

Restaurant Brands NZ

FY20 Result — Delivered as Ordered

GUY HOOPER

guy.hooper@forsythbarr.co.nz
+64 4 495 5255

ASHTON OLDS CFA

ashton.olds@forsythbarr.co.nz
+64 9 368 0127

NEUTRAL

Restaurant Brands' (RBD) FY20 result was broadly in line with expectations, highlighting the resilience of the business as it navigated COVID-19 disruption. Comparative performance is difficult to delineate given a change in balance date, the acquisition of 69 restaurants in California, and operational restrictions. RBD delivered robust same store sales, complimented by a flat margin profile. RBD has a robust pipeline of growth opportunities and a reasonable track record of execution. Trading on a 25x 12 month forward PE, we believe RBD is fairly priced at current levels and retain our NEUTRAL rating.

NZX Code	RBD	Financials: Dec/	20A	21E	22E	23E	Valuation (x)	20A	21E	22E	23E
Share price	NZ\$12.01	NPAT* (NZ\$m)	46.7	58.0	63.8	68.1	PE	31.8	25.6	23.3	21.8
Target price	NZ\$13.15	EPS* (NZc)	37.8	46.9	51.6	55.0	EV/EBIT	28.5	21.6	19.6	18.5
Risk rating	Medium	EPS growth* (%)	24.1	24.0	10.0	6.7	EV/EBITDA	15.7	12.9	11.9	11.1
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\$1,494m	Imputation (%)	100	100	100	100	Cash div yld (%)	0.0	0.0	0.0	0.0
Avg daily turnover	35.0k (NZ\$396k)	*Based on normalised profits					Gross div yld (%)	0.0	0.0	0.0	0.0

What's changed?

- **Earnings:** Our FY21E NPAT forecast increases +18% to NZ\$57m, reflecting stronger than expected California performance and continued sales momentum across the portfolio. FY22E and FY23E NPAT lifts +9% and +6% respectively as we pull forward medium-term growth assumptions.
- **Target price:** We lift our target price +40cps to NZ\$13.15 with earnings revisions offsetting cost of capital changes.

FY20 result takeouts

- **California off to a hot start** — The first four months of trading for RBD's new Californian business has been encouraging, with strong sales driving operating earnings well ahead of management's expectations. RBD intends to pursue further growth in California by building new stores (two currently underway) and through acquisitions of smaller franchises.
- **Balance sheet flexing but healthy** — Net debt is elevated post acquisition (FY20 net debt/EBITDA 1.9x). RBD has NZ\$370m of available facilities, but strong cashflow is likely to help fund short-term expansion with net debt expected to track towards more normal levels, c. 1.2x net debt / EBITDA.
- **Wage subsidies** — RBD's FY20 result was supported by NZ\$22m received under the New Zealand Wage Subsidy Scheme. RBD also recognised an NZ\$11.3m PPP relief loan on its balance sheet related to its Hawaiian operations, and is currently awaiting potential loan forgiveness.

Trading momentum continued in recent weeks; Strong pipeline of growth opportunities

RBD did not provide any formal guidance, with an update expected at its ASM in May. Recent trading commentary suggests sales momentum has continued but management remain cautious given ongoing disruption. RBD has a strong pipeline of growth opportunities, targeting store roll-out across all markets and further bolt-on acquisitions. In the near-term, RBD is accelerating its New Zealand/Australia Taco Bell roll-out with 10+ stores expected in CY21, and we believe the company is in initial discussions with potential acquisition targets in California, in addition to a pipeline of store refurbishments in Hawaii.

Restaurant Brands NZ Ltd (RBD)

Priced as at 25 Feb 2021 (NZ\$) **12.01**

12-month target price (NZ\$)*	13.15
Expected share price return	9.5%
Net dividend yield	0.0%
Estimated 12-month return	9.5%

Key WACC assumptions

Risk free rate	2.30%
Equity beta	1.02
WACC	6.8%
Terminal growth	1.5%

Spot valuations (NZ\$)

1. DCF	12.50
2. Sum of the parts	12.00
3. n/a	n/a

DCF valuation summary (NZ\$m)

Total firm value	2,096
(Net debt)/cash	(230)
Less: Capitalised operating leases	0
Value of equity	1,866

