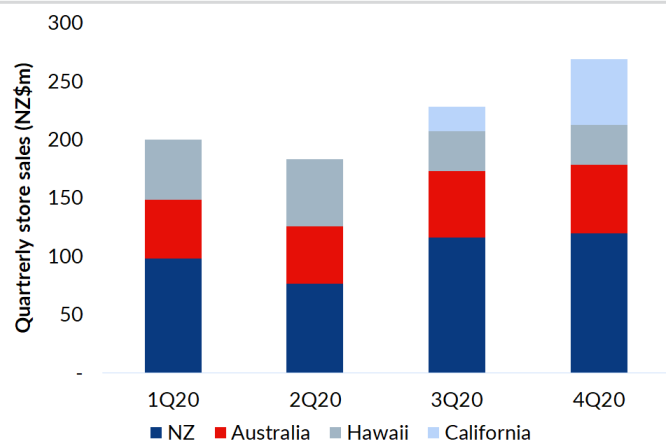
Figure 1. Forecast changes

	FY20E			FY21E			FY22E		
	old	new	% chg	old	new	% chg	old	new	% chg
Revenue	892.8	921.3	3%	1,047.5	1,050.8	0%	1,105.9	1,103.0	-0%
Store EBITDA	127.1	127.9	1%	152.5	150.7	-1%	172.2	167.5	-3%
NPAT	44.3	44.6	1%	47.9	48.6	1%	60.1	58.4	-3%
EPS (cps)	35.6	35.9	1%	38.5	39.1	1%	48.3	47.0	-3%
DPS (cps)	-	-	-	-	-	-	-	-	-

