



Maintain overweight due to long term store expansion plans, leading brand portfolio and strong track record in GCC

Due to the current challenging backdrop, we revise down our revenue, margins and near term store opening assumptions for Americana, and cut 2024/25/26E earnings by 43.5/10.5/8.0% to USD 216/414/522mn, respectively. Americana's Q4-23 earnings of USD 32.8mn, down 48.3% Y/Y, negatively surprised the market; topline declined by 15.0% Y/Y (LFL sales dropped by 21.8% Y/Y), however, the company was able to post robust gross margins of 52.4% (+130bps Y/Y), due to reduction in cost of inventory (down 3.4ppts Y/Y) and stable staff costs. Despite the challenges, we anticipate a gradual recovery in the performance as (1) average daily sales have started recovering from there lows made in Nov-23, (2) long term targets for store openings remain intact, (3) company's brand portfolio has a multi decade growth track record in GCC, and (4) stock is down 27.3% from recent highs, which more than compensates recent adverse developments. We maintain our 'Overweight' rating with revising down our target price to SAR 4.1/share, upside of 21.4% from last close.

LFL sales dropped 21.8% Y/Y; Q4-23 results came in sizably below our and consensus forecasts: Americana posted net income of USD 32.8mn in Q4-23 down 48.3% Y/Y (lower by 60% Q/Q). The result was sizably lower than our and consensus estimate of USD 59.5mn and USD 69.9mn, respectively. The company announced a dividend of USD 130mn for FY23; and a one time dividend of USD 50mn, which reflects the robust balance sheet position of the company (2024E net debt to EBITDA -0.5x). Revenues dropped by 15.0% Y/Y (-21.3% sequentially) in Q4-23, as LFL sales dropped 21.8% Y/Y owed to the brand boycotts associated with the ongoing conflict in middle east. On a LFL basis, KFC, Hardees, Pizza hut and Krispy Kreme, saw a 22.6%, 22.6%, 22.4% and 21.7% Y/Y decline in sales in Q4-23, respectively. That said, due to the 17.3% Y/Y reduction in cost of sales, owed to 3.4ppts decline in inventory costs and controlled staff costs, the company was able to expand gross margins by 130bps Y/Y to 52.4%. Operating income for Q4-23 contracted by 41.3% Y/Y (-53.1% Q/Q) to USD 40.9mn, thanks to 355bps reduction in operating margins. Note that total staff costs for 2023 dropped by 1.3% Y/Y, reflecting the 172 person reduction in head count of above-store employees to 4,148. Overall, Q4-23 net income dropped by 48.3% Y/Y (60.0% Q/Q) to USD 32.8mn. In all, the company expanded its net store count by 97 in Q4-23, with focus on recently launched Pizza hut (+20 stores Q/Q) and flagship KFC (+42 stores Q/Q). Power brands contributed 89.3% of total sales in Q4-23 compared to 88.8% in SPLY.

Incorporating the impact of boycott we cut our earning estimates by 43.5/10.5/8.0% for 2024/25/26 respectively: Due to the current challenging backdrop, we revise down our revenue, margins and near term store opening assumptions for Americana. Note that revenue per branch for Americana declined by 25.6% Y/Y (down 25.7% Q/Q) to USD 0.21mn in Q4-23 (USD 0.28mn in Q4-22), we expect per branch revenue to average around USD 0.90mn in 2024 (prev estimate USD 1.11mn) and improve to USD 0.99mn in 2025 (vs prev estimate of USD 1.16mn). We lower our store opening estimate by 44 stores to 227 in 2024, we believe the company would focus on less affected regions in GCC and delay expansions in most effected countries. Overall, the reduction in revenue per branch and total stores has resulted in a 20.6/16.4/12.5% cut in our 2024/25/26 revenue projections. Despite a reduction in staff costs and commodity prices, we see 23bps contraction in gross margins in 2024, as new stores will take time to ramp up. Overall, we cut 2024/25/26E earnings by 43.5/10.5/8.0% to USD 216/414/522mn, respectively.

