

COMPANY UPDATE

Sphera Franchise Group

Buy

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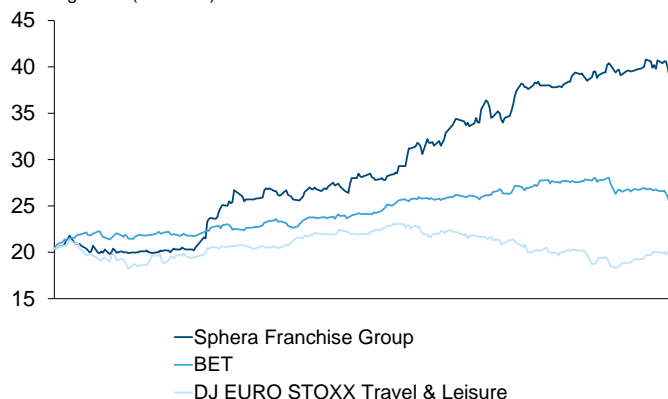
Share price (RON) close as of 06/09/2024	39.0	Reuters	ROSFG.BX	Free float	34.0%
Number of shares (mn)	38.8	Bloomberg	SFG RO	Shareholders	
Market capitalization (RON mn / EUR mn)	1,513 / 304	Div. Ex-date	10/12/24	Homepage:	www.spheragroup.com
Enterprise value (RON mn / EUR mn)	1,824 / 367	Target price	47.5		

Key figures Overview

RON mn	2023	2024e	2025e	2026e
Net sales	1,469.1	1,531.9	1,679.6	1,838.0
EBITDA	212.1	237.7	269.0	319.2
EBIT	108.9	125.1	142.2	175.3
EBT	83.9	103.0	118.2	148.8
Net profit	71.7	86.5	99.3	125.0
EPS (RON)	1.85	2.23	2.56	3.22
CEPS (RON)	5.40	5.47	6.64	7.84
BVPS (RON)	3.68	4.87	6.16	7.93
Dividend/Share (RON)	0.00	1.05	1.27	1.45
EV/EBITDA (x)	6.16	7.67	6.85	5.77
P/E (x)	13.92	17.50	15.24	12.11
P/CE (x)	4.76	7.13	5.88	4.97
Dividend yield (%)	0.00	2.69	3.25	3.73
EBITDA margin (%)	14.44	15.52	16.02	17.37
Operating margin (%)	7.41	8.17	8.47	9.54
Net profit margin (%)	4.88	5.65	5.91	6.80

Trading data & Statistics

Daily averages	5 days	30 days	last year
Volume	11,873	10,190	17,578
Trading value (RON mn)	0.5	0.4	0.6



Price performance:	1M	3M	6M	12M
in EUR	-1.4%	6.1%	38.2%	90.8%

Financial Strength

	2023	2024e	2025e	2026e
ROE (%)	55.49	52.37	46.56	45.86
ROCE (%)				
Equity ratio (%)	20.34	24.48	27.23	30.57
Net debt (RON mn)	308.20	310.15	329.15	326.54
Gearing (%)	216.08	164.28	137.68	106.07

Costs increase below top line growth, successful marketing and streamlining continue

We are upgrading our target price for Sphera to RON47.5/share in view of the company's latest results, cost of risk, streamlining and development profile and maintain our BUY recommendation.

Albeit in the second quarter of 2024 the same-store growth of its KFC Romania flagship has declined to a level below multi-year averages, we trust the innovative, creative, and targeted marketing campaigns will help – as in the past – to ride the seasonal trends and add to top line and profitability. Moreover, we are pleased to note a very positive development in costs of food, with management taking advantage of the current disinflationary environment and leveraging its sourcing and negotiating capabilities. 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 remain conservative in terms of same-store sales growth (below inflation) and expense increase (above inflation). The dividend distribution, including the extraordinary dividend to be approved for is an added incentive, without raising yet concerns on defunding the company, which has a solid balance sheet capable of sustaining an increased gearing.

1H24 results – better profitability y-o-y and q-o-q

Sphera announced 1H24 results showed consistent y-o-y growth on the top line, together with a significant jump in profitability in both EBITDA and net profit, pointing to an 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. On a quarterly basis, vs 2Q23, the top line and profitability also increased dramatically. Vs. the previous quarter, the results show a slight decline in profitability which is not entirely in line with historical developments, but not of a worrying order of magnitude and due to normal developments in the market, mostly outside of management control.

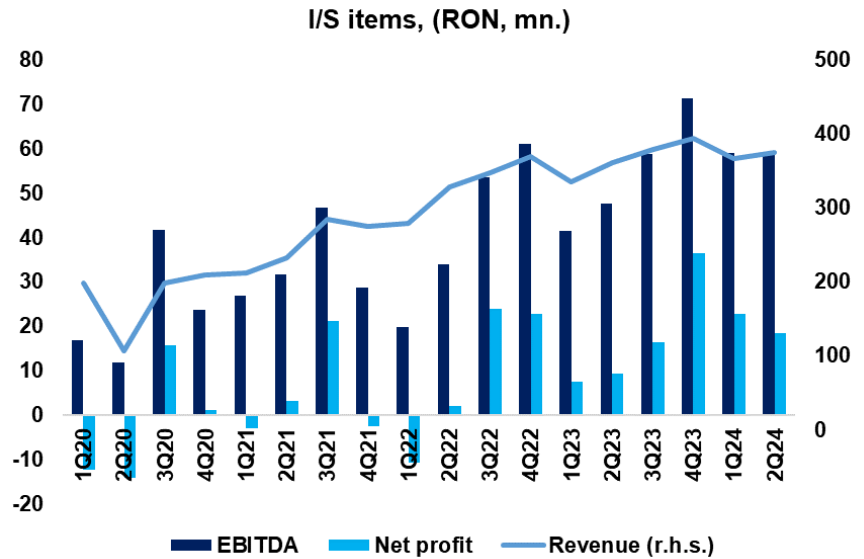
Record top line ...