Source: Forsyth Barr analysis

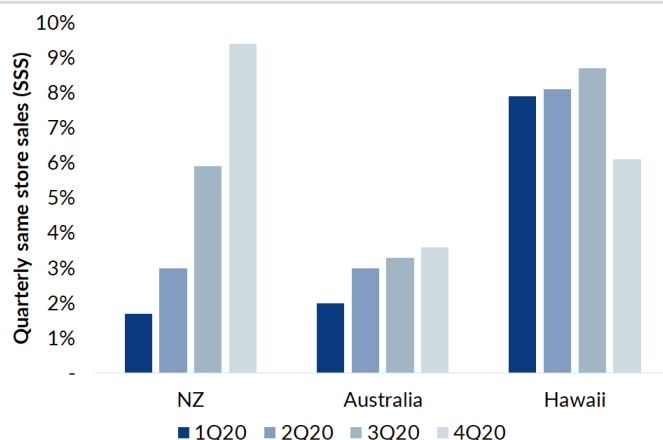
Quarterly sales summary

Figure 2. FY20 quarterly store sales

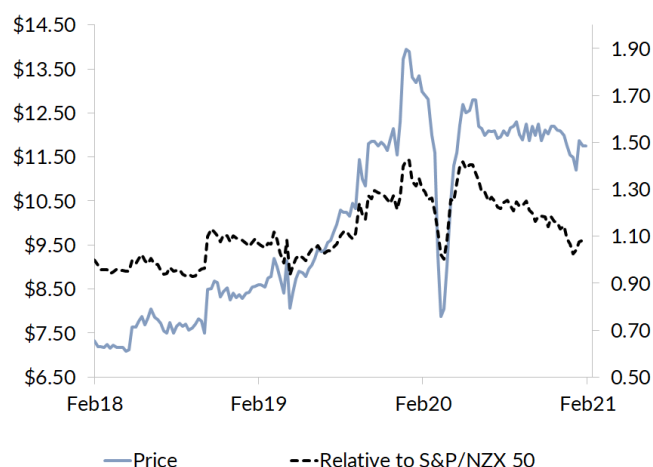


Source: RBD, Forsyth Barr analysis

Figure 3. FY20 quarterly same store sales



Source: RBD, Forsyth Barr analysis

Figure 4. Price performance


Source: Forsyth Barr analysis

Figure 5. Substantial shareholders

Shareholder	Latest Holding
Global Valar S.L.	75.0%

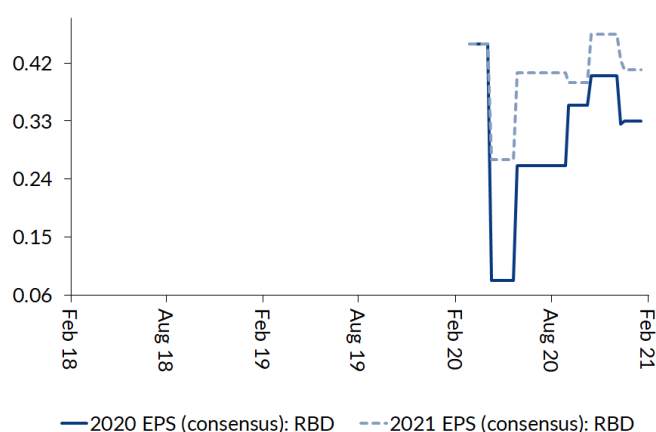
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

Figure 6. International valuation comparisons

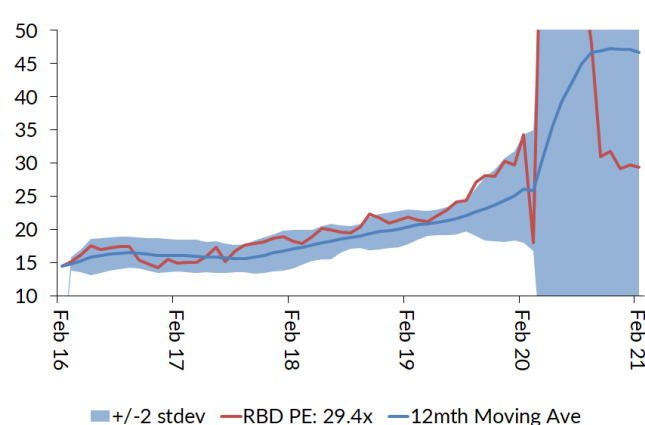
Company	Code	Price	Mkt Cap (m)	PE 2020E	PE 2021E	EV/EBITDA 2020E	EV/EBITDA 2021E	EV/EBIT 2020E	EV/EBIT 2021E	Cash Yld 2021E
(metrics re-weighted to reflect RBD's balance date - December)										
Restaurant Brands NZ	RBD NZ	NZ\$11.75	NZ\$1,461	32.6x	29.9x	11.5x	10.3x	20.5x	18.9x	0.0%
COLLINS FOODS	CKF AT	A\$9.46	A\$1,103	26.7x	20.4x	10.2x	9.7x	18.0x	16.2x	2.7%
YUM! BRANDS INC	YUM US	US\$103.57	US\$31,244	30.3x	25.9x	22.2x	19.3x	24.4x	20.7x	2.0%
DOMINO'S PIZZA ENTERPRISES L	DMP AT	A\$92.44	A\$7,998	>50x	42.5x	25.2x	22.0x	38.3x	31.6x	1.7%
DOMINO'S PIZZA INC	DPZ US	US\$380.07	US\$14,975	30.6x	29.4x	24.0x	22.3x	26.2x	24.0x	0.9%
WENDY'S CO/THE	WEN US	US\$20.81	US\$4,664	36.4x	29.2x	19.2x	17.8x	28.1x	24.8x	1.7%
MCDONALD'S CORP	MCD US	US\$210.42	US\$156,786	34.2x	25.2x	22.9x	18.3x	28.3x	21.6x	2.5%
STARBUCKS CORP	SBUX US	US\$98.20	US\$115,611	>50x	33.0x	27.4x	21.4x	72.1x	27.3x	1.9%
Compco Average:				31.6x	29.4x	21.6x	18.7x	33.6x	23.8x	1.9%
RBD Relative:				3%	2%	-47%	-45%	-39%	-21%	-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 7. Consensus EPS momentum (NZ\$)


Source: Forsyth Barr analysis

Figure 8. One year forward PE (x)


Source: Forsyth Barr analysis

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