Americana Restaurants International PLC - Foreign Company

Investment Update

Absolute and LFL sales are still below pre-middle east crisis levels while opex pressures persist; we cut estimates and downgrade to "Neutral"

After recording double-digit decline in revenues for four consecutive quarters (Y/Y basis), Americana posted 14.1/16.2% Y/Y increase in topline in Q1-25/Q4-24, respectively. However, recent improvement in revenue metrices come off a low base; LFL sales are still below pre-crisis level and are likely to remain so in the medium term. Margins are robust at gross level because of lower commodity prices and other cost initiatives, but operating margins have contracted sizably compared to pre-crisis average due to higher depreciation and home delivery charges. We expect the 333bps Y/Y decline in operating margins seen in 2024, to be recouped gradually over the medium term. We expect restaurant additions to continue at a much slower pace than past guidance with focus on market's less effected by boycott. Healthy cash generation and debt free balance sheet should allow capex to be fully funded internally while maintaining healthy stream of dividends. Incorporating the impact of boycott we cut our 2025/2026/2027 earnings estimates by 53.6/53.4/53.6% to USD 192/243/286mn respectively. Trading at 2025/26E PE of 25.7/20.3x, we downgrade to "Neutral" rating with revised price target of SAR 2.45/share.

Americana posted underwhelming results in Q1-25, variation is mainly owed lower than expected sales, higher operating expenses and effective tax rate: Americana posted net income of USD 32.6mn in Q1-25 up 16.5% Y/Y (down 21.1% Q/Q). The result was sizably lower than our and consensus estimate of USD 52mn and USD 43.9mn, respectively. The deviation is mainly owed to lower than expected sales (due to stronger Ramadan effect), higher SG&A expenses and above expected effective tax rate. Revenues grew by 16.2% Y/Y (-2.6% sequentially) in Q1-25 (-2.7% deviation), driven by 174 branch additions and 13.9% Y/Y improvement in LFL sales, owed to the low base of the corresponding year. Gross profit improved by 19.1% Y/Y (-3.9% sequentially) to USD 303mn, while gross margins expanded by 132bps Y/Y to 52.8% due to commodity price decline, staff cost control, and addition of more local suppliers. Operating income for Q1-25 expanded by 33.7% Y/Y (-8.5% Q/Q) to USD 45.6mn, thanks to 104bps Y/Y expansion in operating margins to 7.9%. At net level earnings were affected by higher effective tax rate of 18.9% vs 12.6% in the same period last year. Overall, the company expanded its net store count by 40 Q/Q in Q1-25, with increase mainly attributable to Pizza hut acquisition in Oman (+41 stores Q/Q). Power brands contributed 94% of total sales in Q1-25 compared to 93% in same period last year. Management guided net 150-160 store openings in 2025 with focus on UAE, Saudi and Kuwait; 40 new stores are currently under construction. According to the company gross margins are likely to expand in 2025 on Y/Y basis, however the effective tax rate for 2025 is likely to stay at Q1-25 level.

Recent improvement in revenue metrices come off a low base; LFL sales are still below pre-crisis level and are likely to remain so in the medium term: After recording four consecutive quarters of Y/Y decline in revenues, Americana posted double digit revenue growth in Q1-25 and Q4-24, however this was mainly due to low base effect as corresponding periods were amongst the most effected by the post conflict boycott. Similarly, LFL sales grew by 13.9% Y/Y in Q1-25 (adjusted for Ramadan season), but were still 8.5% below pre-crisis levels seen in Q1-23. Despite the launch of loyalty program, new deals & offers, product innovation, acquisitions (acquired 46 branches of Pizza hut Oman in Jan-2025) and net addition of ~149 new restaurants (Q4-23 till Q1-25 excluding Pizza hut Oman), both absolute and per store revenues remain below pre-crises levels. We don't see normalization of consumer sentiment in the medium term, we expect LFL sales to improve Y/Y in 2025/26 but remain below pre-crisis levels. We estimate revenue to grow by 13.1% Y/Y in 2025 on the back of increase in LFL sales and 204 net additions in number of restaurants. We forecast topline to grow at a medium term CAGR of 10.6% over 2024-2028, driven by 5.0% CAGR in per restaurant sales and 5.3% CAGR in new restaurant.