Profit and Loss Account (NZ\$m)	2019A	2020A	2021E	2022E	2023E
Sales revenue	733.7	924.7	1,069.4	1,117.9	1,171.4
Normalised EBITDA	114.3	136.7	171.2	182.9	195.0
Depreciation and amortisation	(49.9)	(61.5)	(68.7)	(72.1)	(77.9)
Normalised EBIT	64.4	75.2	102.5	110.8	117.2
Net interest	(21.5)	(23.5)	(25.4)	(25.6)	(27.0)
Associate income	0	0	0	0	0
Tax	(12.8)	(14.0)	(24.8)	(26.0)	(25.8)
Minority interests	0	0	0	0	0
Normalised NPAT	45.7	46.7	58.0	63.8	68.1
Abnormals/other	0	0	0	0	0
Reported NPAT	30.1	30.9	58.0	63.8	68.1
Normalised EPS (cps)	30.5	37.8	46.9	51.6	55.0
DPS (cps)	0	0	0	0	0

Growth Rates	2019A	2020A	2021E	2022E	2023E
Revenue (%)	-4.3	26.0	15.6	4.5	4.8
EBITDA (%)	16.7	19.6	25.3	6.8	6.6
EBIT (%)	1.9	16.8	36.4	8.0	5.8
Normalised NPAT (%)	12.0	2.2	24.0	10.0	6.7
Normalised EPS (%)	-8.2	24.1	24.0	10.0	6.7
Ordinary DPS (%)	-100.0	n/a	n/a	n/a	n/a

Cash Flow (NZ\$m)	2019A	2020A	2021E	2022E	2023E
EBITDA	114.3	136.7	171.2	182.9	195.0
Working capital change	10.4	1.3	(35.6)	(35.5)	(76.0)
Interest & tax paid	(37.1)	(48.2)	(50.3)	(51.7)	(52.8)
Other	0	22.0	0	0	0
Operating cash flow	87.6	111.9	85.4	95.8	66.3
Capital expenditure	(54.8)	(54.3)	(69.6)	(91.1)	(100.0)
(Acquisitions)/divestments	4.8	(115.6)	0.4	0.4	0.4
Other	(15.9)	(21.0)	(2.5)	(2.6)	(2.7)
Funding available/(required)	21.8	(79.1)	13.7	2.4	(36.1)
Dividends paid	0	0	0	0	0
Equity raised/(returned)	0	0	0	0	0
(Increase)/decrease in net debt	(7.8)	(1,325.7)	13.7	2.4	(36.1)

Balance Sheet (NZ\$m)	2019A	2020A	2021E	2022E	2023E
Working capital	(32.0)	(72.8)	(34.7)	(36.2)	(37.9)
Fixed assets	175.8	228.7	348.0	395.2	445.5
Intangibles	249.1	321.9	321.9	321.9	321.9
Right of use asset	0	508.2	398.8	394.9	391.1
Other assets	41.9	49.8	43.2	43.2	43.2
Total funds employed	434.8	1,035.7	1,077.2	1,119.0	1,163.7
Net debt/(cash)	119.4	200.7	179.0	176.6	212.7
Lease liability	0	587.0	518.9	538.1	557.1
Other liabilities	33.3	17.5	17.5	17.5	17.5
Shareholder's funds	208.0	230.5	361.9	386.8	376.4
Minority interests	0	0	0	0	0
Total funding sources	360.6	1,035.7	1,077.2	1,119.0	1,163.7

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

Valuation Ratios	2019A	2020A	2021E	2022E	2023E
EV/EBITDA (x)	14.3	12.1	9.8	9.1	8.6
EV/EBIT (x)	25.4	22.0	16.4	15.1	14.3
PE (x)	39.4	31.8	25.6	23.3	21.8
Price/NTA (x)	n/a	n/a	n/a	n/a	n/a
Free cash flow yield (%)	2.2	3.9	1.1	0.3	-2.3
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Gross dividend yield (%)	0.0	0.0	0.0	0.0	0.0

Capital Structure	2019A	2020A	2021E	2022E	2023E
Interest cover EBIT (x)	3.0	3.2	4.0	4.3	4.3
Interest cover EBITDA (x)	5.3	5.8	6.7	7.1	7.2
Net debt/ND+E (%)	43.6	56.5	53.7	53.3	57.9
Net debt/EBITDA (x)	1.0	1.5	1.0	1.0	1.1

Key Ratios	2019A	2020A	2021E	2022E	2023E
Return on assets (%)	7.3	6.4	8.7	9.1	9.2
Return on equity (%)	19.5	20.0	37.5	41.3	44.0
Return on funds employed (%)	16.4	19.1	22.6	25.5	26.2
EBITDA margin (%)	15.6	14.8	16.0	16.4	16.6
EBIT margin (%)	8.8	8.1	9.6	9.9	10.0
Capex to sales (%)	7.5	5.9	6.5	8.2	8.5
Capex to depreciation (%)	115	92	106	132	133
Imputation (%)	100	100	100	100	100
Pay-out ratio (%)	0	0	0	0	0