1H24 top line advanced by more than 6.5% compared to 1H23, reaching RON741mn, vs. RON696mn. IFRS 1H24 total restaurant operating costs advanced less than revenues, growing only 2.6% y-o-y, amounting to RON647mn compared to the RON631mn of 1H23. As a result, 1H24 operating profits from restaurants increased 45% compared to the figures of the previous year. Net profit grew by 147% to RON41mn, vs RON17mn in 1H23, and EBITDA increased by 33% to RON118mn, vs RON89mn. Margins jumped as well, with net margin reaching 5.5% vs 2.4% during 1H23, and EBITDA margin 15.9% vs. 12.8% during 1H23.

(RON mn.)	2Q24	2Q23	change	1Q24	change	2Q22	change	1H24	1H23	change	1H22	change
Revenues&oth income	374	361	3.8%	367	2%	329	14%	741.0	695.6	6.5%	607.2	22%
COGS	117	120	-3%	116	0%	119	-2%	232.9	232.8	0%	217.3	7%
Employee costs	87	85	1%	82	5%	75	16%	169.1	163.3	4%	141.8	19%
Rents	8	8	-3%	8	2%	7	5%	15.5	15.8	-1%	13.8	13%
Royalties	22	22	4%	22	2%	20	14%	44.5	41.7	7%	36.4	22%
Advertising	20	19	5%	18	14%	18	9%	37.8	35.0	8%	32.3	17%
Other opex	47	46	4%	48	0%	44	9%	95.0	91.7	4%	88.9	7%
Depreciation	27	26	1%	25	5%	24	11%	52.3	50.3	4%	47.7	10%
Operating costs restaurants	328	326	0.6%	319	3%	308	7%	647.0	630.5	2.6%	578.2	12%
Operating profit restaurants	46	34	35%	48	-3%	21	122%	94.0	65.0	45%	29.0	224%
SGA	16	15	3%	16	0%	13	24%	31.1	29.9	4%	25.9	20%
Operating profit	31	19	60%	32	-4%	8	268%	62.9	35.2	79%	3.1	1902%
Financial costs	7	7	-9%	6	13%	6	14%	12.8	13.9	-8%	10.8	19%
Financial revenues	(0)	0	-268%	0	-148%	0	-177%	0.2	1.0	-83%	0.4	-51%
Financial result	(7)	(7)	-5%	(6)	22%	(6)	21%	(12.6)	(12.8)	-2%	(10.4)	21%
PBT	24	12	100%	26	-10%	3	808%	50.3	22.3	126%	(7.3)	-794%
Taxes	5	3	98%	4	42%	1	928%	9.2	5.6	63%	1.5	508%
Net Profit	18	9	100%	23	-18%	2	778%	41.1	16.7	147%	(8.8)	-569%
EBITDA	59	48	24%	59	0%	34	74%	118.2	89.1	33%	53.9	119%
Net margin	4.9%	2.6%		6.2%		0.6%		5.5%	2.4%		-1.4%	
EBITDA margin	15.8%	13.2%		16.1%		10.4%		15.9%	12.8%		8.9%	

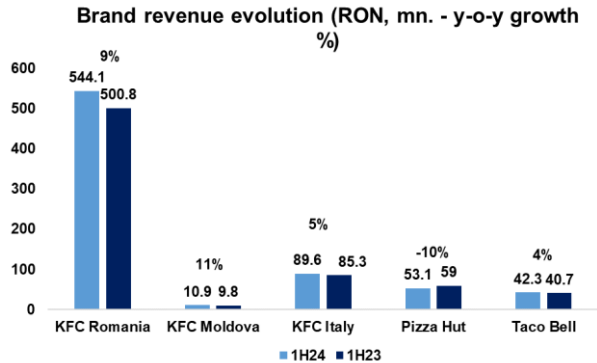
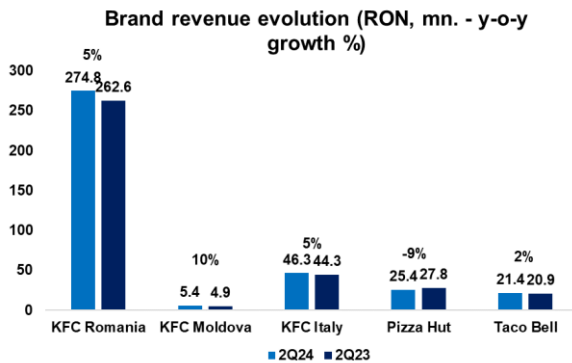
Source: Company data, Erste Group Research

On a quarterly basis, y-o-y revenues advanced by 3.8%, with COGS declining by 3%, leading to only a 0.6% advance in operating costs, leading to a 35% increase in operating profits from restaurants. IFRS net profits doubled, and EBITDA increased by 24% y-o-y. Profitability was also higher, with net margin reaching 4.9% vs 2.6% and EBITDA margin continued higher reaching 15.8% vs. 13.2% during 2Q23. Vs. the previous quarter, the revenue grew by 2%, Total costs increased by 3% leading to a 3% decline in operating profit, a flat EBITDA and an 18% decline in net profit. Margins in 2Q24 declined marginally compared to 1Q24.