Recommendation	Neutral
Target Price (SAR)	2.45
Upside / (Downside)*	11.2%

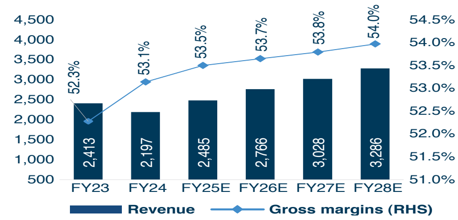
Source: Tadawul *prices as of 21st May 2025

Key Financials

in USD mn, (unless specified)	FY23	FY24	FY25E	FY26E
Revenue	2,413	2,197	2,485	2,766
Growth %	1.5%	-9.0%	13.1%	11.3%
Gross Profit	1,262	1,167	1,330	1,484
EBIT	291	192	261	323
Net Profit	259	159	192	243
Growth %	0.1%	-38.8%	21.0%	26.5%
EPS (cents)	3.08	1.88	2.28	2.89
DPS (cents)	2.10	1.50	1.70	1.80

Source: Company reports, AlJazira Capital Research

Fig 1: Revenue (USD mn) and GP Margin



Source: AlJazira Capital Research, Company reports

Key Ratios

	FY23	FY24	FY25E	FY26E
GP Margin	52.3%	53.1%	53.5%	53.7%
EBIT Margin	12.1%	8.7%	10.5%	11.7%
Net Margin	10.8%	7.2%	7.7%	8.8%
P/E (x)	27.8	32.3	25.7	20.3
P/B (x)	16.4	13.0	11.2	9.1
EV/EBITDA (x)	13.5	11.5	9.4	8.0
Dividend Yield	2.5%	2.6%	2.9%	3.0%

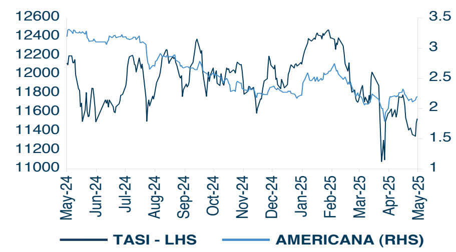
Source: Company reports, Aljazira Capital Research

Key Market Data

Market Cap (bn)	18.9
YTD%	-3.5%
52 weeks (High)/(Low)	3.36/1.78
Share Outstanding (mn)	8,423

Source: Company reports, Aljazira Capital Research

Price Performance



Source: Tadawul, Aljazira Capital Research

Senior Equity Analyst
Fahad Qureshi, CFA
+966 11 2256315
f.irfan@aljaziracapital.com.sa

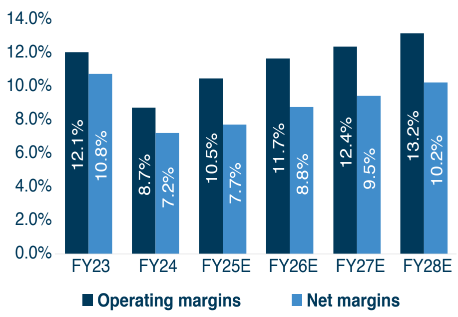
Margins are robust at gross level, but operating margins have shrunk sizably compared to pre-crisis average due to depreciation & delivery charges; expect gradual recovery: Despite the weakness in sales, gross margins remain robust, expanding by 86bps Y/Y in 2024 and 132bps Y/Y in Q1-25 (+185bps vs Q1-23). The improvement was driven by decline in commodity prices, optimization of raw material sourcing, diversification of supplier base, reduction in staff costs and addition of more local suppliers. However, margins have shrunk sizably at operating level as compared to pre-crisis average, down 333bps Y/Y in 2024 and down 327bps in Q1-25 as compared to Q1-23. The aforementioned pressure at operating levels is mainly owed to higher depreciation charge (driven by new restaurant additions) and increase in home delivery & transportation charges (thanks to changing channel mix). Note that revenue share of home delivery has increased from 41% in Q1-24 to 46% in Q1-25, while dine-in and takeaway have seen their shares decline from 19% and 24% in Q1-24 to 13% and 17% in Q1-25, respectively. We highlight that aggregators are discounting on delivery fees which are impacting margins. Management has guided gross margins to see some improvement in 2025, we see margins to improve by 36bps Y/Y in 2025. We expect the 333bps Y/Y decline in operating margins seen in 2024, to be recouped gradually over the medium term, +176/118/72bps Y/Y in 2025/26/27 respectively.

