

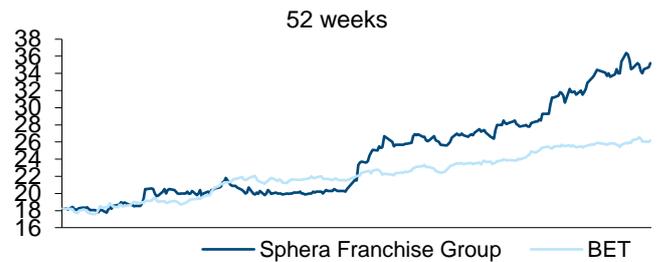
COMPANY REPORT

# Sphera Franchise Group

Buy

RON mn	2023	2024e	2025e	2026e
Net sales	1,469.1	1,593.8	1,784.9	1,990.6
EBITDA	212.1	247.3	285.9	338.7
EBIT	108.9	134.7	155.2	187.9
Net result after min.	71.7	94.6	109.7	134.7
EPS (RON)	1.85	2.44	2.83	3.47
CEPS (RON)	5.40	5.92	7.13	8.40
BVPS (RON)	3.68	5.07	6.52	8.44
Div./share (RON)	0.00	1.05	1.39	1.61
EV/EBITDA (x)	6.2	6.9	6.1	5.2
P/E (x)	13.9	14.4	12.4	10.1
P/CE (x)	4.8	5.9	4.9	4.2
Dividend Yield	0.0%	3.0%	3.9%	4.6%

Share price (RON) close as of 04/06/2024	35.2
Number of shares (mn)	38.8
Market capitalization (RON mn / EUR mn)	1,366 / 275
Enterprise value (RON mn / EUR mn)	1,702 / 342



Performance	12M	6M	3M	1M
in RON	93.9%	63.0%	25.7%	2.3%

Reuters	ROSGF.BX	Free float	34.0%
Bloomberg	SFG RO	Shareholders	Tatika Inv. Ltd (28.6%)
Div. Ex-date	16/05/24	Computerland Romania SRL	(20.53%)
<b>Target price</b>	<b>42.3</b>	Homepage:	www.spheragroup.com

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## Still on a positive trend, with seasonal factors

**With our latest cost of risk included, we are increasing our target price of RON42.27/share and maintain or BUY recommendation on the stock. We reiterate that the risk to our recommendation are not as much tied to internal company factors or management action, but more from external factors influencing customer spending patterns – not likely over the medium term – and global disruptions**

1Q24 results for Sphera Franchise Group (Sphera) registered along the recent trend of top-line and profitability increase, considering the seasonal factors that play an important role in the evolution of financials. The company's management continued efforts towards streamlining and margin consolidation efforts and the results are showing a very encouraging y-o-y trend. At the same time, marketing – an essential part of company success – continued modern and innovative. Labor costs are largely out of management control, however we see as more important the degree of personnel retention, that comes inevitably as an additional cost, but with added benefits. Consequently, our positive stance of Sphera remains unchanged. The basic tenets remain valid, with a combination of global brand strength, growing domestic market and management skill in marketing and cost control.

We have amended our model to incorporate the latest results and the impact of company streamlining program (restaurant closures) while remaining conservative in terms of same-store sales growth (below inflation) and expense increase (above inflation).

The dividend distribution, including the extraordinary dividend expected in the second half of the year is an added incentive, without raising concerns on defunding the company, which has a solid balance sheet capable of sustaining an increased gearing.

## 1Q24 results – upper trend, seasonal impact

Sphera announced 1Q24 results showed consistent y-o-y growth on the top line, together with a jump in profitability in both EBITDA and net profit, pointing to a better year than the last, and marked by the continuation of the management's efforts to streamline operations, combined with more subdued increase in costs. Vs. the previous quarter, the results show the normal seasonality of a first quarter compared to a last quarter, which is traditionally, the best of the year.

### Record first quarter vs 1Q23...

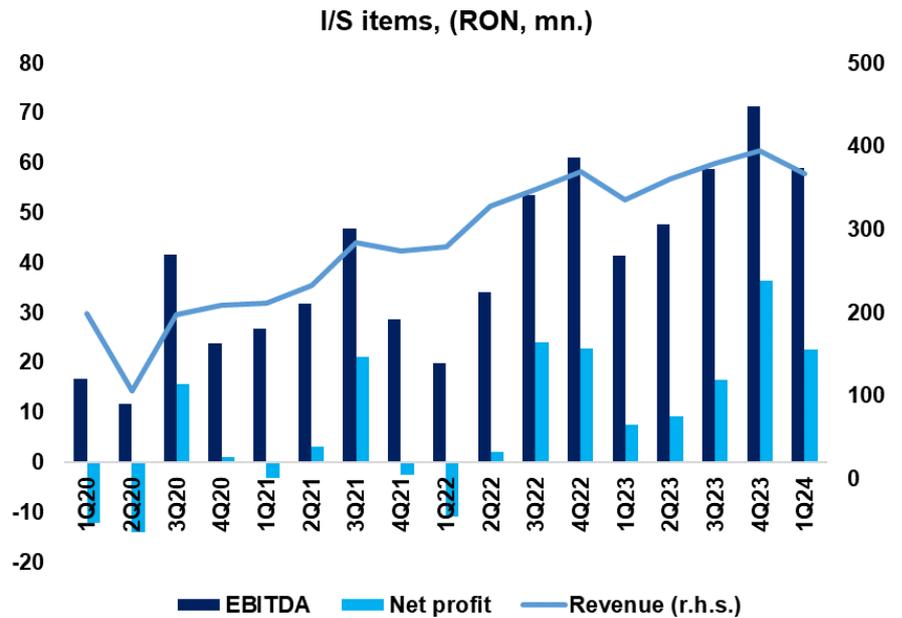
Top line advanced by more than 9% compared to 1Q23, reaching RON367mn, vs. RON335mn. IFRS 2023 total restaurant operating costs advanced less than revenues, growing only 3% y-o-y, amounting to RON116mn compared to the RON113mn of 1Q23. As a result, 1Q24 operating profits from restaurants increased 5% compared to the figures of the previous year. Net profit grew by 205% to RON23mn, vs RON7mn in 1Q23, and EBITDA increased by 42% to RON59mn, vs RON41mn. Quarterly margins jumped as well, with net margin reaching 6.2% vs 2.29% during 1Q23, and EBITDA margin 16.1% vs. 12.4% during 1Q23.

(RON mn.)	1Q24	1Q23	change	4Q23	change	1Q22	change
<b>Revenues</b>	<b>367</b>	<b>335</b>	<b>9.4%</b>	<b>394</b>	<b>-7%</b>	<b>279</b>	<b>32%</b>
COGS	116	113	3%	124	-7%	98	19%
Employee costs	82	78	6%	82	0%	67	23%
Rents	8	8	1%	9	-16%	6	22%
Royalties	22	20	10%	21	3%	17	31%
Advertising	18	16	11%	19	-9%	14	28%
Other opex	48	46	3%	52	-9%	45	5%
Depreciation	25	24	7%	27	-4%	24	8%
<b>Operating costs restaurants</b>	<b>319</b>	<b>304</b>	<b>4.8%</b>	<b>335</b>	<b>-5%</b>	<b>270</b>	<b>18%</b>
<b>Operating profit restaurants</b>	<b>48</b>	<b>31</b>	<b>56%</b>	<b>60</b>	<b>-20%</b>	<b>8</b>	<b>488%</b>
SGA	16	15	5%	16	-4%	13	16%
<b>Operating profit</b>	<b>32</b>	<b>16</b>	<b>102%</b>	<b>43</b>	<b>-26%</b>	<b>(5)</b>	<b>-714%</b>
Financial costs	6	6	-7%	6	1%	5	25%
Financial revenues	0	1	-65%	0	98%	0	118%
<b>Financial result</b>	<b>(6)</b>	<b>(6)</b>	<b>3%</b>	<b>(6)</b>	<b>-2%</b>	<b>(5)</b>	<b>22%</b>
<b>PBT</b>	<b>26</b>	<b>10</b>	<b>156%</b>	<b>38</b>	<b>-30%</b>	<b>(10)</b>	<b>-368%</b>
Taxes	4	3	31%	1	215%	1	285%
<b>Net Profit</b>	<b>23</b>	<b>7</b>	<b>205%</b>	<b>36</b>	<b>-38%</b>	<b>(11)</b>	<b>-308%</b>
<b>EBITDA</b>	<b>59</b>	<b>41</b>	<b>42%</b>	<b>71</b>	<b>-17%</b>	<b>20</b>	<b>197%</b>
Net margin	6.2%	2.2%		9.2%		-3.9%	
EBITDA margin	16.1%	12.4%		18.1%		7.1%	