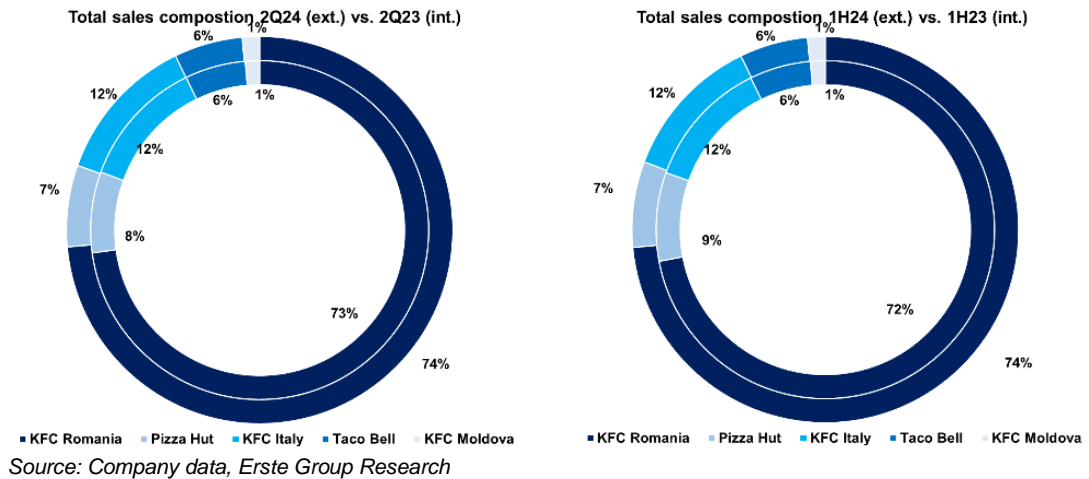
Source: Company data, Erste Group Research

The evolution vs. the previous quarter follows the same trend as the previous years in terms of revenue. The profitability was by far the highest of any second quarter in the last five years, even if marginally lower compared to also a record 1Q24 over the same 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 74% of total sales, followed by KFC Italy, with about 12%, Pizza Hut and Taco Bell. During 1H24, KFC Romania registered a 9% growth in revenues y-o-y, reaching RON544mn. With 5% growth in revenues KFC Italy contributed about RON90mn to the top line. Impressive growth rates in revenues were shown by KFC Moldova, which grew revenues by 11% and while Taco Bell grew by 4%, however both from much lower basis than the flagships of the group. It is also notable the major decline in the contribution of Pizza Hut, as a result of closings, with a y-o-y decline in revenues of about 10%. Otherwise, on a quarterly basis, KFC Romania grew y-o-y by 5% - a slight slowdown compared to the half year trend, but otherwise the trends are similar as those on a half year basis.

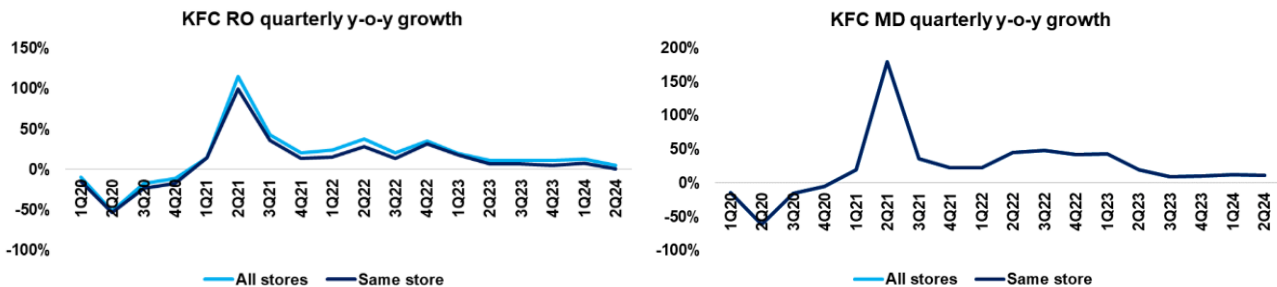


Same store performance stays solid, but tapering vs high post-pandemic growth The 2Q24 y-o-y growth delivered by the brands in the group's portfolio were still solid overall however softened overall in terms of same store sales, reaching only 0.6% in the second quarter of 2024, the lowest compared to any quarter other than during the pandemic. When considering the impact of the new stores, the overall growth of sales overall, was 3.8%, again the lowest in the post pandemic period.