Branch expansions will continue but at a much slower pace than past guidance, with focus on markets less effected by boycott: Americana has added 195 restaurants since start of crisis in Q4-23. The company is expanding more in geographies that were less effected by the boycott, such as Saudi, UAE and Kuwait, where it added 64, 41 and 15 restaurants (Q4-23 till Q1-25), respectively. The company increased its foot print in Oman from 65 restaurants to 106 restaurants by acquiring the Pizza hut Oman branches. Egypt, Jordan and Lebanon on the other hand have seen net 5, 5 and 1 store closure since the start of conflict (Q4-23), respectively. Brand wise Pizza hut has seen the largest increase (19%) in branches, followed by Krispy crème at 8.5%. Management has guided 150-160 net branch additions (apart from 46 pizza hut branches) in 2025. We expect net 204/155 branch additions in 2025/2026 respectively.

Healthy cash generation and debt free balance sheet to allow capex to be fully funded internally while maintaining healthy stream of dividends: In terms of capex, we see intensity to increase in 2025 and 2026 to USD 169mn and US 140mn (6.8/5.1% in terms of sales respectively) from USD 98mn in 2024 (4.4% of sales), however with healthy operating cash flow of USD 530mn and USD 636mn in 2025E and 2026E we see outlay being entirely funded through internal cash generation. The operating cash flows along with a debt free balance sheet shall allow the company to make healthy payouts despite the restaurant expansions. Overall, we see Americana paying out DPS of US Cents 1.7/1.8 per share in 2025/2026, which corresponds to dividend yield of 2.9/3.0%, respectively.

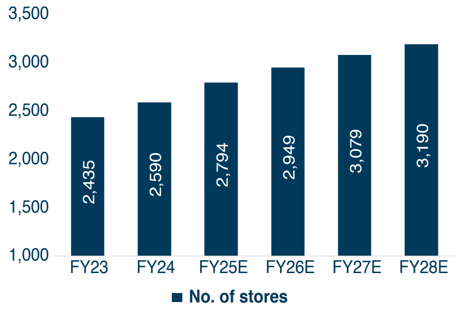
Incorporating the impact of boycott we cut our 2025/2026/2027 earnings estimates by 53.6/53.4/53.6% respectively: Due to the current challenging backdrop, we revise down our revenue, margins and earnings forecasts. We cut our 2025/2026/2027 revenue estimates by 13.2/17.1/17.7% to USD 2,485/2,766/3028mn, respectively. Our latest estimates for 2025/2026/2027 operating margins are down 5.4/5.2/5.3ppts to 10.5/11.7/12.4%, respectively. While we slash 2025/2026/2027 earnings estimates by 53.6/53.4/53.6% to USD 192/243/286mn respectively.

Fig 2: Margin trends



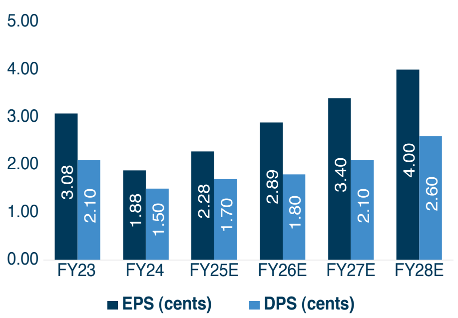
Source: Company reports, AlJazira capital Research

Fig 3: Store expansions to continue at slower pace



Source: Company reports, AlJazira capital Research

Fig 4:EPS and DPS trend



Source: Company reports, AlJazira capital Research

USD mn	Old estimates			New estimates		
	2025E	2026E	2027E	2025E	2026E	2027E
Revenue	2,862	3,336	3,680	2,485	2,766	3,028
Net profit	414	522	617	192	243	286
Gross margin	**52.6%**	**52.8%**	**52.7%**	**53.5%**	**53.7%**	**53.8%**
Operating margin	**15.9%**	**16.9%**	**17.7%**	**10.5%**	**11.7%**	**12.4%**
Net margin	**14.5%**	**15.6%**	**16.8%**	**7.7%**	**8.8%**	**9.5%**