Source: Company data, Erste Group Research

### ... natural evolution vs previous quarter.

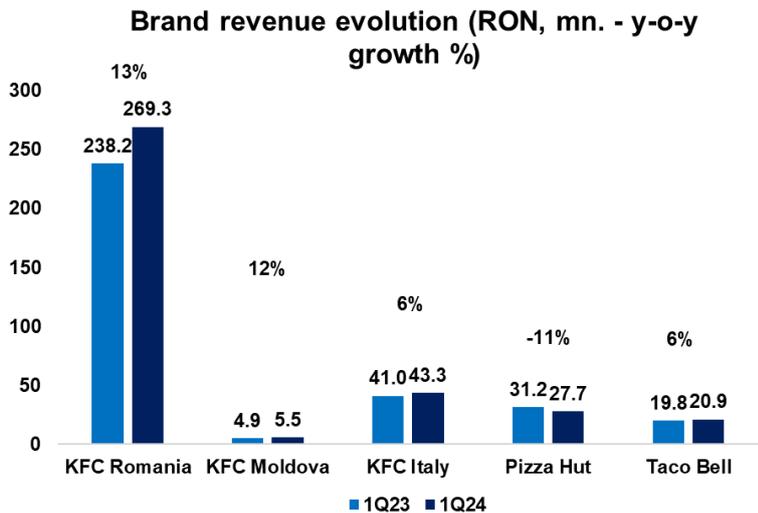
On a quarterly basis, revenues retreated by 7% q-o-q, with a similar decrease in COGS, but only a 5% decline in operating costs, leading to a 20% decrease in operating profits from restaurants. IFRS net profits declined by 38% q-o-q and EBITDA decreased by 17% q-o-q. Profitability was seasonally lower, with net margin reaching 6.2% vs 9.2% and EBITDA margin continued higher reaching 16.1% vs. 18.1% during 4Q23. Overall, 4Q23 was the company's best revenues, EBITDA and net profit in the firm's history, and – as we mention above – the first quarter of the year is seasonally weaker than all the other quarters.



Source: Company data, Erste Group Research

**A positive quarterly trend taking into consideration seasonal factors.**

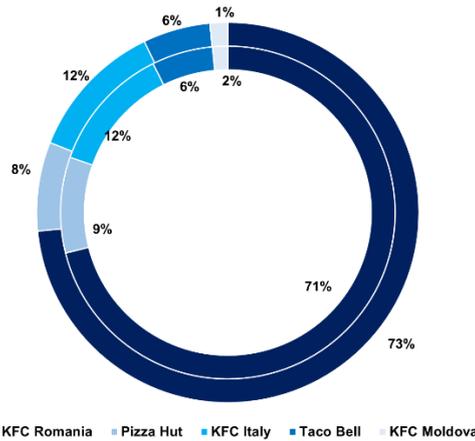
The negative evolution vs. the previous quarter follows the same trend as the previous years. The latest dynamic has been even more auspicious than previously, with q-o-q revenues declining in the first quarter of 2024 vs the last (record) quarter of 2023, by less than any other first quarter in company history, except, of course, the pandemic period.



Source: Company data, Erste Group Research

In terms of brand evolution, the largest contributor by far to the company's top line remains KFC Romania with about 73% of total sales, followed by KFC Italy, with about 12%, Pizza Hut and Taco Bell. During 1Q24, KFC Romania registered a 13% growth in revenues y-o-y, reaching RON270mn. With 6% growth in revenues KFC Italy contributed about RON43mn to the top line. Impressive growth rates in revenues were shown by KFC Moldova, which grew revenues by 12% and while Taco Bell grew by 6%, however both from much lower basis than the flagships of the group. On a quarterly basis it is notable the major decline in the contribution of Pizza Hut, as a result of closings, with a quarterly y-o-y decline in revenues of about 11%. Otherwise, the trends are similar to the yearly trend, just with a less sharp decline q-o-q.

Total sales composition 1Q24 (ext.) vs. 1Q23 (int.)



Source: Company data, Erste Group Research

**Same store performance stays solid, but tapering vs high post-pandemic growth**

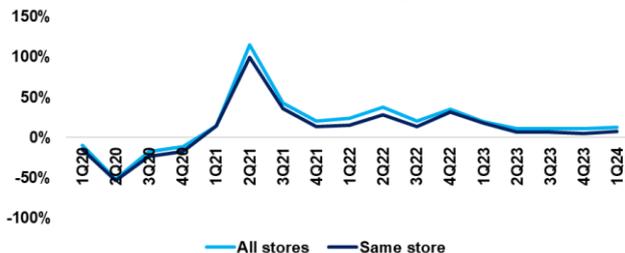
Same (I-f-I) store performance delivered by the brands in the group’s portfolio were still solid overall however softened y-o-y after the high growth of 1Q23, due to basis effect and aligned better with the long-term potential of the company. Overall, for the entire group the y-o-y same store growth was about 5.2% over 1Q24, starting from the very high basis of 1Q23 which grew more than 18% y-o-y.

Y-o-y growth (%)	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24
<b>KFC RO</b> All stores	-9.9%	-51.6%	-17.1%	-11.5%	14.3%	114.9%	42.8%	20.3%	23.6%	37.3%	20.1%	35.0%	19.6%	10.5%	10.7%	10.5%	<b>12.8%</b>
Same store	-14.7%	-53.3%	-23.6%	-17.3%	14.1%	99.4%	35.9%	13.7%	15.1%	28.3%	13.3%	31.1%	18.0%	6.5%	6.9%	5.1%	<b>7.2%</b>
<b>KFC MD</b> All stores	-14.4%	-62.1%	-15.4%	-5.3%	18.9%	179.3%	35.3%	22.3%	22.8%	44.8%	48.3%	42.0%	42.7%	19.7%	8.9%	9.9%	<b>12.4%</b>
Same store	-14.4%	-62.1%	-15.4%	-5.3%	18.9%	179.3%	35.3%	22.3%	22.8%	44.8%	48.3%	42.0%	42.7%	19.7%	8.9%	9.9%	<b>12.4%</b>
<b>KFC IT</b> All stores	11.4%	-48.4%	-11.7%	-33.5%	2.5%	114.5%	26.0%	88.0%	70.3%	58.4%	37.5%	31.6%	22.1%	14.4%	9.2%	0.6%	<b>5.7%</b>
Same store	-29.5%	-64.5%	-27.0%	-52.1%	-6.0%	102.7%	20.8%	79.2%	73.0%	56.9%	33.5%	29.0%	22.1%	14.4%	9.2%	0.6%	<b>5.7%</b>
<b>Pizza Hu</b> All stores	-15.8%	-68.8%	-51.4%	-55.6%	-32.6%	108.4%	71.4%	54.6%	55.3%	45.5%	15.1%	38.5%	10.0%	-6.2%	-9.8%	-16.6%	<b>-12.0%</b>
Same store	-15.8%	-68.8%	-51.4%	-55.6%	-32.6%	108.4%	71.0%	47.5%	45.3%	35.9%	6.3%	34.4%	8.7%	-6.8%	-9.5%	-16.7%	<b>-12.0%</b>
<b>Taco Bel</b> All stores	46.0%	-55.9%	-3.0%	-9.2%	13.1%	245.4%	62.8%	43.6%	48.2%	39.6%	27.3%	56.3%	40.6%	19.9%	19.1%	13.3%	<b>5.4%</b>
Same store	-10.3%	-64.4%	-24.1%	-22.9%	13.1%	204.4%	46.1%	26.4%	32.0%	34.2%	18.2%	46.0%	28.0%	14.5%	14.6%	14.8%	<b>5.4%</b>
<b>Sphera</b> All stores	-7.7%	-54.0%	-20.4%	-20.0%	6.6%	119.4%	43.6%	30.3%	31.8%	40.5%	22.3%	35.9%	20.3%	10.1%	9.1%	6.8%	<b>9.2%</b>
Same store	-16.0%	-57.0%	-27.6%	-26.1%	5.6%	114.9%	39.9%	23.5%	23.6%	32.3%	15.6%	31.9%	18.0%	6.8%	6.2%	3.0%	<b>5.2%</b>