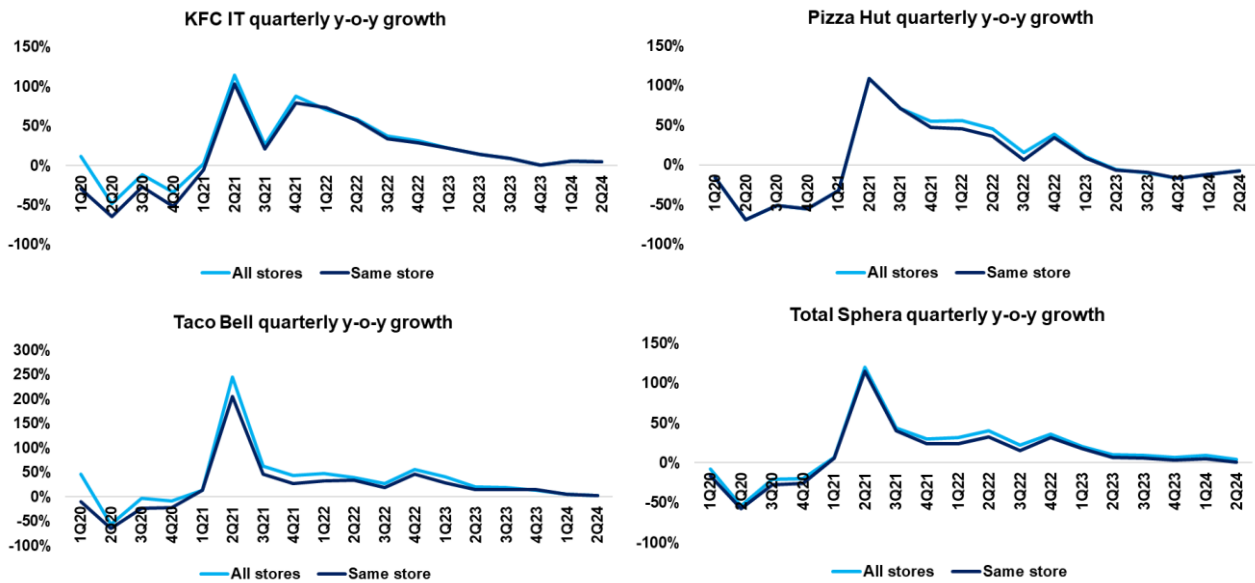
Y-o-y growth (%)	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24
KFC RO All stores	-9.9%	-51.6%	-17.1%	-11.5%	14.3%	114.9%	42.8%	20.3%	23.6%	37.3%	20.1%	35.0%	19.6%	10.5%	10.7%	10.5%	12.8%	4.8%
Same store	-14.7%	-53.3%	-23.6%	-17.3%	14.1%	99.4%	35.9%	13.7%	15.1%	28.3%	13.3%	31.1%	18.0%	6.5%	6.9%	5.1%	7.2%	0.5%
KFC MD 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%	12.4%	10.8%
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%	12.4%	10.8%
KFC IT 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%	5.7%	4.4%
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%	5.7%	4.4%
Pizza Hut 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%	-12.0%	-7.6%
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%	-12.0%	-7.6%
Taco Bell 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%	5.4%	2.6%
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%	5.4%	2.6%
Sphera 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%	9.2%	3.8%
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%	5.2%	0.6%

Source: Company data, Erste Group Research

KFC Romania – lowest same store growth since the pandemic. The low same store sales are mainly caused by KFC Romania, while all the other brands (except the problematic Pizza Hut brand) have registered solid same store growth. However, it is expected that the current marketing impetus to bring a renewal of growth in this segment. Thus, during 2Q24. KFC Romania grew overall y-o-y by 4.8%, marginally higher than the overall group growth, but same store sales increase below the average group growth by only 0.5%. As expected, same store sales declined in Pizza Hut, with a continuous decline for the last five quarters, which doesn't seem to end, even if the rate of decrease tapered somewhat. KFC Italy posted a solid 74.4% growth, Taco Bell 2.6%, with the returning champion KFC Moldova again best at 10.8%.