Source: Company accounts, Aljazira Capital Research

AJC view and investment thesis: Americana posted underwhelming results in Q1-25, revenues grew by 16.2% Y/Y in Q1-25, driven by 174 branch additions and 13.9% Y/Y improvement in LFL sales, however the improvement in revenue metrices come off a low base; LFL sales are still below pre-crisis level and are likely to remain so in the medium term. Margins are robust at gross level because of lower commodity prices and other cost initiatives, but operating margins have contracted sizably compared to pre-crisis average due to higher depreciation and home delivery charges. We expect the 333bps Y/Y decline in operating margins seen in 2024, to be recouped gradually over the medium term. We expect restaurant additions to continue at a much slower pace than past guidance with focus on markets less effected by boycott. Incorporating the impact of boycott we cut our 2025/2026/2027 earnings estimates by 53.6/53.4/53.6% respectively.

Valuation: We have assigned 50% weight to DCF (WACC 9.1% and 2.5% terminal growth), 25% weight to 2025 PE (26x) and 25% weight to 2025 EV/EBITDA (10.0x) to value the stock. Trading at 2025E Fwd. PE of 25.7x, we downgrade to a "**Neutral**" rating with an updated target price of **SAR 2.45/share**, implying an upside of 11.2% from last close.

Downside risk: Further deterioration or expansion in the conflict in the middle east, increase in competition in Saudi market, slowdown in store roll outs and aggregator led pressure on margins.

Upside risk: Improvement in geopolitical situation, faster ramp up of new stores, change in channel mix back towards dine-in and take away.

Blended Valuation

Valuation type	Fair Value	Weight	Weighted Fair Value
DCF	2.52	50%	1.26
EV/EBITDA 2025 (10x)	2.52	25%	0.63
PE 2025 (26x)	2.23	25%	0.56
Target Price (SAR/share)			**2.45**
Expected Capital Gain			**11.2%**