Recommendation	Overweight
Target Price (SAR)	4.1
Upside / (Downside)*	21.4%

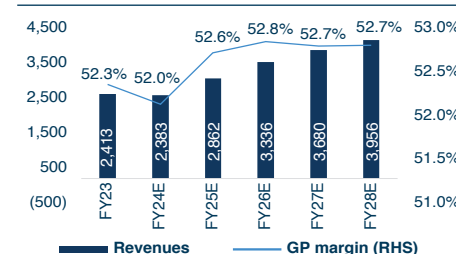
Source: Tadawul *prices as of 18th February 2024

Key Financials

USD mn (unless specified)	FY23	FY24E	FY25E	FY26E
Revenue	2,413	2,383	2,862	3,336
Growth %	1.5%	-1.2%	20.1%	16.5%
Gross Profit	1,262	1,241	1,507	1,760
Net Profit	259	216	414	522
Growth %	0.1%	-16.7%	91.5%	26.0%
EPS (cents)	3.08	2.57	4.92	6.19

Source: Company reports, Aljazira Capital Research

Fig 1: Revenue (USD mn) and GP Margin



Source: Aljazira Capital, Company reports

Key Ratios

	FY23	FY24E	FY25E	FY26E
GP Margin	52.3%	52.0%	52.6%	52.8%
Net Margin	10.8%	9.1%	14.5%	15.6%
P/E (x)	29.1	34.9	18.2	14.5
P/B (x)	17.2	15.9	11.2	8.3
EV/EBITDA (x)	14.4	14.5	15.0	9.6
Div Yield (%)	2.4%	1.5%	2.9%	3.7%

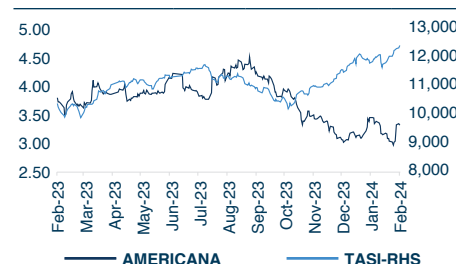
Source: Company reports, Aljazira Capital Research

Key Market Data

Market Cap (SAR bn)	28.2
YTD%	-12.99%
52 weeks (High)/(Low)	4.65/2.93
Share Outstanding (mn)	8,423

Source: Company reports, Aljazira Capital Research

Price Performance

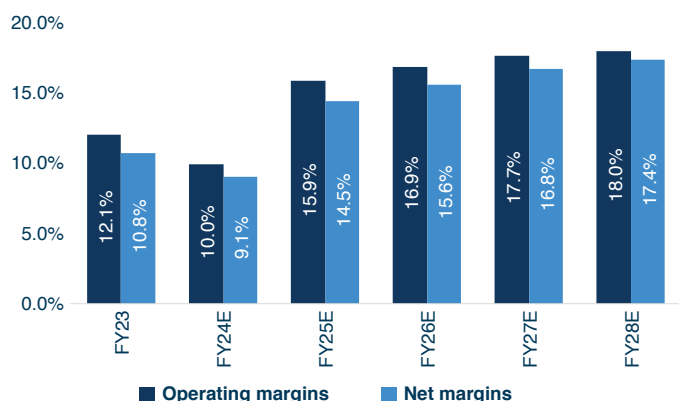


Source: Tadawul, Aljazira Capital Research

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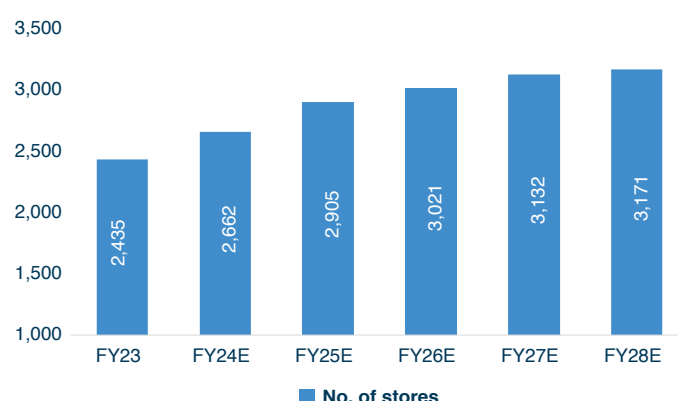


