Restaurant Brands Asia Limited

ISIN :INE07T201019 | NSE :RBA

Price: 62.8
Recommendation: Buy
Industry: Restaurants
Sector: Consumer Discretionary
Report Date: 18-Mar-2025

Restaurant Brands Asia Limited is rapidly expanding in India with over 500 restaurants, focusing on increasing dine-in traffic and digital sales, which now account for 90% of transactions. The company emphasizes profitability, particularly in delivery, and has improved its gross margin to 67.8%. With a digital-first approach and strong customer engagement through the BK app, the company is poised for growth, despite challenges in Indonesia.

Sales		Profit & Loss		Profitability Matrix	
Current Year	2515 Cr	Operating Profit(Year)	265 Cr	Operating Profit Margin	10.5 %
Previous Year	2054 Cr	Operating Profit(Quarter)	69.6 Cr	EBITDA Margin	10.38 %
Current Quarter	639 Cr	PAT (Year)	-218 Cr	Net Profit Margin	-9.71 %
Previous Quarter	632 Cr	PAT (Quarter)	-50.4 Cr	EPS	-4.93
Revenue (QYoY)	604 Cr				
Valuation Matrix		**Growth(YoY)**		**Growth(QoQ)**	
Trailing P/E		Sales Growth	6.86 %	Sales Growth	1.11 %
PEG Ratio		PAT Growth	-1.36 %	Sales Growth QYoY	5.79 %
EV/EBITDA	15.8	EPS Growth	-12.3 %	PAT Growth	-16.28 %
P/B	5.87	Dividend Yield	0.00	PAT Growth QYoY	39.23 %
Capital Allocation		**Holdings**		**Leverage**	
RoE	-30.0 %	Promoter	13.2 %	Debt/Equity	2.91
RoA	-9.09 %	FII	15.3 %	Debt	1547 Cr
RoCE	-4.68 %	DII	38.8 %	Market Cap	3134 Cr
RoIC	-4.96 %	Public	32.7 %	Enterprise value	4635 Cr
		No of Shares	49.9 Cr	Cash Equivalents	45.8 Cr

source : Company filings

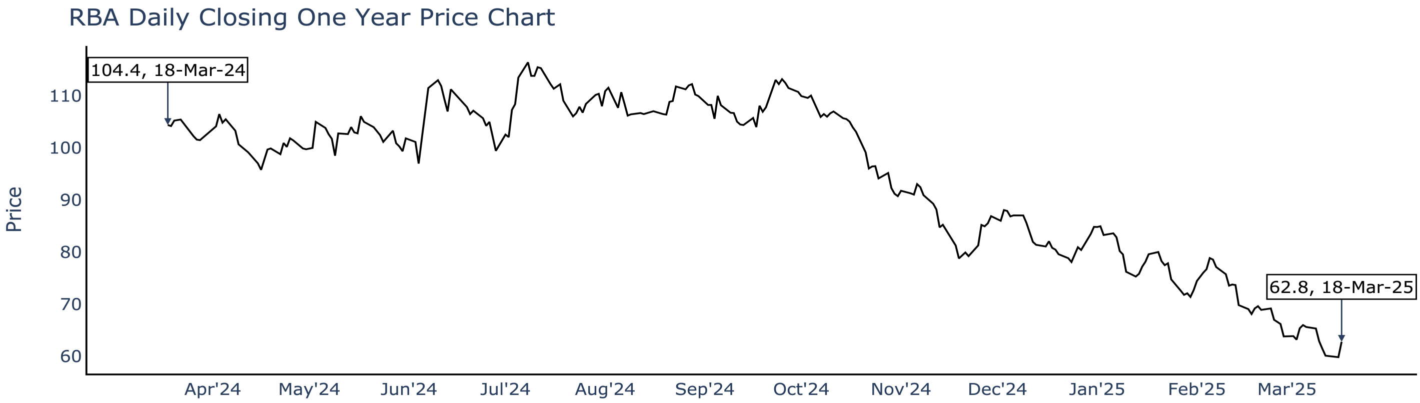
Company's Overview Based on Recent Concall and Performance:

In the recent meeting, Restaurant Brands Asia Limited outlined several new initiatives and strategies aimed at enhancing their market presence and profitability. The company has successfully expanded its footprint in India, reaching over 500 restaurants, a testament to its rapid growth since inception. A key focus is on increasing dine-in traffic, which has shown positive trends post-COVID. The introduction of innovative products like the chicken puff, alongside a robust digital strategy, has been pivotal. The company has implemented self-ordering kiosks in 437 restaurants, with 90% of sales now being digital. This digital transformation is expected to reach nearly 100% of their restaurants soon, enhancing customer experience and operational efficiency.

The company's business strategy emphasizes profitability, particularly in the delivery segment, which has seen a 70 basis point increase in profitability. In India, the company has maintained a steady growth trajectory with a 0.7% quarter-over-quarter and 11.2% year-over-year revenue increase. Despite a slight dip in average daily sales due to new store openings, the company has managed to improve its gross margin to 67.8%. The focus remains on optimizing costs and enhancing restaurant-level EBITDA, which has shown significant improvement. The strategic decision to not expand the number of stores in Indonesia but rather focus on profitability and marketing is a calculated move to stabilize and grow the business in that region.