Operating Performance	2019A	2020A	2021E	2022E	2023E
Store numbers					
New Zealand	148	152	154	158	163
Australia	64	70	75	81	87
USA	74	141	142	146	150
Total	286	363	371	385	400

Divisional EBITDA (NZ\$m)	2019A	2020A	2021E	2022E	2023E
New Zealand	78.9	54.8	85.9	87.0	89.3
Australia	29.6	29.4	33.3	35.6	41.3
USA	26.4	42.1	50.6	57.5	60.5
Total store EBITDA	134.9	126.3	169.8	180.1	191.1

FY20 result summary

RBD's FY20 result was broadly in line with our expectations, albeit with some mix differences, as the California business posted impressive growth. RBD reported underlying NPAT of NZ\$46.7m, up 2% on the prior comparable 12 month period and +5% ahead of our expectations.

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

	FY19*	FY20	% chg	Comments
Store sales	833.8	892.4	7.0%	Uplift reflects the four month contribution from California (NZ\$51.9m)
Other income	33.2	32.4	-2.6%	
Total revenue	867.1	924.7	6.7%	4Q20 SSS growth: NZ+9%, Aus +4%, US +6%
COGS	(694.8)	(761.7)	9.6%	Increased cost to serve due to COVID-19 health and safety precautions
Gross profit	172.3	163.0	-5.4%	Gross margin of 17.6% versus pcp 19.9%
Operating expenses	(96.2)	(87.8)	-8.7%	Inclusion of California and higher staff incentives lifted opex, pre-wage subsidy (NZ\$22m)
Store EBITDA	137.1	147.3	7.4%	EBITDA margin broadly flat at c.16%
EBIT	76.1	75.2	-1.2%	
Net interest	(25.4)	(30.2)	19.1%	
Profit before tax	50.7	45.0	-11.3%	
Tax	(15.1)	(14.1)	-6.8%	
Reported NPAT	35.6	30.9	-13.2%	
Normalised NPAT	45.7	46.7	2.2%	Adjustments include IFRS-16 and non-trading expenses
Normalised EPS	36.63	37.43	2.2%	
DPS	-	-	n/a	No distributions as RBD pursues growth opportunities
Net Debt	119	201	68.9%	Net debt/EBITDA 1.9x (pcp: 1.2x)

Source: RBD, Forsyth Barr analysis * pro-forma 12-months to December 2019

Earnings changes and investment view

We lift our near-term earnings growth with more limited changes beyond FY23E as we pull forward some of our growth assumptions. Our FY21E NPAT forecast lifts +18% to NZ\$57m. RBD's brand portfolio is performing strongly in the current environment, and is well leveraged to increased at home consumption. Lifts to KFC New Zealand and California are key drivers of the uplift. FY22E and FY23E NPAT forecasts lift +9% and +6% respectively as we pull forward store expansion assumptions.

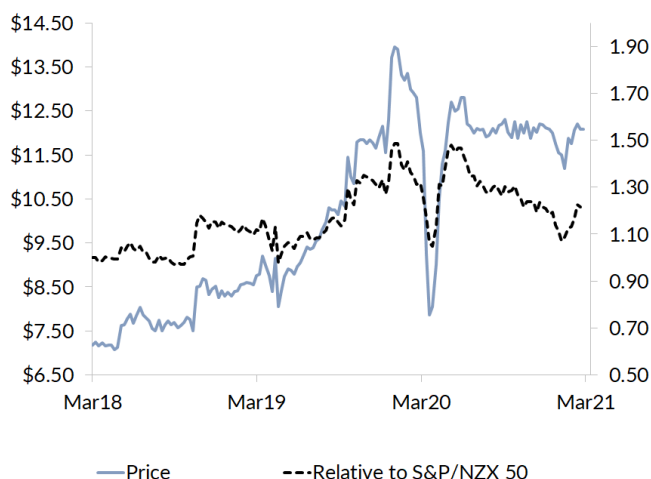
Figure 2. Earnings changes (NZ\$m)

	old	FY21E new	% chg	old	FY22E new	% chg	old	FY23E new	% chg
Revenue	1,050.8	1,069.4	2%	1,103.0	1,117.9	1%	1,150.5	1,171.3	2%
Store EBITDA	150.7	169.8	13%	167.5	180.1	8%	169.5	191.1	13%
Total EBITDA	154.0	171.2	11%	171.9	182.9	6%	186.6	195.0	4%
NPAT	48.6	57.3	18%	58.4	63.6	9%	64.2	67.9	6%
EPS (cps)	39.1	46.0	18%	47.0	51.2	9%	51.6	54.6	6%
DPS (cps)	-	-	-	-	-	-	-	-	-

Source: Forsyth Barr analysis

Our target price increases +40cps to NZ\$13.15; NEUTRAL

We lift our target price +40cps to NZ\$13.15 following earnings revisions and partially offset by changes to our cost of capital assumptions. Our WACC estimate has increased from 6.50% to 6.85% following changes to our risk free rate (from 1.3% to 2.3%) and market risk premium (from 6.0% to 5.5%), consistent with our strategy report, *Still a One Way Bet? – Updated WACC Assumptions*, published 12 February 2021.

