

Jubilant Food Works

Recovery continues; priced-in

Jubilant reported mixed 2Q with a marginal miss in revenue and beat in the margin. Revenue/EBITDA was up -19/-9% YoY vs. the expectation of -17/-18%. SSG was at -20% (HSIE -15%), while LFL was at -13% if we remove the store closure impact. Sequential growth was healthy (much better than peers), as system sales recovered to 85/92/96% of last year in Aug/Sep/Oct. Recovery has been driven by strong growth in delivery and takeaway channels, as dine-in has continued to remain under pressure. Delivery charges, along with benign raw material, were partially compensated by EDV offers; still, gross margin expanded by 350/80bps YoY/QoQ to 79%. EBITDA margin expanded by 286bps YoY. We slightly increase EPS for FY21/22/23 to reflect better margin. We roll forward our target price to Sep-22E EPS and value JUBI at 45x P/E to derive a target price of Rs 1,800. We believe a large part of the recovery is priced in since the stock has run up sharply (40% in 6M). Maintain REDUCE.

- Delivery and takeaway drive recovery:** Revenue declined by 19% YoY (+12% in 2QFY20 and -60% in 1QFY21), slightly off our estimate of 17% YoY decline. SSG stood at -20% YoY while LFL SSG (excluding temporarily closed restaurants) was at -13% YoY. Delivery and takeaway channels returned to growth clocking growth of 6/50% YoY. Growth has not been sharp in October despite IPL due to the benefit of Diwali sales in the base. OLO continued to drive growth, and 99% of delivery sales were through OLO. App downloads also surged to 43.8mn. Hong's Kitchen added another store (five stores in two cities now) while Dunkin/Domino's added 5/10 stores respectively. The company closed 5/100 Dunkin/Domino's stores.
- Delivery fee led gross margin expansion:** GM expanded by 351bps YoY (+67bps in 2QFY20 and +257bps in 1QFY21) vs an expectation of 272bps YoY expansion on the back of levy of delivery charges. GM expansion is likely to be limited in 1H, owing to the lower delivery fee.
- Robust EBITDA margin:** Focus on cost rationalisation led to Employee/Rent/Other expenses declining by 12/8/19% YoY. As a result, EBITDA margin expanded by 286bps YoY to 26.7% (+705bps in 2QFY20 and -1,697bps in 1QFY21) vs an expectation of 31bps YoY contraction. EBITDA declined by 9% YoY (HSIE -18%). Loss of rent concessions will also impact margins sequentially going forward. However, cost control measures are expected to compensate for the same partially. PBT declined by 21% YoY on account of increased depreciation and interest while PAT grew by 1% YoY.
- Call takeaways:** (1) Almost 100% of the store network has now reopened, barring corporate parks; (2) Demand returned to normalcy in 159 towns for Domino's; (3) Rural and semi-urban recovery was much stronger than metros; (4) JUBI will open ~100 new Domino's stores and ~10 Hong's stores in FY21; (5) Overall Capex for FY21 will be Rs ~2bn.

Quarterly/Annual Financial summary

YE Mar (Rs mn)	2QFY21	2QFY20	YoY (%)	1QFY21	QoQ (%)	FY20	FY21E	FY22E	FY23E
Net Sales	8,055	9,882	(18.5)	3,803	111.8	39,273	33,246	44,187	49,977
EBITDA (IND AS)	2,147	2,351	(8.7)	241	791.8	8,756	7,623	10,860	12,254
APAT	817	1,046	(21.9)	(647)	(226.3)	3,537	2,529	4,853	5,628
Diluted EPS (Rs)	6.19	7.93	(21.9)	(4.90)	(226.3)	26.8	19.2	36.8	42.6
P/E (x)						87.3	122.0	63.6	54.8
EV / EBITDA (x)						52.4	64.3	38.5	32.9
RoCE (%)						28.0	10.1	23.6	29.0

Source: Company, HSIE Research

REDUCE

CMP (as on 12 Nov 2020)	Rs 2,339
Target Price	Rs 1,800
NIFTY	12,691

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	Rs 1,758	Rs 1,800
EPS %	FY21E 1%	FY22E 1%

KEY STOCK DATA

Bloomberg code	JUBI IN
No. of Shares (mn)	132
MCap (Rs bn) / (\$ mn)	309/4,137
6m avg traded value (Rs mn)	2,168
52 Week high / low	Rs 2,465/1,138

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	25.5	46.8	43.2
Relative (%)	12.5	8.6	35.8

SHAREHOLDING PATTERN (%)

	June-20	June-20
Promoters	41.94	41.94
FIs & Local MFs	15.67	14.45
FPIs	36.19	37.86
Public & Others	6.20	5.75
Pledged Shares	1.14	1.14

Source : BSE

Pledged shares as % of total shares

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Disclosure:

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