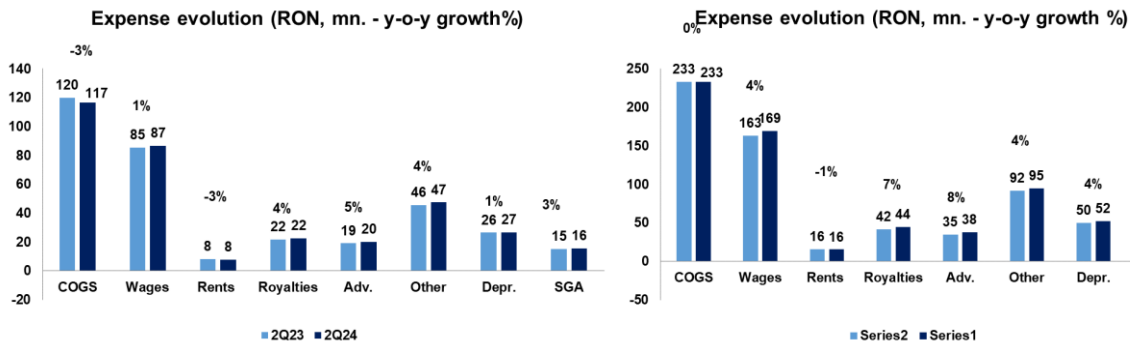


Source: Company data, Erste Group Research



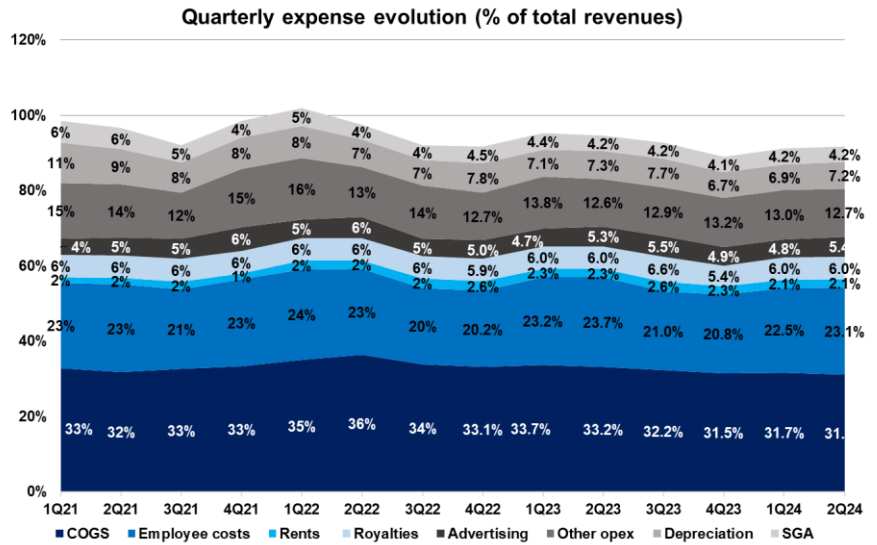
Source: Company data, Erste Group Research

Costs improve, mainly on lower food costs Total operating restaurant expenses grew in 1H24 by 2.6% y-o-y, less than the 6.5% increase in revenues. The cost increases were mainly caused by the general inflationary environment especially in the work force 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. 1H24 food costs remained flat, on the back of the purchasing policies of the company, while employee costs, grew slightly lower than revenues, at 4%.



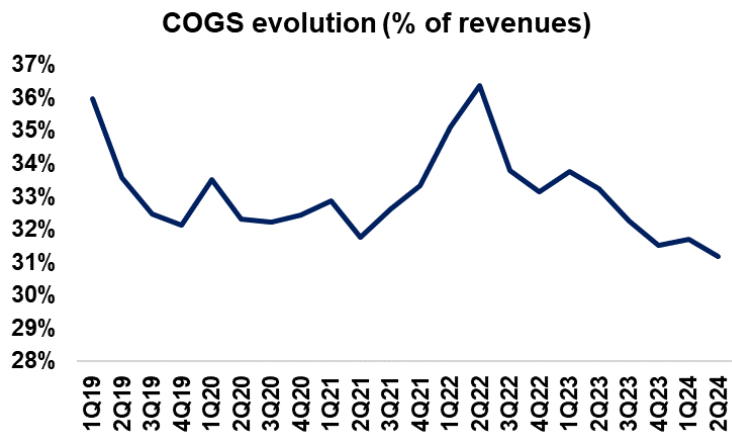
Source: Company data, Erste Group Research

General and administrative costs increased by 4% and other costs also by only 4%, mainly on the back of third-party costs. Rents declined 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 y-o-y was 3%, on 3.8% higher revenues, while employee costs remained increased by 1% vs 2Q23. Vs the first quarter of 2024, food costs remained flat, despite the 2% growth in revenues, while employee costs grow faster, at 5%. Advertising expenses, albeit from a smaller base, registered an increase at quarterly level as well, with 2Q24 advertising expenses increasing by 5% y-o-y and 14% q-o-q. Depreciation also generally increased, on the back of the CAPEX program.



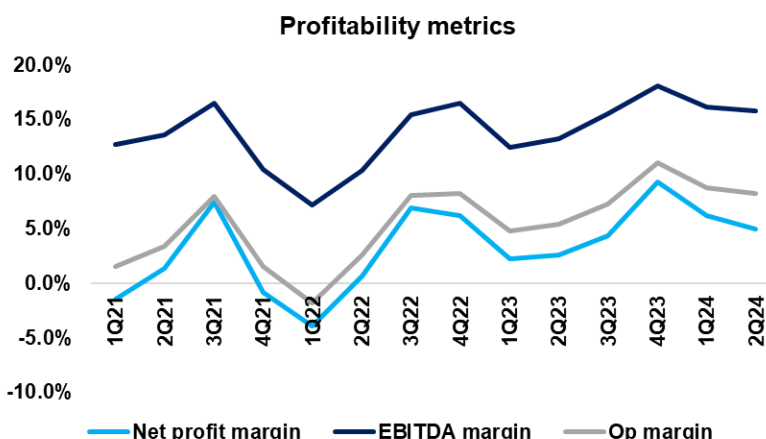
Source: Company data, Erste Group Research

As a percentage of revenues: Most importantly, the share of food in total costs has continued to decrease as a share of revenues from 33.2% during 2Q23 to 31.2% during 2Q24, one of the main engines of profitability increase, adding to the decrease in personnel costs from 23.7% of total revenues to 23.1% of total revenues. Other operating expenses have stayed mostly flat as a percentage of revenues, with minor differences, on the back of the easing of energy costs, maintenance and consumables. Rents have declined, marginally y-o-y and stayed flat q-o-q, while royalties and advertising changed only marginally as a % of sales, on a yearly and quarterly basis as well.



Source: Company data, Erste Group Research

In terms of profitability, the 15.8% EBITDA margin is the highest compared to the any second quarter of the last five years on a better level compared to the pre-pandemic period, and 1.8% above the average of all 22 quarters on the same period. In terms of net margins, the 4.9% profit margin is also by far second highest among the second quarters of last five years, and 2.3% higher than the average of the last 22 quarters. This is a feat, helped by the tapering of the inflation that influenced food costs, 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.



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.

Manageable gearing The gearing of the company remains within manageable levels, with lower than 1.5x Net Debt/2024e EBITDA. The net debt increased only marginally since the beginning of the year to RON348mn, compared to the RON304mn at the end of 2023. Considering the expected growth in EBITDA, the gearing remains at a level in line with a median compared to the significantly lower compared to the lowest of the last four years.