Source: Company data, Erste Group Research

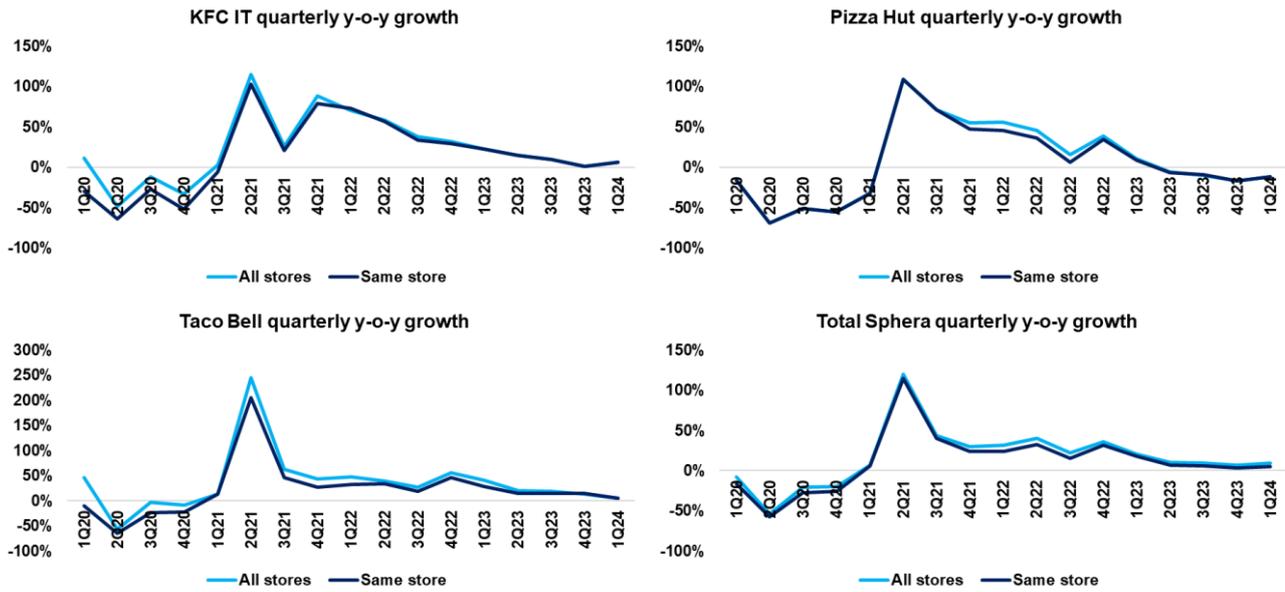
During 1Q24 KFC Romania delivered a y-o-y same store performance of 7.2%, better than the overall performance of the group and somewhat higher than the growth posted during the previous quarter, again considering to the high base of the first quarter of 2023. A much better result came from KFC Moldova, with a very solid 12.4% same store growth and a 5.4% increase in same store growth coming from Taco Bell. KFC Italy posted a very solid 5.7% same store growth, while Pizza Hut registered a decrease in same store sales by about 12%. We take it as a positive, that compared to the y-o-y same store growth posted in the previous quarter, the figures for 1Q24 appear to have accelerated.

KFC RO quarterly y-o-y growth



KFC MD quarterly y-o-y growth



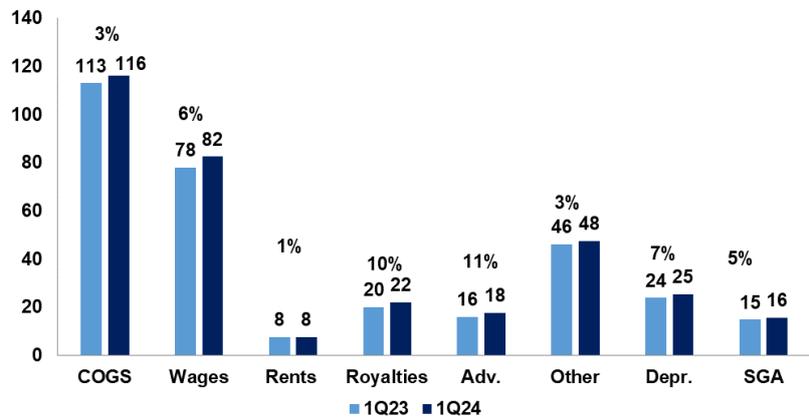


Source: Company data, Erste Group Research

**Costs brought back under control...**

Total restaurant expenses grew in 1Q24 by 4.8% y-o-y, less than the 9.4% increase in revenues. The cost increases were mainly caused by the general inflationary environment and moderated by the management's effort to streamline operations and control expenses. The largest two items on the cost structure of the company remain the cost of food and personnel related costs. 1Q24 food costs grew only 3%, on the back of the purchasing policies of the company, while employee costs, grew slightly lower than revenues, at 6%. General and administrative costs increased by 5% and other costs by only 3%. Rents grew only 1%, while royalties and advertising grew slightly higher than revenues, however from a significantly lower base compared to the main cost items. On a quarterly basis, the decline in food costs q-o-q was 7%, in line with revenues, while employee costs remained flat vs. 4Q23. The impact of the other cost items, on the back of the softer inflation, was less significant, both y-o-y and q-o-q.

**Expense evolution (RON, mn. - y-o-y growth%)**



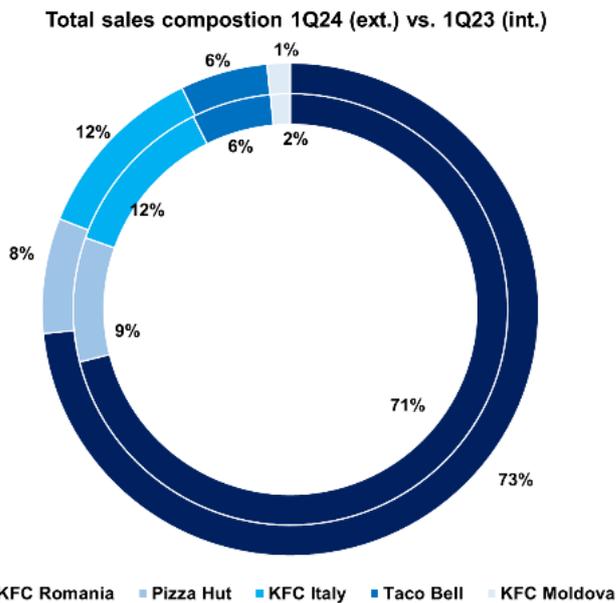
Source: Company data, Erste Group Research

**... by concerted management action.**

The cost evolution represents – by any means a measure of success of the management's efforts to control expenses in a tapering inflationary environment. Input inflation is a reality to cope with and largely beyond the control of management. Nevertheless, the management succeeded in optimizing delivery roots and made them more efficient leading to price controls.