Looking ahead, the company is optimistic about its growth prospects. The digital-first approach, coupled with a focus on customer engagement through the BK app, is expected to drive further growth. The app has seen a 30% increase in downloads, indicating strong customer engagement. The company plans to leverage this digital platform to enhance customer loyalty and drive sales. In Indonesia, despite geopolitical challenges, there are signs of recovery with positive dine-in sales. The company is committed to reducing overheads and optimizing operations to improve profitability in this market.

While the company has made significant strides, there are areas for improvement. The focus on digital transformation is commendable, but ensuring seamless integration across all platforms will be crucial. Additionally, while the strategy to halt new store openings in Indonesia is prudent, continuous monitoring of market conditions will be essential to capitalize on emerging opportunities. The company's ability to adapt to changing consumer preferences and market dynamics will be key to sustaining its growth momentum. Overall, the strategic initiatives and focus on digital transformation position the company well for future growth, but maintaining operational efficiency and customer satisfaction will be critical to achieving long-term success.



Name	Mar Cap (Rs. Cr.)	P/E	ROE	Sales(G) QoQ	Sales(G) QYoY	PAT(G) QoQ	PAT(G) QYoY
Sapphire Foods	9784.74	397.56	4.04%	8.75%	13.67%	399.17%	21.87%
Coffee Day Enter	518.41	13.65	3.36%	4.11%	9.15%	-212.46%	-114.86%
Jubilant Food.	41035.80	178.86	12.98%	10.03%	56.06%	-25.52%	-21.96%
Restaurant Brand	3134.01		-29.99%	1.05%	5.76%	16.24%	-39.30%
Devyani Intl.	18196.52	1356.93	4.92%	5.91%	53.52%	53.77%	-109.66%

Aspect	Commentary
Revenue	The company shows a steady revenue increase, with a notable year-over-year growth of 6.86%. This indicates a positive trend in sales performance, reflecting effective market strategies and customer engagement. The quarter-over-quarter growth is modest, suggesting stable operations and consistent demand.
Profit & Loss	Despite a positive operating profit, the company faces challenges with a negative PAT, indicating high expenses or non-operating losses. The quarterly figures mirror this trend, suggesting a need for cost management and efficiency improvements to enhance profitability.
Profitability Matrix	The operating profit margin and EBITDA margin are healthy, but the negative net profit margin highlights underlying cost issues. The negative EPS further emphasizes the need for strategic financial management to improve shareholder value.
Valuation Matrix	The EV/EBITDA ratio suggests the company is valued reasonably relative to its earnings, but the high P/B ratio indicates potential overvaluation. The absence of a trailing P/E and PEG ratio limits a comprehensive valuation analysis.
Growth (YoY)	Year-over-year growth in sales is positive, but the decline in PAT and EPS growth indicates profitability challenges. The lack of dividend yield suggests reinvestment in growth or financial constraints, requiring strategic focus on enhancing earnings.
Growth (QoQ)	Quarter-over-quarter sales growth is stable, but the significant decline in PAT growth highlights ongoing profitability issues. The positive QYoY PAT growth suggests some recovery, but consistent improvement is necessary for sustained success.
Capital Allocation	The negative RoE, RoA, RoCE, and RoIC indicate inefficient capital use, impacting overall financial health. This suggests a need for strategic capital allocation and operational improvements to enhance returns and shareholder value.
Holdings	The diverse shareholder base with significant DII and public holdings suggests broad market confidence. However, the relatively low promoter holding may indicate limited insider control, impacting strategic decision-making and long-term vision.
Leverage	The high debt/equity ratio indicates significant leverage, posing financial risk. The substantial debt level compared to market cap suggests potential liquidity issues, necessitating careful debt management and strategic financial planning.

Analyst viewpoint: Restaurant Brands Asia Limited has shown robust short to mid-term growth potential, backed by impressive quarter-over-quarter revenue growth of 1.11% and a year-on-year increase of 6.86%. The company's valuation appears attractive with an EV/EBITDA of 15.8, despite a high P/B ratio which may suggest overvaluation concerns. Significant capital allocation towards digital transformation, with 90% of transactions being digital, aligns with current market trends and enhances operational efficiency. Moreover, the company's strategic focus on increasing dine-in traffic and expanding its market presence in India illustrates a promising roadmap for growth. Their competitive standing is strengthened by a gross margin improvement to 67.8%, demonstrating effective cost management and profitability focus, particularly in the delivery segment.

Looking across peers, Restaurant Brands Asia continues to bolster its position through strategic cost optimization and innovative product offerings such as the introduction of self-ordering kiosks across 437 locations. This is expected to enhance customer experience and drive further engagement through their BK app, which has already seen a 30% increase in downloads. Although they are poised for growth, the high debt/equity ratio of 2.91 and significant leverage might pose financial challenges. It's imperative for the company to strategically manage this leverage to mitigate potential risks, thus ensuring sustained growth and stability in the competitive landscape.

Please read detailed disclosure on next page.

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Investment Rating	Expected Return (over 12-month)
BUY	>=15%
SELL	<-10%
NEUTRAL	>-10% to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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