(RON, mn.)	2019	2020	2021	2022	2023	1Q24	2Q24
LT Debt + leases	263.7	280.8	348.9	313.7	303.0	303.4	325.4
ST Debt + leases	79.6	114.3	120.7	117.8	98.3	97.6	101.7
Cash&Equivalents	57.3	122.0	146.1	128.1	98.2	89.5	78.8
Net Debt	286.0	273.1	323.5	303.4	303.1	311.5	348.3
Net Debt/EBITDA	1.93	3.07	2.54	1.88	1.38	1.31	1.47

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 which was paid in June. Management also submitted to October 7 GSM a proposal of an additional, extraordinary dividend of RON1.05/share, with October 21 as ex-dividend date and with November 7 as payment date. Currently, the yield would raise to the level of 2.7%.

Corporate action As of the end of July 2024, the group operated 107KFC 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) subfranchise. During 1H24 the company opened 3 new KFC restaurants 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 Hunedoara county in the west of the country, and another one in Arges county also. During 3Q24 it opened one in Dolj county and one in Sinaia. 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, continued 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 company targets existing customers via offers and new users via innovation. 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.

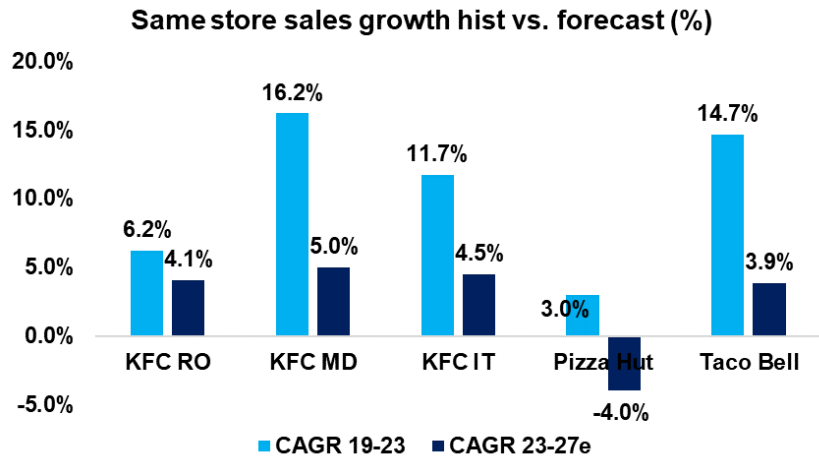
KFC Romania earns international advertising award. One of the few KFC international advertising awards was won this year by KFC Romania. The company emphasized the locally sourced, hand cooked chicken in KFC by swapping company cooks with local influencers. Also, it concentrated on the burger segment which appears to have solid growth potential, via the Star Burger, Cheesy Zinger Burger, and the Tuesday Bucket. It perfected the app and promoted an increased number of app downloads, while aligning price across digital and in store access and targeted the gaming community.

Aggressive and successful marketing campaigns. It used disruptive value in Pizza Hut by various offers, the continuation of the “children eat free” campaign, a Euro24 football tied campaign and the celebration of 30 years of Pizza Hut in Romania.

In Taco Bell, the marketing campaign targeted increasing the frequency of purchase and the attraction of new customers, via the introduction of the Cheesy Bacon Quesadilla, the milksakes and the Mas Menu. It also communicated with the young segment via the Mas platform, an interactive game platform.

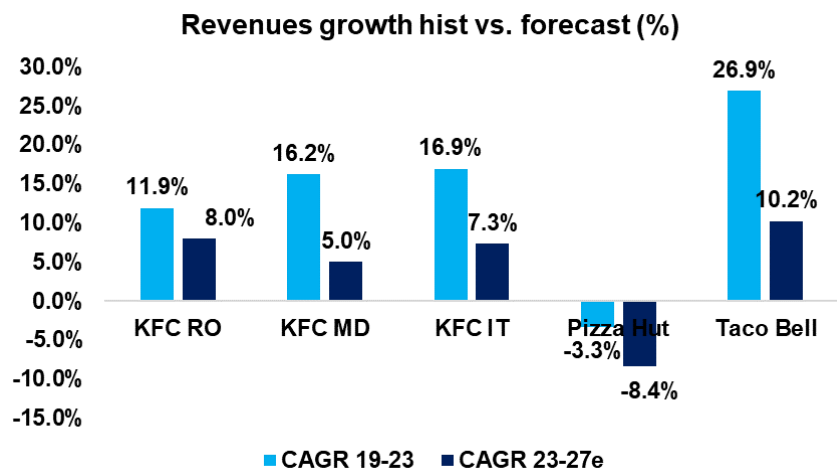
Looking forward – adjusting for lower inflation, consolidation of same-store sales

We continue to consider 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 the averages that 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.