Figure 3. Price performance


Source: Forsyth Barr analysis

Figure 4. Substantial shareholders

Shareholder	Latest Holding
Global Valar S.L.	75.0%

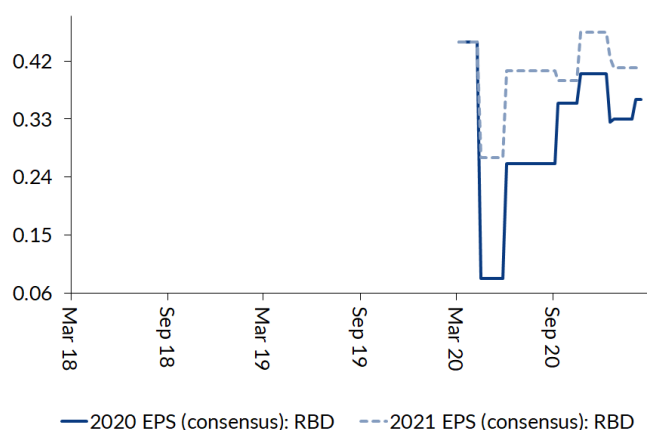
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

Figure 5. International valuation comparisons

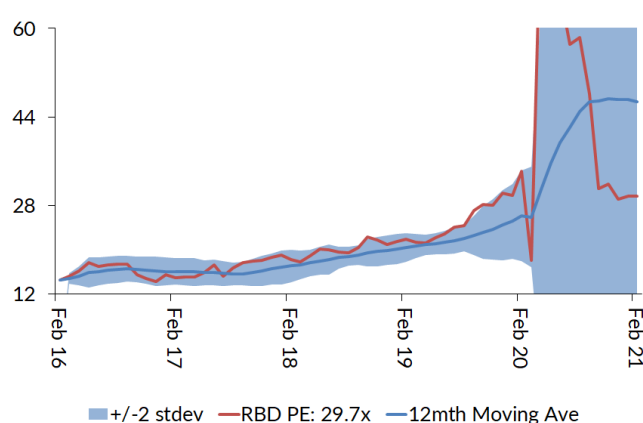
Company	Code	Price	Mkt Cap (m)	PE 2021E 2022E	EV/EBITDA 2021E 2022E	EV/EBIT 2021E 2022E	Cash Yld 2022E
(metrics re-weighted to reflect RBD's balance date - December)							
Restaurant Brands NZ	RBD NZ	NZ\$12.01	NZ\$1,494	25.6x 23.3x	9.9x 9.3x	16.5x 15.3x	0.0%
COLLINS FOODS	CKF AT	A\$9.80	A\$1,142	21.1x 18.5x	10.0x 9.4x	16.6x 15.3x	2.9%
YUM! BRANDS INC	YUM US	US\$104.22	US\$31,272	26.2x 22.9x	19.6x 17.9x	21.0x 18.9x	2.1%
DOMINO'S PIZZA ENTERPRISES L	DMP AT	A\$95.67	A\$8,278	41.0x 35.3x	21.0x 18.6x	29.5x 25.5x	2.0%
DOMINO'S PIZZA INC	DPZ US	US\$364.06	US\$14,344	29.2x 28.2x	23.2x 21.5x	25.3x 23.2x	1.0%
WENDY'S CO/THE	WEN US	US\$20.17	US\$4,520	35.3x 28.3x	18.8x 17.5x	27.6x 24.4x	1.8%
MCDONALD'S CORP	MCD US	US\$211.40	US\$157,516	25.1x 23.0x	18.1x 16.9x	21.8x 20.0x	2.6%
STARBUCKS CORP	SBUX US	US\$100.25	US\$118,024	33.7x 28.2x	21.7x 18.8x	27.8x 23.8x	2.1%
Compco Average:				30.2x 26.3x	18.9x 17.2x	24.2x 21.6x	2.1%
RBD Relative:				-15% -12%	-48% -46%	-32% -29%	-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 6. Consensus EPS momentum (NZ\$)


Source: Forsyth Barr analysis

Figure 7. One year forward PE (x)


Source: Forsyth Barr analysis

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