Source: Aljazira Capital Research, Prices as of 21st May 2025

ALJAZIRA CAPITAL الجزيرة كابيتال الجزيرة للأسواق المالية

Key Financial Data

Amount in USD mn, unless otherwise specified	FY23	FY24	FY25E	FY26E	FY27E	FY28E	FY29E
Income statement							
Revenue	2,413	2,197	2,485	2,766	3,028	3,286	3,561
Y/Y	**1.5%**	**-9.0%**	**13.1%**	**11.3%**	**9.4%**	**8.5%**	**8.4%**
Cost of Revenue	(1,152)	(1,029)	(1,156)	(1,282)	(1,399)	(1,512)	(1,633)
Gross Profit	1,262	1,167	1,330	1,484	1,629	1,773	1,928
Y/Y	**2.6%**	**-7.5%**	**13.9%**	**11.6%**	**9.7%**	**8.9%**	**8.7%**
GPM	**52.3%**	**53.1%**	**53.5%**	**53.7%**	**53.8%**	**54.0%**	**54.1%**
Sales and marketing expenses	(777)	(785)	(877)	(955)	(1,031)	(1,101)	(1,174)
General & Administrative Expense	(192)	(185)	(199)	(219)	(236)	(253)	(271)
Operating profit	291	192	261	323	375	433	498
Y/Y	**-7.6%**	**-34.1%**	**35.9%**	**23.8%**	**16.1%**	**15.5%**	**14.9%**
OPM	**12.1%**	**8.7%**	**10.5%**	**11.7%**	**12.4%**	**13.2%**	**14.0%**
EBITDA	**544**	**469**	**566**	**656**	**730**	**806**	**887**
Finance income	15	16	14	11	13	17	22
Finance costs	(31)	(36)	(42)	(45)	(48)	(50)	(52)
Profit before zakat	275	172	233	289	340	401	468
Zakat	(13)	(21)	(38)	(43)	(51)	(60)	(70)
Net profit for the year	262	151	194	246	289	340	398
Non – controlling interests	(3)	7	(2)	(3)	(3)	(4)	(4)
Net income	259	159	192	243	286	337	393
Y/Y	**0.1%**	**-38.8%**	**21.0%**	**26.5%**	**17.7%**	**17.7%**	**16.8%**
NM	**10.8%**	**7.2%**	**7.7%**	**8.8%**	**9.5%**	**10.2%**	**11.0%**
EPS (Cents)	**3.08**	**1.88**	**2.28**	**2.89**	**3.40**	**4.00**	**4.68**
DPS (Cents)	**2.10**	**1.50**	**1.70**	**1.80**	**2.10**	**2.60**	**3.10**
Balance sheet							
Assets							
Cash and cash equivalents and Short term Investment	384	295	271	356	467	596	733
Trade receivables	117	118	142	156	170	184	199
Inventories	156	134	149	164	177	191	204
Total current assets	**656**	**548**	**562**	**676**	**815**	**970**	**1,137**
Property Plant and equipment	327	329	383	406	416	424	440
Right of use assets	499	566	623	681	734	774	818
Intangibles	67	59	64	66	67	67	69
Non-current assets	**901**	**960**	**1,076**	**1,158**	**1,221**	**1,271**	**1,332**
Total assets	1,557	1,507	1,637	1,834	2,036	2,241	2,469
Liabilities							
Accounts payable - trade	434	392	429	478	523	567	615
Short term lease liabilities	166	190	263	281	240	250	262
Total current liabilities	**658**	**630**	**742**	**809**	**814**	**870**	**931**
Long term lease liabilities	341	389	356	384	466	486	509
Total liabilities	1,105	1,109	1,192	1,291	1,383	1,463	1,552
Shareholders' Equity							
Share capital	168	168	168	168	168	168	168
Retained earnings	293	272	319	417	527	651	790
Total shareholders' equity	439	394	442	539	650	774	913
Total liabilities and shareholders' equity	1,557	1,507	1,638	1,834	2,037	2,242	2,469
Cashflow statement							
Operating activities	540	433	530	636	702	769	842
Investing activities	(436)	(21)	(146)	(122)	(110)	(107)	(112)
Financing activities	(308)	(409)	(409)	(430)	(481)	(535)	(592)
Key fundamental ratios							
Liquidity ratios							
Current ratio (x)	1.0	0.9	0.8	0.8	1.0	1.1	1.2
Liabilities to Assets	71.0%	73.6%	72.8%	70.4%	67.9%	65.3%	62.9%
Profitability ratios							
GP Margin	52.3%	53.1%	53.5%	53.7%	53.8%	54.0%	54.1%
Operating Margin	12.1%	8.7%	10.5%	11.7%	12.4%	13.2%	14.0%
EBITDA Margin	22.5%	21.3%	22.8%	23.7%	24.1%	24.5%	24.9%
Net Margins	10.8%	7.2%	7.7%	8.8%	9.5%	10.2%	11.0%
ROE	58.1%	38.0%	43.6%	45.2%	44.3%	43.8%	43.4%
ROA	16.9%	10.0%	11.9%	13.4%	14.2%	15.2%	16.1%
Leverage ratios							
Debt / equity (x)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Valuation raios							
P/E (x)	27.8	32.3	25.7	20.3	17.2	14.7	12.5
P/B (x)	16.4	13.0	11.2	9.1	7.6	6.4	5.4
EV/EBITDA (x)	13.5	11.5	9.4	8.0	7.1	6.3	5.6
DY	2.5%	2.6%	2.9%	3.0%	3.6%	4.3%	5.2%

Source: Company reports, Aljazira Capital Research

الجزيرة كابيتال
ALJAZIRA CAPITAL الجزيرة للأسواق المالية

RESEARCH DIVISION

Head of Sell-Side Research - Director
Jassim Al-Jubran
+966 11 2256248
j.aljabran@aljaziracapital.com.sa

RESEARCH DIVISION

AlJazira Capital, the investment arm of Bank AlJazira, is a Shariaa Compliant Saudi Closed Joint Stock company and operating under the regulatory supervision of the Capital Market Authority. AlJazira Capital is licensed to conduct securities business in all securities business as authorized by CMA, including dealing, managing, arranging, advisory, and custody. AlJazira Capital is the continuation of a long success story in the Saudi Tadawul market, having occupied the market leadership position for several years. With an objective to maintain its market leadership position, AlJazira Capital is expanding its brokerage capabilities to offer further value-added services, brokerage across MENA and International markets, as well as offering a full suite of securities business.

RATING TERMINOLOGY

1. Overweight: This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
2. Underweight: This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
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.

Disclaimer