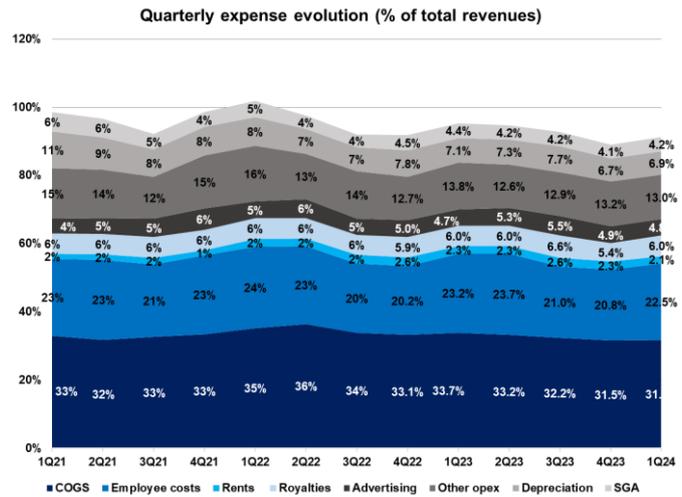
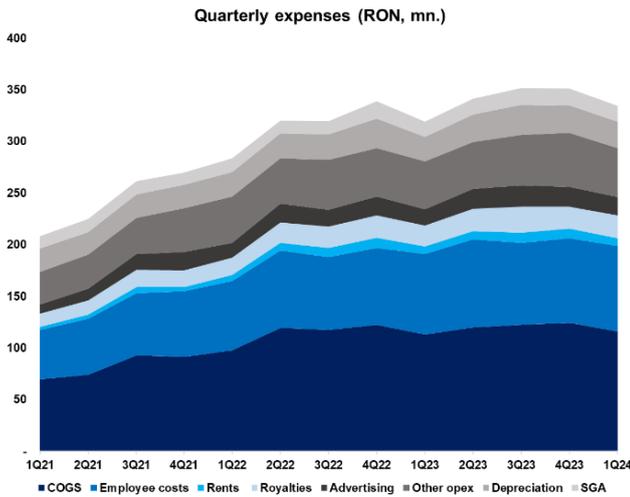
**Unavoidable cost increases mitigated by strategy.**

Similarly, the cost of labor registered increases across the board in the sector as a whole, and the efforts to retain personnel and attract new employees come at an increasing expense. Overall, vs the previous quarter, the absolute figures remained flat, despite the seasonal decline in sales, a normal development. The company provides training and increasingly attractive benefits and has been sourcing some labor from outside of Romania, however the growth in wages and benefits is an unavoidable reality. At the same time, the increase in minimum salary put additional pressure on personnel costs as did changes in tax regime. Similarly, SG&A costs, are influenced by the same trends and somewhat outside of possible management action have been kept under control and remained stable. In a similar manner, on the back the sustained and successful advertising campaigns, costs of advertising remained stable as a percentage of revenues.



Source: Company data, Erste Group Research

Most importantly, the share of food in total costs has continued to decrease as a share of revenues from 33.7% during 1Q23 to 31.7% during 1Q24, one of the main engines of profitability increase, adding to the decrease in personnel costs from 23.2% of total revenues to 22.5% of total revenues. Other operating expenses have stayed mostly flat as a percentage of revenues, with minor differences considering the seasonal decline in sales, compared to previous quarter, on the back of the easing of energy costs, maintenance and consumables. Rents have declined, both y-o-y and q-o-q, and so did royalties and advertising.



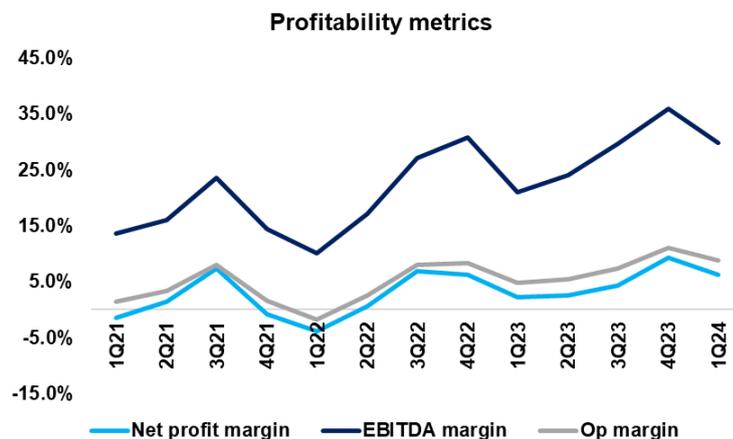
Source: Company data, Erste Group Research

**Highest ever EBITDA margin...**

In terms of profitability, the 30% EBITDA margin is the highest compared to the any first quarter of the last five years on a better level compared to the pre-pandemic period, and the third of all 20 quarters on the same period. In terms of net margins, the 6.2% profit margin is also by far higher than any of the first quarters of last five years, and only lower to a few other quarters. This is a feat, helped by the tapering of the inflation and the pricing policy success in a highly competitive market. Moreover, in the past input inflation found its way in customer pricing with a delay that eroded profitability, however it can now come as a positive in a slightly disinflationary environment.

**... tapering going forward.**

We are expecting the continuation of an improving profitability trend however it remains to be seen how much the marketing policy will translate into margin consolidation. Further price increases may be more difficult to implement, since consumer behavior has been influenced by the recent erosion in purchasing power and price increases would be more an expression of brand loyalty than of actual augmentation of disposable income.



Source: Company data, Erste Group Research

**No normalization required**

The company also provided in the past profitability figures normalized for one-off items such as the impairments and costs for the closing of Pizza Hut units in line with the network reorganization plan, to the impairment for the closing of KFC restaurants in Romania, and to the temporary closing of two restaurants in Romania due to restoration work and other one-offs and provisions. During 1Q24 no normalization was necessary in presenting financial results.

**Balance sheet remains strong, showing continuous decline in gearing.**

The gearing of the company remains within manageable levels, with lower than 1.3x Net Debt/2024e EBITDA. The net debt increased only marginally since the beginning of the year to RON311mn, compared to the RON304mn at the end of 2023. Considering the expected growth in EBITDA, the gearing remains at a level quite significantly lower compared to the lowest of the last four years.

(RON, mn.)	2019	2020	2021	2022	1Q23	2Q23	3Q23	2023	1Q23
<b>LT Debt + leases</b>	263.7	280.8	348.9	313.7	322.7	321.3	316.4	303.0	303.4
<b>ST Debt + leases</b>	79.6	114.3	120.7	117.8	113.1	101.7	108.8	98.9	97.6
<b>Cash&amp;Equivalents</b>	57.3	122.0	146.1	128.1	107.6	83.9	118.2	98.2	89.5
<b>Net Debt</b>	286.0	273.1	323.5	303.4	328.2	339.1	307.0	303.7	311.5
<b>Net Debt/EBITDA</b>	<b>1.93</b>	<b>3.07</b>	<b>2.54</b>	<b>1.88</b>	<b>1.50</b>	<b>1.55</b>	<b>1.40</b>	<b>1.39</b>	<b>1.26</b>

Source: Company data, Erste Group Research

**Dividend payout.**

The company has announced a dividend payout amounting to RON1.05/share, for about 56% of 2023 net income. Management also announced the intention of distributing up to 100% of distributable profit and consequently of a additional, extraordinary dividend later in the year.

**Corporate action: streamlining, expansion and digitalization...**

As of the end of 1Q24, the group operated 103KFC restaurants in Romania, 18 in Italy and two in Moldova. It operated 29 Pizza Hut restaurants, 15 Taco Bells and one PHD (Pizza Hut Delivery) sub-franchise. During 1Q24 the company opened 1 new KFC restaurant in Romania, it also closed 5 Pizza hut Pizza Hut restaurants in Romania. The reorganization process called for the closing of a total of 13 Pizza Hut restaurants over six months. During 2Q the company opened a new restaurant in Arges county, also, on the first of June 2024, the company opened a new KFC restaurant in the west of the country. The company has outsourced part of deliveries, while the share of deliveries out of total orders has remained relatively constant over the year.

