

AmRest

Buy

Unchanged

Price: PLN 180
Price target: PLN 212
(From PLN 147)

Polish retail top pick

We reiterate our BUY recommendation on AmRest with an increased price target (PT) of PLN 212/share (from PLN 147). In contrast to other Polish retailers, we believe that AmRest's fundamentals remain strong and its valuation undemanding. Despite the stellar performance seen over the past 14 years, spending in Polish restaurants is still almost 50% below the European average. On top of this, we point to the successful turnaround of AmRest's business, with nine consecutive quarters of double-digit results recovery. For 3Q15E, and 2015-17E as a whole, we expect EBITDA growth of nearly 20%. We therefore see AmRest's 2016E EV/EBITDA of 9.7x, a double-digit discount to the median of its Western peers, as an attractive entry point.

Restaurant market remains underpenetrated, despite strong historical growth. Since 2000, spending *per capita* in Polish restaurants has grown more than 5x. At a 2000-14 CAGR of c.13%, restaurant growth has massively outpaced the clothing/shoe (4%) and food (3%) segments. Still, with restaurants accounting for just 4.2% of total household spending, Poland is almost 50% below the European average of 7.9%, ahead of just Romania, Serbia, Lithuania, Albania and Macedonia.

EBITDA forecasts increased 7-9% over 2015-17E. Following the acquisition of 23 Starbucks outlets in Romania/Bulgaria, and expectations ahead versus the start of the year, we are upgrading our 2015-17E revenue forecasts for AmRest by 4-5%. As a result, our EBITDA estimates rise by 7-9% and EPS by 20-23%. In the short term, we expect AmRest's 3Q figures, due 6 November, to show a ninth consecutive quarter of sound EBITDA growth, providing further proof of the company's fundamental strength.

Russia surprisingly resilient. We believe the strong performance of the Russian division is a major driver behind the forecast-beating results this year. Despite the Russian GDP growth contraction, AmRest has managed to deliver double-digit lfl sales growth ytd and a stable EBITDA margin in 1H15. However, we remain sceptical on a Russian recovery, and pencil a lfl deceleration to 0% in 2016E (in RUB) into our forecasts, together with EBITDA margin erosion from 12.0% in 1H15 to 10.5% in 2015E and 2016E.

Discounts of 6-18% on 2015-16E EV/EBITDA. Despite ytd share price appreciation of 80%, we still consider AmRest to be attractively valued. At EV/EBITDA multiples of 11.5x for 2015E and 9.7x for 2016E, the stock is trading at 6-17% discounts to its multinational peers' base medians. Our 12-month PT of PLN 212/share (18% upside potential) is based 50/50 on our DCF (PLN 209) and multiples (PLN 215) valuation methodologies.

Mexican private equity firm buys 32% stake from Warburg Pincus. On 24 July, AmRest's largest shareholder signed a binding agreement to dispose of its 6.7m shares to Finaccess Capital, a private equity fund from Mexico. According to AmRest's management, Finaccess has expressed no intentions to implement any changes in AmRest's strategy.

Risks: consumer weakness, FX fluctuations, food-price rebound, stronger Russian market slowdown than we expect, and corporate governance.

Expected events

3Q15 results 6 November

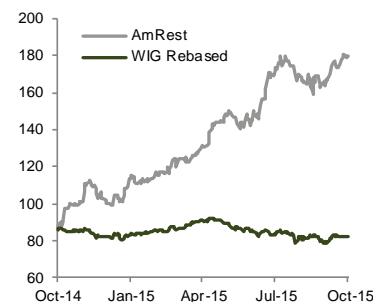
Key data

Market Cap (PLN m)	3,820
Free float	68.3%
3m avg. daily turnover (PLNm)	1.88
Shares outstanding (m)	21.2
Major Shareholder	
Finaccess	(31.7%)
Bloomberg Code	EAT PW
WIG Index	51,198

Price performance

52-w range	86.0-181.0
52-w performance	109%
Relative performance	114%

AmRest relative performance



Year	Revenues (PLNm)	EBITDA (PLNm)	EBIT (PLNm)	Net profit (PLNm)	EPS (PLN)	EPS % yoy	DPS (PLN)	P/E	EV/EBITDA	Div yield %	ROE %
2013	2,701	275	17	9.9	0.47	-89%	0.00	59.1x	17.1x	0.0%	0.9%
2014	2,953	356	110	51.7	2.43	420%	0.00	41.7x	13.3x	0.0%	5.1%
2015E	3,320	418	186	111.5	5.26	116%	0.00	34.2x	11.5x	0.0%	10.8%
2016E	3,758	499	242	152.7	7.19	37%	2.63	25.0x	9.7x	1.5%	13.4%
2017E	4,157	577	301	196.6	9.26	29%	7.19	19.4x	8.3x	4.0%	16.3%
2018E	4,508	642	349	232.9	10.98	18%	9.26	16.4x	7.4x	5.1%	18.7%

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Wood's 12-month ratings and price targets for AmRest

18/07/2013	SELL	
17/03/2015	BUY	PLN 147
30/10/2012		PLN 212

Explanation of Ratings

BUY: The stock is expected to generate total returns of over 15% during the next 12 months as measured by the target price.

HOLD: The stock is expected to generate total returns of 0-15% during the next 12 months as measured by the target price.

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	Buy	Hold	Sell	Restricted	Not rated	Coverage in transition
Equity Research Coverage	45%	34%	13%	1%	N.A.%	7%
IB Clients	1%	1%	N.A.	N.A.	N.A.	N.A.

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Energa	5
Fortuna	5
S.C. Fondul Proprietatea S.A.	4, 5
Getin Noble Bank	5
GTC	5
ITG	1, 3
Immofinanz	5
IPF	5
JSW	5
KGHM	5
Komerční	5
mBank	5
Millennium	5
Netia	5
Orange PL	5
Pekao	5
PGE	5
Philip Morris	5
PKO BP	1, 2, 3, 5
PKN	5
PZU	5
RC2	4
Romgaz	5
SIF2	10
SNP	3, 5
O2 CR	5
Transilvania	5
Transgaz	1
WSE	1
Warimpex	5

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