

Restaurant Brands NZ

FY20 Preview — Delivering through Disruption

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Restaurant Brands (RBD) will release its FY20 results on Thursday, 25 February 2021 — we expect RBD to deliver robust earnings growth following a period of disruption, with headline growth boosted by the first time inclusion of its California business. While sales growth has been strong, particularly in light of tough operating conditions, margin achieved will be of interest given channel/brand mix changes. We forecast FY20 normalised NPAT of NZ\$45m, which we estimate implies +3% growth on the 12 months to 31 December 2019. A key area of focus at the result will be store investment commentary and growth outlook, with COVID-19 disruption likely to have impacted time frames.

| NZX Code | RBD | Financials: Dec/ | 19A | 20E | 21E | 22E | Valuation (x) | 19A | 20E | 21E | 22E |
|--------------------|------------------|------------------------------|------|------|------|------|-------------------|------|------|------|------|
| Share price | NZ\$12.07 | NPAT* (NZ\$m) | 42.2 | 44.6 | 48.6 | 58.4 | PE | 35.3 | 33.4 | 30.7 | 25.5 |
| Target price | NZ\$12.75 | EPS* (NZc) | 34.1 | 36.1 | 39.3 | 47.3 | EV/EBIT | 29.3 | 24.1 | 24.9 | 21.1 |
| Risk rating | Medium | EPS growth* (%) | 2.9 | 5.7 | 9.0 | 20.2 | EV/EBITDA | 18.3 | 13.5 | 13.7 | 12.2 |
| 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\$1,501m | Imputation (%) | 100 | 100 | 100 | 100 | Cash div yld (%) | 0.0 | 0.0 | 0.0 | 0.0 |
| Avg daily turnover | 35.2k (NZ\$398k) | *Based on normalised profits | | | | | Gross div yld (%) | 0.0 | 0.0 | 0.0 | 0.0 |

Key issues to consider at RBD's FY20 result

- **Sales strong but margin a question** — FY20 store sales increased +2.1% on the prior year period (+8.4% when accounting for the acquisition of its California business). Although RBD will be benefitting from operating leverage, we expect to see group margin contraction driven by 1) mix changes with lower margin brands such as Pizza Hut Hawaii outperforming, and 2) an increase in cost to serve as a result of COVID-19 restrictions.
- **Store roll out plans** — RBD has a clear growth mandate with 1) further KFC store roll out/acquisitions in New Zealand and Australia, 2) Taco Bell New Zealand/Australia store roll out, and 3) the Taco Bell Hawaii refurbishment programme. An update on growth plans and time frames will be of interest, with COVID-19 related disruption to consents, construction, and building material supply chains all likely creating delays.
- **California performance** — The California acquisition settled in September 2020 (four months inclusion). Commentary suggests performance has been ahead of pre-purchase expectations.
- **Customer response through various restriction levels** — Despite in-store dining restrictions, RBD has clearly benefitted from disruption to the food service sector and the rise in in-home consumption. How RBD cycles these periods of unique trading conditions will be of interest.

Figure 1. FY20 result expectations (NZ\$m)

| | FY19* | FY20E | % change | Consensus |
|-----------------|-------|-------|----------|-----------|
| Revenue | 826.4 | 921.3 | 11% | 891.7 |
| EBITDA | 89.7 | 138.5 | 54% | 104.3 |
| EBIT | 56.2 | 77.6 | 38% | 65.1 |
| Normalised NPAT | 42.2 | 44.6 | 6% | 40.6 |
| EPS (cps) | 34.1 | 36.1 | 6% | 32.7 |
| DPS (cps) | - | - | n/a | - |

Source: Forsyth Barr analysis, *12 months to February 2019

Restaurant Brands NZ Ltd (RBD)

Priced as at 22 Feb 2021 (NZ\$) **12.07**

| | |
|--------------------------------------|--------------|
| 12-month target price (NZ\$)* | 12.75 |
| Expected share price return | 5.6% |
| Net dividend yield | 0.0% |
| Estimated 12-month return | 5.6% |

| | |
|-----------------------------|-------|
| 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 | 2,067 |
| (Net debt)/cash | (241) |
| Less: Capitalised operating leases | 0 |
| Value of equity | 1,826 |

| 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 |

| 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 |

| 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) |

| 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

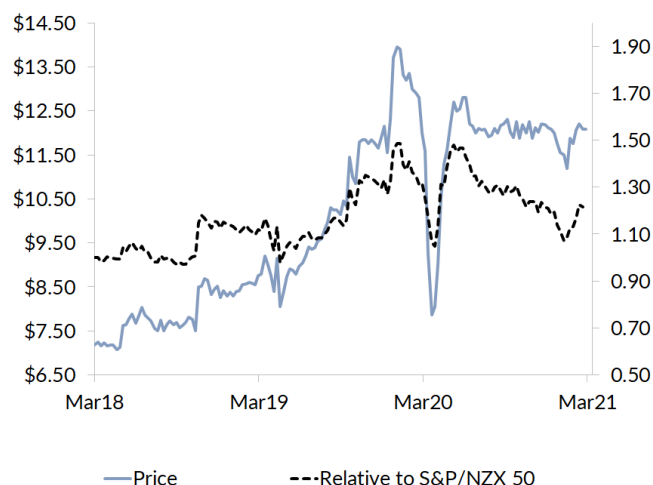
| Valuation Ratios | 2018A | 2019A | 2020E | 2021E | 2022E |
|--------------------------|--------------|--------------|--------------|--------------|--------------|
| EV/EBITDA (x) | 16.0 | 18.3 | 11.8 | 10.6 | 9.4 |
| EV/EBIT (x) | 24.8 | 29.3 | 21.0 | 19.3 | 16.3 |
| PE (x) | 36.4 | 35.3 | 33.4 | 30.7 | 25.5 |
| Price/NTA (x) | n/a | n/a | n/a | n/a | n/a |
| Free cash flow yield (%) | 2.8 | 2.5 | 1.2 | 0.8 | -0.1 |
| 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 | 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 |