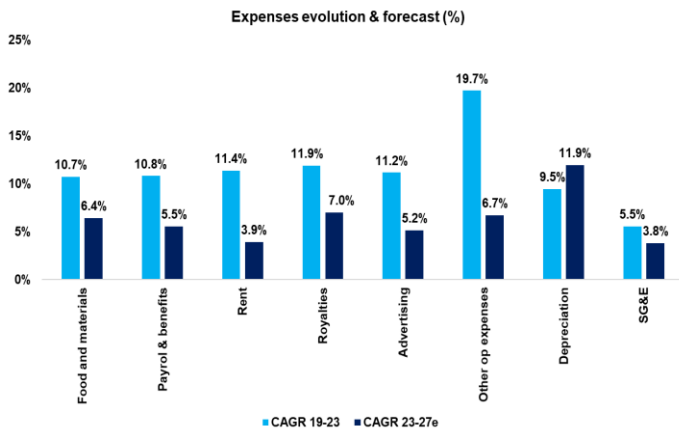
Source: Company data, Erste Group Research

We also downgrade our forecast vs our previous update, with KFC Romania CAGR at 4.1% vs 4.5% earlier, due to the lower growth in 2Q24, also in KFC Italy to 4.5% compared to 5% previously and in Taco Bell to 3.9% vs 5% previously.

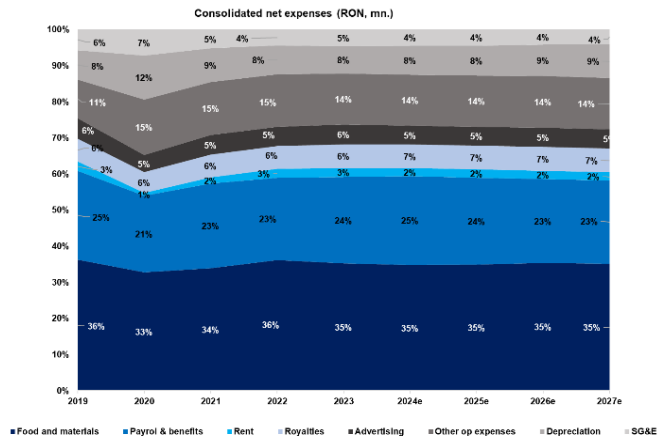


Source: Company data, Erste Group Research

... 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. Also, vs our previous forecast we have tempered our growth outlook, with KFC Romania revenue growth CAGR now at 8% vs 8.9% previously, with KFC Italy at 7.3% vs 14% previously and Pizza Hut at -8.4% vs -7.6% previously. Taco Bell growth was revised to 10.2% vs. 15.6% and KFC Moldova to 5% from 16.2% earlier.

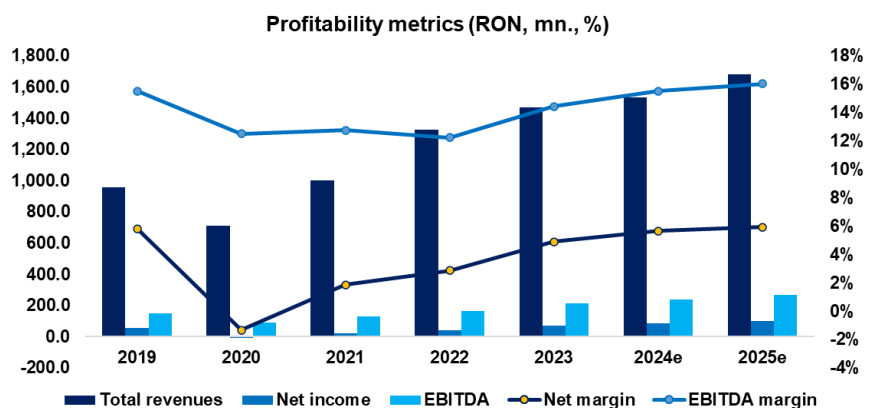


Source: Company data, Erste Group Research



Expense forecast for main cost items above inflation. In terms of expenses, we generally forecast in a conservative manner. We were right to 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. Nevertheless, we deem it conservative to forecast the main cost items such as cost of food and personnel costs above inflation. In the case of personnel costs, we believe this is prudent, considering the dearth of workforce in Romania and the influx of foreign labor. We forecast the 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. 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.

Overall, it is difficult to anticipate major changes in the share of cost items relative to restaurant revenues, as we are not able to anticipate a major crisis that would enable cost disruptions.



Source: Company data, Erste Group Research

Profitability inching marginally above pre-pandemic, on streamlining and economies of scale. 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. Nevertheless, as we show below,

the recent quarters point to a higher level of profitability that should be sustainable in absence of a major macro or market disruptions.

1QA results vs YE forecast

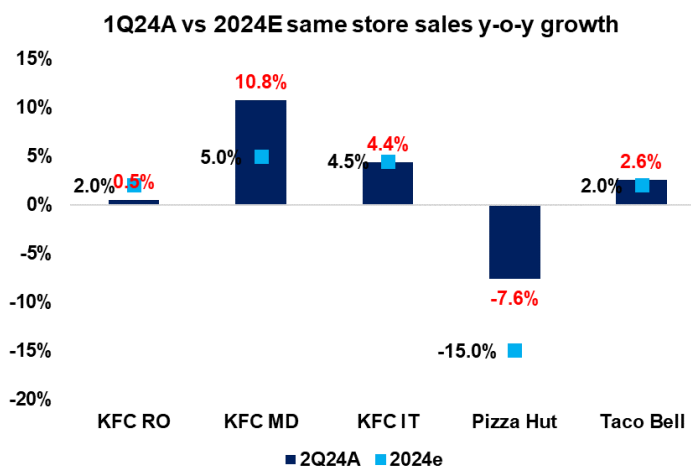
The current results issued by the company are a reinforcement of our positive stance on the stock, with the rate of growth, y-o-y in all main financial indicators showing a better prospect than our conservative estimates.