**Innovation and digitalization, excellence in marketing campaigns.**

The company excels in marketing, combining modern innovative methods across all brands in order to drive brand and value perception. The marketing campaigns are set to increase brand relevance and frequency of purchases and employ both digital and traditional campaigns. Some of the most successful product innovation of the last periods were exemplified by the combination of fried chicken and shaorma in KFC, the introduction of melts in Pizza Hut and of Mexican pizza in Taco Bell.

**... leading to unique value propositions.**

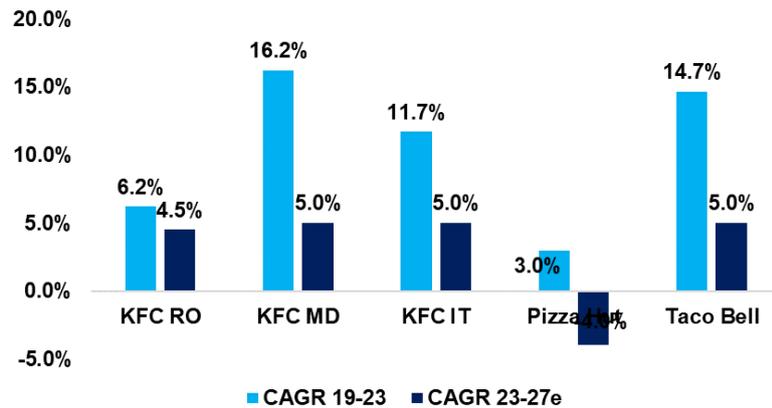
The company emphasized the locally sourced, hand cooked chicken in KFC by swapping company cooks with local influencers, used disruptive value in Pizza Hut by the “children eat free” campaign, and enhanced brand in Taco Bell via the Taco App. One of the more original campaigns was the usage of the Bucharest subway map to show the similarity between the circular line and the outline of a drumstick. During 1Q24 the campaigns continued, with EUR100,000 prizes at KFC, smart menus and Tuesday bucket, while in Pizza Hut also promoting RON1 pizza, Wednesday pasta discounts, and introduction of Cheesy Gordita in Taco Bell.

## Looking forward

**Beyond 2023: conservative same store sales...**

The company closed an additional 5 Pizza Hut restaurants in January 2024 and expects to continue to streamline the portfolio, weeding out the least profitable assets. In terms of same store sales our forecast continues to remain conservative when comparing in terms of 4yrs CAGR going forward compared to the period from before the beginning of the pandemic to last year. Indeed, all our same store sales are below the average of 2019-2023, despite the solid recent growth, and admittedly more conservative than recent quarters have shown. Moreover, in all segments, we remain much below average inflation, again, in the spirit of conservative forecasting, even if underestimating the potential for growth.

**Same store sales growth hist vs. forecast (%)**

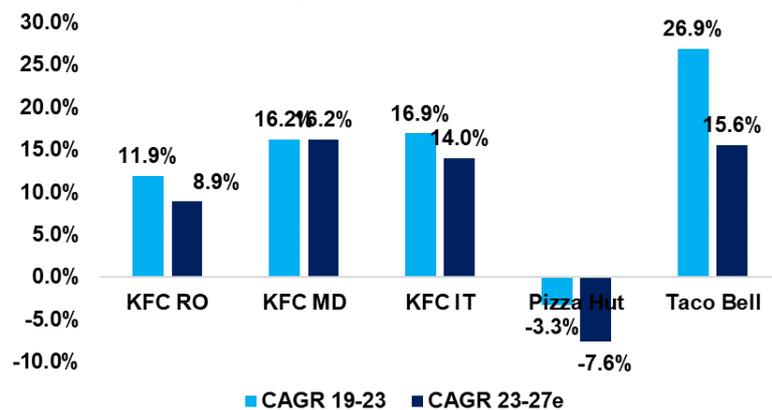


Source: Company data, Erste Group Research

... and revenues.

Consequently, our revenues forecasts are also subdued, significantly below last years' averages, especially considering the potential expansion sustained by the company's plans for increasing footprint and streamlining existing operations.

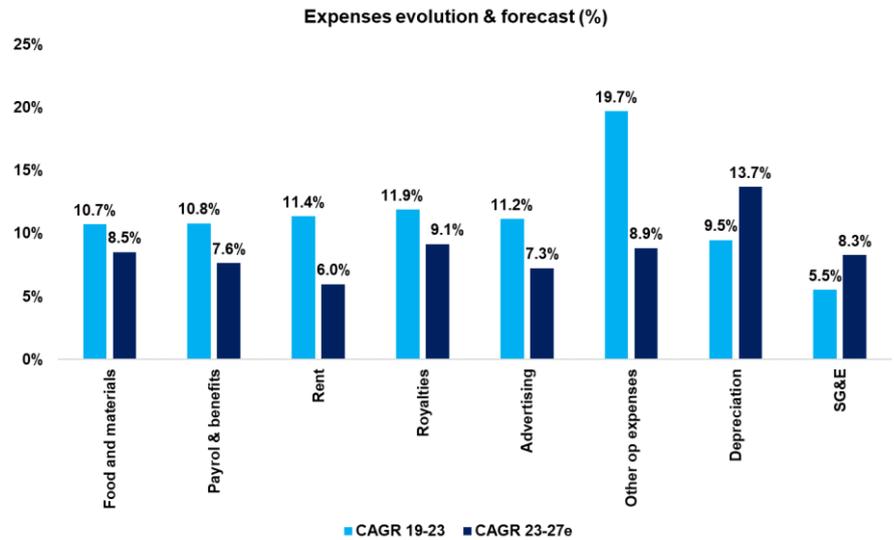
**Revenues growth hist vs. forecast (%)**



Source: Company data, Erste Group Research

**Our expenses' forecast, sensibly higher than forecasted inflation.**

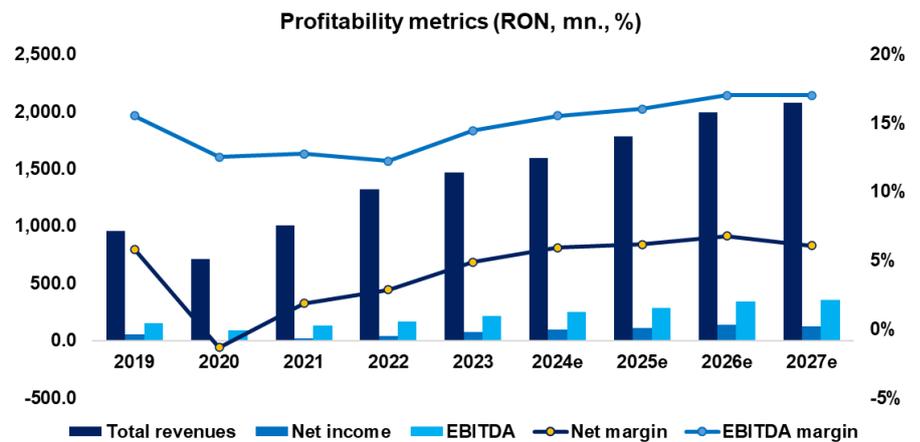
In terms of expenses, we generally forecast in a conservative manner. We anticipate some tapering of the costs of food, on the back of easing inflation and the successful efforts of the management at streamlining purchasing activities. We forecast a similar growth in personnel and SG&E expenses, as workforce shortages would prompt higher employee retention costs compared to inflation alone. However, these should be somewhat lower than what recent past that has witnessed: significant – ahead of elections – minimum wage increases. Higher advertising, on the back of recent trends, and lower "other expenses" as energy and consumables' costs decline vs the high figures of 2021-2023. Depreciation should grow on the back of new, more expensive investments.



Source: Company data, Erste Group Research

**Higher profitability, getting back in line with pre-pandemic years.**

Our combination of revenues vs. costs forecasts yields a very marginal and gradual increase in profitability, however still below that of the pre-pandemic era, with EBITDA margin inching up to the level of 2019 and net profit margin still below that threshold, on the back of higher depreciation and financing costs.