| 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 |

| 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 |

Figure 2. Price performance


Source: Forsyth Barr analysis

Figure 3. Substantial shareholders

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

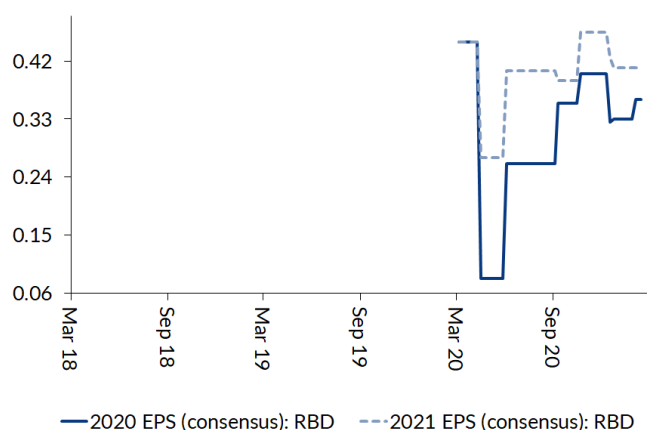
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

Figure 4. International valuation comparisons

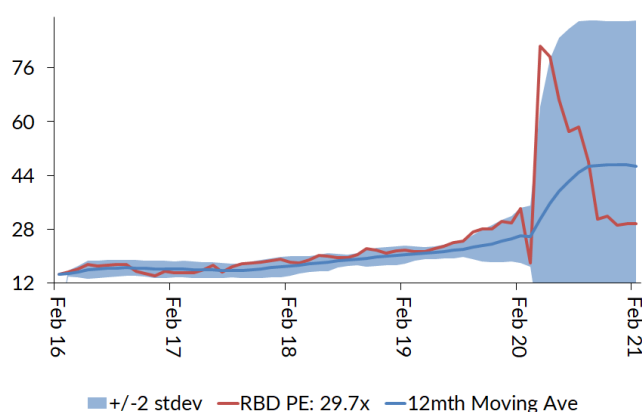
| Company | Code | Price | Mkt Cap | PE | | EV/EBITDA | | EV/EBIT | | Cash Yld | |
|--|---------|------------|-------------|---------------|-------|-----------|-------|---------|-------|----------|-------|
| (metrics re-weighted to reflect RBD's balance date - December) | | | | 2020E | 2021E | 2020E | 2021E | 2020E | 2021E | 2021E | |
| Restaurant Brands NZ | RBD NZ | NZ\$12.07 | NZ\$1,501 | 33.4x | 30.7x | 11.8x | 10.6x | 21.0x | 19.3x | 0.0% | |
| COLLINS FOODS | CKF AT | A\$10.00 | A\$1,166 | 28.2x | 21.6x | 10.5x | 10.1x | 18.7x | 16.8x | 2.5% | |
| YUM! BRANDS INC | YUM US | US\$104.75 | US\$31,604 | 35.0x | 26.3x | 25.2x | 19.3x | 27.7x | 20.7x | 1.9% | |
| DOMINO'S PIZZA ENTERPRISES L | DMP AT | A\$110.85 | A\$9,591 | >50x | 48.2x | 28.7x | 24.3x | 43.4x | 34.3x | 1.5% | |
| DOMINO'S PIZZA INC | DPZ US | US\$377.00 | US\$14,856 | 30.3x | 29.2x | 23.9x | 22.2x | 26.0x | 23.9x | 0.9% | |
| WENDY'S CO/THE | WEN US | US\$20.61 | US\$4,618 | 36.1x | 28.9x | 19.1x | 17.7x | 28.0x | 24.7x | 1.7% | |
| MCDONALD'S CORP | MCD US | US\$214.07 | US\$159,506 | 33.9x | 25.5x | 16.6x | 18.3x | 27.9x | 22.0x | 2.5% | |
| STARBUCKS CORP | SBUX US | US\$104.08 | US\$122,545 | >50x | 35.0x | 28.8x | 22.5x | >75x | 28.7x | 1.9% | |
| Compco Average: | | | | 32.7x | 30.7x | 21.8x | 19.2x | 28.6x | 24.5x | 1.9% | |
| EV = Current Market Cap + Actual Net Debt | | | | RBD Relative: | 2% | 0% | -46% | -45% | -27% | -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 5. Consensus EPS momentum (NZ\$)


Source: Forsyth Barr analysis

Figure 6. One year forward PE (x)


Source: Forsyth Barr analysis

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