Fig 2: Operating & Net margins to recover in 2025



Source: Company reports, AJC Research

Fig 3: Store expansions will continue



Source: Company reports, AJC research

Medium and long term prospects are encouraging: Despite the challenges we maintain overweight for the company as (1) average daily sales have already started recovering from there lows made in Nov-23, (2) long term targets for store openings remain intact and are supported by favourable demographics of young population, one of the highest per capita income and increasing expat population, (3) company's brand portfolio, which constitutes some of the strongest global brands (KFC, Pizza hut, Hardees etc) has a multi decade growth track record in GCC, and has grown despite similar challenges in the past, and (4) stock is down 27.3% from recent high and currently trades at attractive 2025/26E PE of 18.2/14.5x, which more than compensates the recent negative developments. We also see recent payout as a testament to companies robust balance sheet position, as reflected by Net-debt to EBITDA of -0.5x. The company is likely to continue minimum 50% dividend payout policy shared by the management.

Investment thesis: Where we acknowledge near term pressures on earnings, we see company moving back to normalized LFL sales by end of 2024, given the long history of successful operations in middle east. We reiterate that early signs of pick up in average daily sales are already showing. Americana's expansion strategy is the backbone of the company's growth story. The expansion plan is supported by the company's current market position, financial ability to invest in new stores and industry growth potential. The company has a well-established operating model, which it can replicate in new stores. Thus, Americana has potential to record robust growth in topline as well as bottom line over the next few years. We expect the company to report net income of USD 216mn in 2024, down 16.7% Y/Y, as LFL sales are expected to remain under pressure in the short run, however, we forecast bottomline to grow by 91.5% Y/Y in 2025 to USD 414mn, as operations normalize and expansions ramp up.

Valuation: We have assigned equal weight to DCF and relative valuation (using P/E) to value the stock. Trading at 2025E Fwd PE of 18.2x, we maintain our 'Overweight' rating with a updated target price of **SAR 4.1/share**, implying an upside of **21.4%** from last close.

Blended Valuation

Valuation type	Fair Value	Weight	Weighted Fair Value
DCF	4.15	50%	2.08
PE 2025	4.06	50%	2.03
Target Price (SAR/share)			4.10
Current Price (SAR/share)			3.38
Expected Capital Gain			21.4%