Source: Company data, Erste Group Research

### 1QA results vs YE forecast

**First quarter a harbinger of better than expected YE results.**

The current results issued by the company are a reinforcement of our positive stance on the stock, with the rate of growth, y-o-y in all main financial indicators showing a better prospect than our conservative estimates.

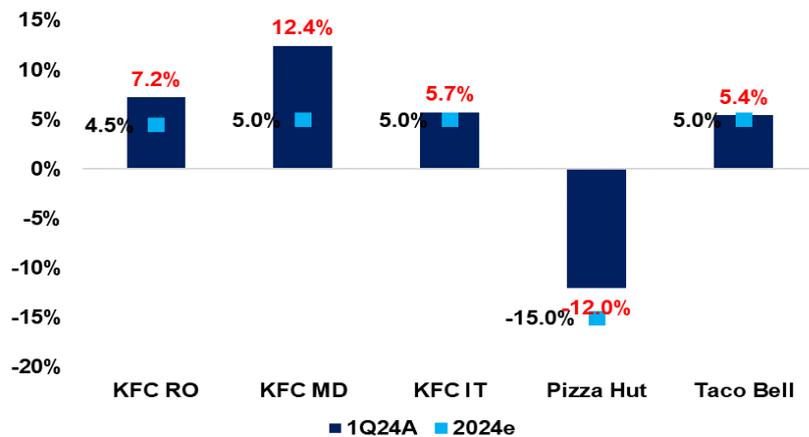
Y-o-Y growth	1Q24A	2024e
Revenues	9%	8%
EBITDA	42%	17%
Net Profit	205%	32%

Source: Company data, Erste Group Research

**Same store sales 1Q24 results point to YE upside.**

In modelling same store sales we have accounted only for a decreasing inflationary environment and the immediate transmission to the customer of any cost savings achieved by the company. This is indeed a stance that errs on the conservative side, since any disinflationary period would in fact impact positively on the costs, while prices would remain stickier.

**1Q24A vs 2024E same store sales y-o-y growth**

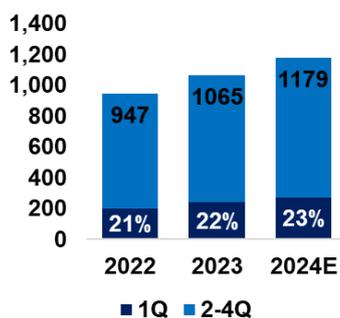


Source: Company data, Erste Group Research

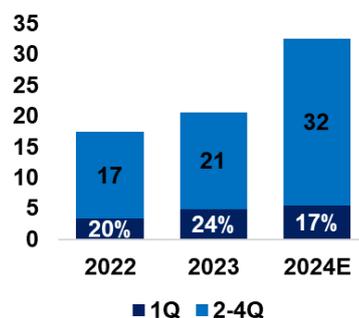
**YE revenue forecast perfectly achievable.**

We have charted the revenues of the company's brands vs the previous year, in terms of the share of YE revenues allocated to first quarter. Across the board our forecast is more conservative compared to the achievement of last year, with the exception of KFC Moldova, where we expect an opening during the rest of the year. (Note: A higher share of 1Q24A in 2024E compared to that of 1Q23 in 2023 figures represents a more conservative YE estimate compared to actual 1Q numbers.)

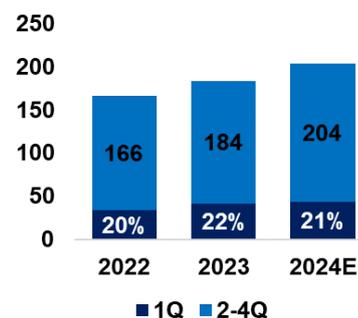
**KFC RO 1Q vs YE (RON, mn. - %)**



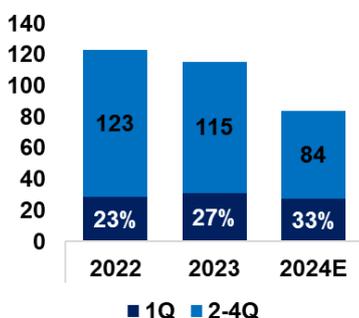
**KFC MD 1Q vs YE (RON, mn. - %)**



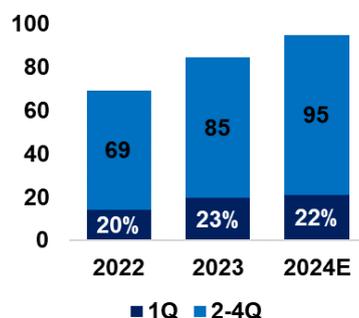
**KFC IT 1Q vs YE (RON, mn. - %)**



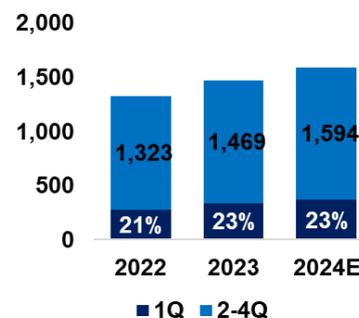
**PHut 1Q vs YE (RON, mn. - %)**



**T Bell 1Q vs YE (RON, mn. - %)**



**Total SFG 1Q vs YE (RON, mn. - %)**

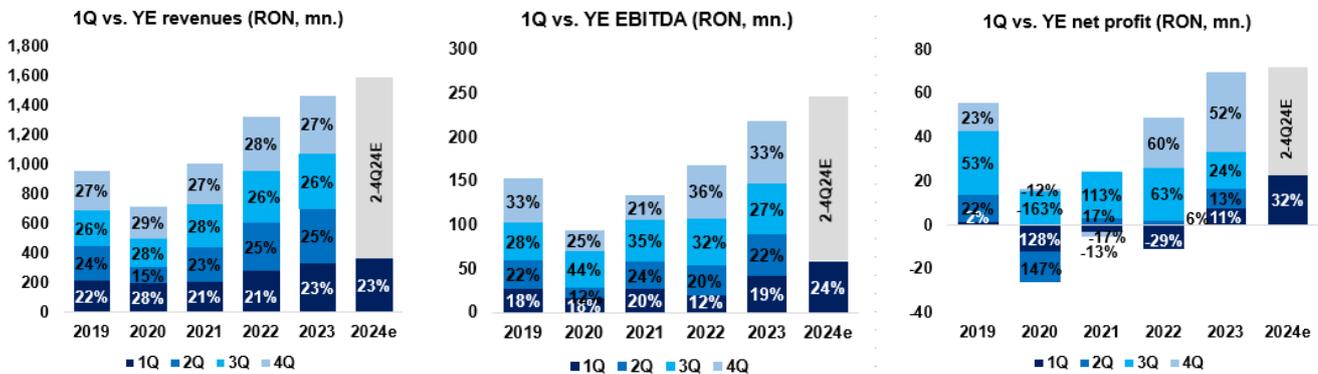


Source: Company data, Erste Group Research

**YE profitability forecast also feasible.**

Our YE forecast of revenues EBITDA and Net Profit are largely in line with a normal development of sales and profitability, in the absence of any major disruptions from the macroeconomic side. In terms of revenues, as mentioned above, we are more conservative in forecasting compared to already achieved figures. In terms of profitability, i.e. EBITDA and Net Profit, the years since the beginning of the pandemic are not truly relevant since the disruptions to the whole environment were major. Thus, we expect a continuation of the positive trend born in the last quarters –

accounting for seasonality – and we will continue to monitor profitability in the coming quarters to ascertain the validity of the current trend. We also consider our current forecast to be rather modest, as the first quarter is seasonally weaker in a normal environment, and – compared to our year end estimates, especially in terms of EBITDA and net profit – looks as a basis for a better YE performance.