Source: AJC research



Key Financial Table

Amount in USD mn, unless otherwise specified	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E	FY27E	FY28E
Income statement										
Revenue	1,890	1,578	2,052	2,379	2,413	2,383	2,862	3,336	3,680	3,956
Y/Y		-16.5%	30.0%	15.9%	1.5%	-1.2%	20.1%	16.5%	10.3%	7.5%
Cost of Revenue	(903)	(774)	(970)	(1,148)	(1,152)	(1,143)	(1,356)	(1,576)	(1,740)	(1,870)
Gross Profit	987	804	1,081	1,230	1,262	1,241	1,507	1,760	1,940	2,086
Y/Y		-18.6%	34.5%	13.7%	2.6%	-1.7%	21.4%	16.8%	10.2%	7.5%
Sales and marketing expenses	(646)	(579)	(680)	(739)	(777)	(820)	(849)	(956)	(1,021)	(1,084)
General & Administrative Expense	(165)	(158)	(177)	(193)	(192)	(200)	(218)	(257)	(283)	(305)
Operating profit	189	115	243	315	291	237	456	564	652	713
Y/Y		-39.1%	111.2%	29.7%	-7.6%	-18.5%	92.2%	23.6%	15.6%	9.5%
Finance income	1	1	2	4	15	19	13	23	37	54
Finance costs	(28)	(30)	(23)	(25)	(31)	(29)	(33)	(37)	(39)	(41)
Profit before zakat	161	86	222	272	275	228	436	550	650	726
Zakat	(9)	(6)	(16)	(9)	(13)	(9)	(17)	(22)	(26)	(29)
Net profit for the year	152	80	206	263	262	219	419	528	624	697
Non – controlling interests	(1)	1	(2)	(4)	(3)	(2)	(5)	(6)	(7)	(8)
Net income	151	81	204	259	259	216	414	522	617	690
Y/Y		-46.5%	152.3%	27.1%	0.1%	-16.7%	91.5%	26.0%	18.3%	11.8%
EPS (Cents)	1.79	0.96	2.42	3.08	3.08	2.57	4.92	6.19	7.33	8.19
Balance sheet										
Assets										
Cash and cash equivalents and Short term Investment	170	196	174	305	384	263	451	746	1,072	1,430
Trade receivables	90	96	94	104	117	99	118	136	150	160
Inventories	94	97	107	174	156	122	146	171	188	201
Total current assets	355	390	391	585	656	484	714	1,052	1,410	1,791
Property Plant and equipment	244	208	222	270	327	380	439	465	493	502
Right of use assets	460	372	362	418	499	592	695	785	817	881
Intangibles	33	38	43	50	67	74	81	84	88	89
Non-current assets	745	626	697	755	901	1,054	1,222	1,341	1,405	1,478
Total assets	1,101	1,016	1,088	1,341	1,557	1,538	1,937	2,394	2,815	3,269
Liabilities										
Accounts payable - trade	314	322	352	401	434	402	474	551	613	664
Short term lease liabilities	149	140	136	160	166	250	291	308	258	276
Other	38	53	70	66	53	241	279	342	402	452
Total current liabilities	515	539	566	646	658	898	1,048	1,206	1,278	1,395
Long term lease liabilities	319	264	248	275	341	340	385	436	502	535
Other	132	127	134	124	107	125	136	147	158	167
Total liabilities	965	930	948	1,045	1,105	1,363	1,569	1,789	1,938	2,097
Shareholders' Equity										
Share capital	-	-	-	168	168	168	168	168	168	168
Retained earnings	-	-	-	139	293	329	526	766	1,043	1,343
Total shareholders' equity	119	77	129	285	439	476	672	913	1,190	1,489
Minority interest	17	10	11	11	12	14	19	25	32	39
Total liabilities and shareholders' equity	1,101	1,016	1,088	1,341	1,557	1,853	2,260	2,727	3,159	3,625
Cashflow statement										
Operating activities	511	284	469	454	540	548	810	962	1,071	1,144
Investing activities	(71)	(45)	(162)	(60)	(436)	(131)	(158)	(122)	(116)	(83)
Financing activities	(377)	(223)	(308)	(287)	(308)	(238)	(463)	(546)	(628)	(703)
Ending cash balance	156	172	167	286	83	263	451	746	1,072	1,430
Key fundamental ratios										
Liquidity ratios										
Current ratio (x)	0.7	0.7	0.7	0.9	1.0	0.5	0.7	0.9	1.1	1.3
Liabilities to Assets	87.7%	91.5%	87.2%	77.9%	71.0%	88.6%	81.0%	74.8%	68.8%	64.1%
Profitability ratios										
GP Margin	52.2%	51.0%	52.7%	51.7%	52.3%	52.0%	52.6%	52.8%	52.7%	52.7%
Operating Margins	10.0%	7.3%	11.8%	13.3%	12.1%	10.0%	15.9%	16.9%	17.7%	18.0%
Net Margins	8.0%	5.1%	9.9%	10.9%	10.8%	9.1%	14.5%	15.6%	16.8%	17.4%
ROE	112.3%	92.1%	147.7%	88.9%	58.1%	44.6%	60.6%	56.3%	51.1%	45.6%
ROA	13.8%	7.8%	19.0%	19.6%	16.9%	14.2%	21.6%	22.0%	22.2%	21.3%
Leverage ratios										
Debt / equity (x)	0.1	0.3	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Valuation ratios										
P/E (x)	45.4	84.8	33.6	26.4	29.1	34.9	18.2	14.5	12.2	10.9
P/B (x)	57.8	88.9	53.3	24.1	17.2	15.9	11.2	8.3	6.3	5.1
EV/EBITDA (x)	15.5	19.7	15.2	13.1	14.1	15.2	9.9	8.0	6.9	6.1
DY	0.00	0.0%	0.0%	0.0%	2.4%	1.5%	2.9%	3.7%	4.5%	5.2%

Source: Company financials, AlJazira Capital research





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TERMINOLOGY

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3. **Neutral:** The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. **Suspension of rating or rating on hold (SR/RH):** This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

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