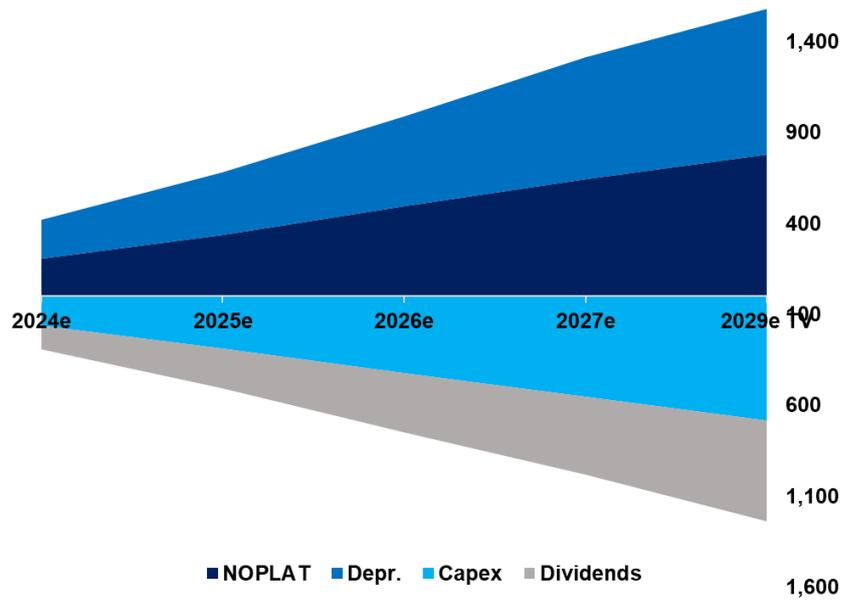


Source: Company data, Erste Group Research

**The assumptions of the DCF valuation are:**

- Sales growth and margin levels as per our assumptions discussed above, sales growth in perpetuity is 3%, below inflation levels.
- Risk free rate of 6.7% till 2028 and 5% in perpetuity
- Equity risk premium of 7.45% during the next five years and 7% in perpetuity
- Debt premium of 1%
- 15% equity – at market price – of total liabilities and equity on the Balance Sheet – a level that we consider congruent with the characteristics of the company, at an optimum debt level and 40% in perpetuity.
- Terminal value growth at 3%, roughly half of forecasted inflation
- EBIT margin in perpetuity of 7.2%, lower than current levels (7.4% in 2023) and than forecasted levels (8.5% in 2024, 8.7% in 2025, 9.4% in 2026e, 8.7% in 2027e, 8.6% in 2028e)
- Organic CAPEX at levels congruent with the development plan stated by the company- We have assumed going forward a CAPEX yearly sum of around RON100mn – growing with inflation and tied to expansion plans.

**Cummulative CF main items**



Source: Company data, Erste Group Research

## SFG DCF valuation

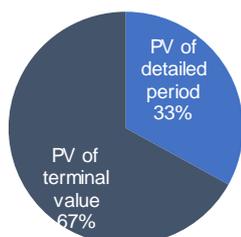
### WACC calculation

	2024e	2025e	2026e	2027e	2028e	2029e TV
Risk free rate	6.7%	6.7%	6.7%	6.7%	6.7%	5.0%
Equity risk premium	7.5%	7.5%	7.5%	7.5%	7.5%	7.0%
Beta	1.1	1.1	1.1	1.1	1.1	1.1
<b>Cost of equity</b>	<b>14.9%</b>	<b>14.9%</b>	<b>14.9%</b>	<b>14.9%</b>	<b>14.9%</b>	<b>12.7%</b>
Cost of debt	7.7%	7.7%	7.7%	7.7%	7.7%	6.0%
Effective tax rate	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%
<b>After-tax cost of debt</b>	<b>6.5%</b>	<b>6.5%</b>	<b>6.5%</b>	<b>6.5%</b>	<b>6.5%</b>	<b>5.0%</b>
Equity weight	15%	15%	15%	15%	15%	40%
<b>WACC</b>	<b>7.7%</b>	<b>7.7%</b>	<b>7.7%</b>	<b>7.73%</b>	<b>7.73%</b>	<b>8.1%</b>

### DCF valuation

(RON mn)	2024e	2025e	2026e	2027e	2028e	2029e TV
<i>Sales growth</i>	8.5%	12.0%	11.5%	4.4%	4.4%	3.0%
EBIT	135	155	188	181	188	161
<i>EBIT margin</i>	8.5%	8.7%	9.4%	8.7%	8.6%	7.2%
<i>Tax rate</i>	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%
Taxes on EBIT	-21.6	-24.8	-30.1	-29.0	-30.0	-25.8
<b>NOPLAT</b>	<b>113.2</b>	<b>130.4</b>	<b>157.9</b>	<b>152.1</b>	<b>157.7</b>	<b>135.2</b>
+ Depreciation	113	131	151	172	192	132
<i>Capital expenditures / Depreciation</i>	99.7%	97.3%	89.1%	76.0%	68.5%	100.0%
+/- Change in working capital	-15	-23	-24	-10	-11	-47
<i>Chg. working capital / chg. Sales</i>	-11.8%	-11.8%	-11.8%	-11.8%	-11.8%	-30.0%
- Capital expenditures	-112.3	-127.1	-134.4	-131.0	-131.7	-131.7
<b>Free cash flow to the firm</b>	<b>98.8</b>	<b>111.3</b>	<b>150.0</b>	<b>183.0</b>	<b>207.3</b>	<b>88.0</b>
<i>Terminal value growth</i>						3.0%
Terminal value						1,776.4
Discounted free cash flow - December 31 2023	90.9	95.1	118.9	134.7	141.6	1,177.9
<b>Enterprise value - December 31 2023</b>	<b>1,759</b>					
Minorities	0					
Non-operating assets	0					
Net debt (incl. lease liabilities)	304					
Other adjustments	0					
<b>Equity value - (RON bn) December 31 2023</b>	<b>1,455.1</b>					
Number of shares outstanding (mn)	1					
Cost of equity	12.7%					
<b>Fair value, RON mn</b>	<b>1,639.9</b>					
Number of shares outstanding (mn)	38.8					
<b>Fair value per share, RON</b>	<b>42.27</b>					
Share price	34.5					
<i>Upside/downside Official NAV (%)</i>	<i>22.5%</i>					

### Enterprise value breakdown



### Sensitivity (Equity value - RON mn)

		Terminal value EBIT margin				
		6.2%	6.7%	7.2%	7.7%	8.2%
WACC	7.1%	41.52	46.06	50.60	55.14	59.68
	7.6%	37.89	41.94	45.98	50.03	54.08
	8.1%	34.97	38.62	<b>42.27</b>	45.92	49.57
	8.6%	32.56	35.89	39.21	42.54	45.86
	9.1%	30.56	33.61	36.66	39.71	42.77
		Terminal value growth				
		2.0%	2.5%	3.0%	3.5%	4.0%
WACC	7.1%	42.27	45.98	50.60	56.51	64.31
	7.6%	39.21	42.27	45.98	50.60	56.51
	8.1%	36.66	39.21	<b>42.27</b>	45.98	50.60
	8.6%	34.50	36.66	39.21	42.27	45.98
	9.1%	32.63	34.50	36.66	39.21	42.27

Source: Erste Group Research

<b>Income Statement</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024e</b>	<b>2025e</b>	<b>2026e</b>
(IFRS, RON mn, 31/12)	31/12/2021	31/12/2022	31/12/2023	31/12/2024	31/12/2025	31/12/2026
<b>Net sales</b>	<b>1,000.30</b>	<b>1,322.80</b>	<b>1,469.10</b>	<b>1,593.77</b>	<b>1,784.86</b>	<b>1,990.62</b>
Invent. changes + capitalized costs	0.00	0.00	0.00	0.00	0.00	0.00
<b>Total revenues</b>	<b>1,000.30</b>	<b>1,322.80</b>	<b>1,469.10</b>	<b>1,593.77</b>	<b>1,784.86</b>	<b>1,990.62</b>
Other operating revenues	2.60	1.20	0.00	0.00	0.00	0.00
Material costs	-130.10	-177.90	-197.90	-205.33	-229.95	-256.46
Personnel costs	-225.90	-287.10	-325.20	-358.60	-392.67	-418.03
Other operating expenses	-141.70	-184.50	-192.50	-207.19	-232.03	-258.78
<b>EBITDA</b>	<b>127.60</b>	<b>161.80</b>	<b>212.10</b>	<b>247.30</b>	<b>285.88</b>	<b>338.74</b>
Depreciation/amortization	-90.00	-100.60	-103.20	-112.56	-130.64	-150.80
<b>EBIT</b>	<b>37.60</b>	<b>61.20</b>	<b>108.90</b>	<b>134.74</b>	<b>155.24</b>	<b>187.94</b>
Financial result	-20.30	-22.60	-25.00	-22.16	-24.59	-27.54
Extraordinary result	0.00	0.00	0.00	0.00	0.00	0.00
<b>EBT</b>	<b>17.30</b>	<b>38.60</b>	<b>83.90</b>	<b>112.58</b>	<b>130.65</b>	<b>160.40</b>
Income taxes	1.30	-0.84	-12.25	-18.01	-20.90	-25.66
Result from discontinued operations	0.00	0.00	0.00	0.00	0.00	0.00
Minorities and cost of hybrid capital	0.00	0.00	0.00	0.00	0.00	0.00
<b>Net result after minorities</b>	<b>18.60</b>	<b>37.76</b>	<b>71.65</b>	<b>94.57</b>	<b>109.75</b>	<b>134.74</b>
<b>Balance Sheet</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024e</b>	<b>2025e</b>	<b>2026e</b>
(IFRS, RON mn, 31/12)						
Intangible assets	292.20	275.50	297.70	333.70	375.70	423.33
Tangible assets	222.10	230.60	239.30	292.46	349.37	400.95
Financial assets	26.60	31.50	33.10	35.91	40.21	44.85
<b>Total fixed assets</b>	<b>540.90</b>	<b>537.60</b>	<b>570.10</b>	<b>662.07</b>	<b>765.29</b>	<b>869.13</b>
Inventories	13.40	15.90	15.00	16.27	18.22	20.32
Receivables and other current assets	33.90	24.30	18.10	19.64	21.99	25.53
Other assets	0.00	0.00	0.00	0.00	0.00	0.00
Cash and cash equivalents	146.10	128.10	98.10	105.05	126.37	170.72
<b>Total current assets</b>	<b>193.40</b>	<b>168.30</b>	<b>131.20</b>	<b>140.96</b>	<b>166.58</b>	<b>216.57</b>
<b>TOTAL ASSETS</b>	<b>734.30</b>	<b>705.90</b>	<b>701.30</b>	<b>803.03</b>	<b>931.87</b>	<b>1,085.71</b>
<b>Shareholders'equity</b>	<b>131.94</b>	<b>116.10</b>	<b>142.14</b>	<b>196.23</b>	<b>252.21</b>	<b>326.54</b>
<b>Minorities</b>	<b>0.18</b>	<b>0.30</b>	<b>0.49</b>	<b>0.68</b>	<b>0.87</b>	<b>1.12</b>
<b>Hybrid capital and other reserves</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>Pension and other LT personnel accruals</b>	<b>4.20</b>	<b>3.90</b>	<b>4.60</b>	<b>4.99</b>	<b>5.59</b>	<b>6.23</b>
<b>LT provisions</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
Interest-bearing LT debts	348.90	313.70	303.30	329.04	368.49	410.97
Other LT liabilities	0.00	0.70	1.96	2.13	2.38	2.66
<b>Total long-term liabilities</b>	<b>348.90</b>	<b>314.40</b>	<b>305.26</b>	<b>331.16</b>	<b>370.87</b>	<b>413.63</b>
Interest-bearing ST debts	120.70	117.80	98.40	106.75	119.55	133.33
Other ST liabilities	128.40	153.40	150.45	163.22	182.79	204.86
<b>Total short-term liabilities</b>	<b>249.10</b>	<b>271.20</b>	<b>248.85</b>	<b>269.97</b>	<b>302.34</b>	<b>337.19</b>
<b>TOTAL LIAB. , EQUITY</b>	<b>734.32</b>	<b>705.90</b>	<b>701.34</b>	<b>803.03</b>	<b>931.87</b>	<b>1,085.71</b>
<b>Cash Flow Statement</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024e</b>	<b>2025e</b>	<b>2026e</b>
(IFRS, RON mn, 31/12)						
Cash flow from operating activities	106.90	153.43	209.52	229.68	276.57	325.83
Cash flow from investing activities	-60.45	-55.05	-57.56	-112.26	-127.13	-134.38
Cash flow from financing activities	-22.35	-111.85	-151.80	-110.47	-128.12	-147.09
<b>CHANGE IN CASH , CASH EQU.</b>	<b>24.10</b>	<b>-13.47</b>	<b>0.16</b>	<b>6.95</b>	<b>21.32</b>	<b>44.35</b>
<b>Margins &amp; Ratios</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024e</b>	<b>2025e</b>	<b>2026e</b>
Sales growth	40.7%	32.2%	11.1%	8.5%	12.0%	11.5%
EBITDA margin	12.8%	12.2%	14.4%	15.5%	16.0%	17.0%
EBIT margin	3.8%	4.6%	7.4%	8.5%	8.7%	9.4%
Net profit margin	1.9%	2.9%	4.9%	5.9%	6.1%	6.8%
ROE	13.2%	30.4%	55.5%	55.9%	48.9%	46.6%
ROCE						
Equity ratio	18.0%	16.5%	20.3%	24.5%	27.2%	30.2%
Net debt	327.7	307.3	308.2	335.7	367.3	379.8
Working capital	-55.7	-102.9	-117.7	-129.0	-135.8	-120.6
Capital employed	459.8	424.4	452.8	534.8	622.7	710.1
Inventory turnover	26.7	31.2	31.0	32.6	33.1	33.0

Source: Company data, Erste Group estimates

## Group Research

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Croatia/Serbia Mladen Dodig (Head) Boris Pevalek, CFA <sup>®</sup> Marko Plastic Matej Pretkovic Bruno Barbic Davor Spoljar, CFA <sup>®</sup> Magdalena Basic	+381 11 22 09178 +385 99 237 2201 +385 99 237 5191 +385 99 237 7519 +385 99 237 1041 +385 72 37 2825 +385 99 237 1407	Group Securities Markets Head: Thomas Einramhof	+43 (0)50100 84432
Czech Republic Petr Bartek (Head, Utilities) Jan Safranek	+420 956 765 227 +420 956 765 218	Institutional Distribution Core Head: Jürgen Niemeier	+49 (0)30 8105800 5503
Hungary József Miró (Head) András Nagy Tamás Pletser, CFA <sup>®</sup> (Oil & Gas)	+361 235 5131 +361 235 5132 +361 235 5135	Institutional Distribution DACH+ Head: Marc Friebertshäuser Bernd Bollhof Andreas Goll Mathias Gindele Ulrich Inhofner Sven Kienzle Rene Klases Christopher Lampe-Traupe Michael Schmotz Christoph Ungerböck Klaus Vosseler	+49 (0)711 810400 5540 +49 (0)30 8105800 5525 +49 (0)711 810400 5561 +49 (0)711 810400 5562 +43 (0)5 0100 85544 +49 (0)711 810400 5541 +49 (0)30 8105800 5521 +49 (0)30 8105800 5523 +43 (0)5 0100 85542 +43 (0)5 0100 85558 +49 (0)711 810400 5560
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Cash Equity Sales Werner Fuerst Viktoria Kubalцова Thomas Schneidhofer Oliver Schuster	+43 (0)5 0100 83121 +43 (0)5 0100 83124 +43 (0)5 0100 83120 +43 (0)5 0100 83119	Group Fixed Income Securities Markets Head: Goran Hobljaj	+43 (0)50100 84403
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## Company description

Sphera is the leading food operator in Romania, operating through subsidiaries in Italy and Moldova. It operates KFC, Pizza Hut and Pizza Hut Delivery, and Taco Bell branded restaurants under master franchisee agreements

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