Y-o-Y growth	1H24A	2024e
Revenues&oth income	6.5%	4.3%
EBITDA	32.6%	12.1%
Net Profit	146.8%	20.7%

Source: Company data, Erste Group Research

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.

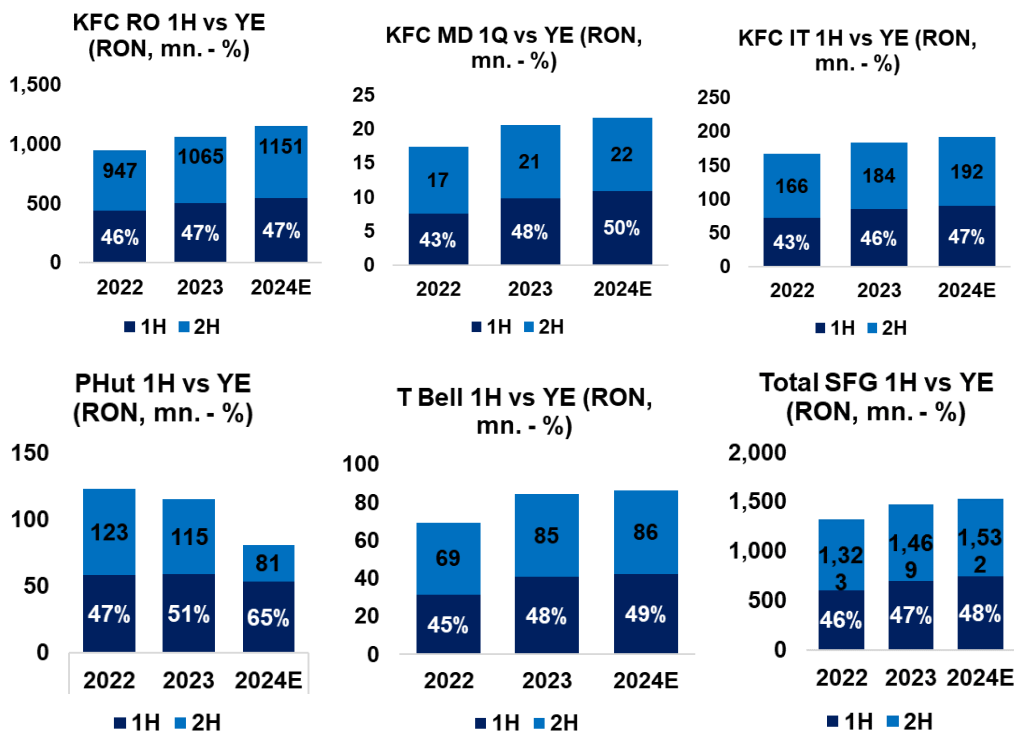
We project conservatively for 2024 and beyond. At the same time, we have calibrated our forecast in view of latest quarterly results, and have moderated our growth outlook for same store sales compared to our previous forecast. Thus, we decreased KFC Romania same store sales to 2% vs 4.5% previously, for KFC Italy to 4.4% from 5.7% and in Taco Bell to 2.6% from 5.4%. In Pizza Hut we maintained the rate of decline of 15%, despite a current 1H24 rate of only 7.6%.



Source: Company data, Erste Group Research

YE revenues forecast perfectly achievable

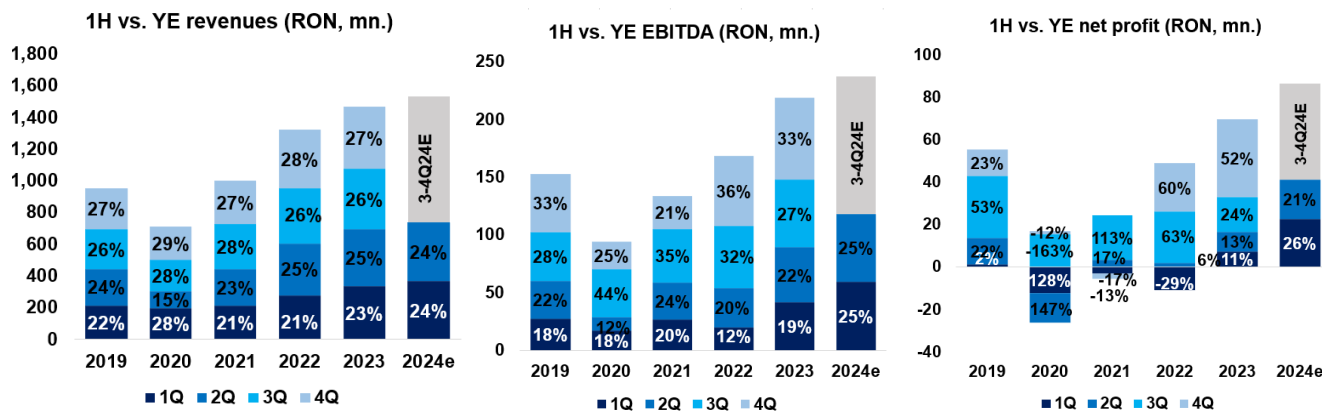
We have charted the revenues of the company's brands vs the previous year, in terms of the share of YE revenues allocated to first half of the year. Across the board our forecast is more conservative compared to the achievement of last years. (Note: A higher share of 1H24A in 2024E compared to that of 1Q23 in 2023 figures represents a more conservative YE estimate compared to actual 1H numbers.)



Source: Company data, Erste Group Research

YE profitability likely to overshoot our conservative forecasts.

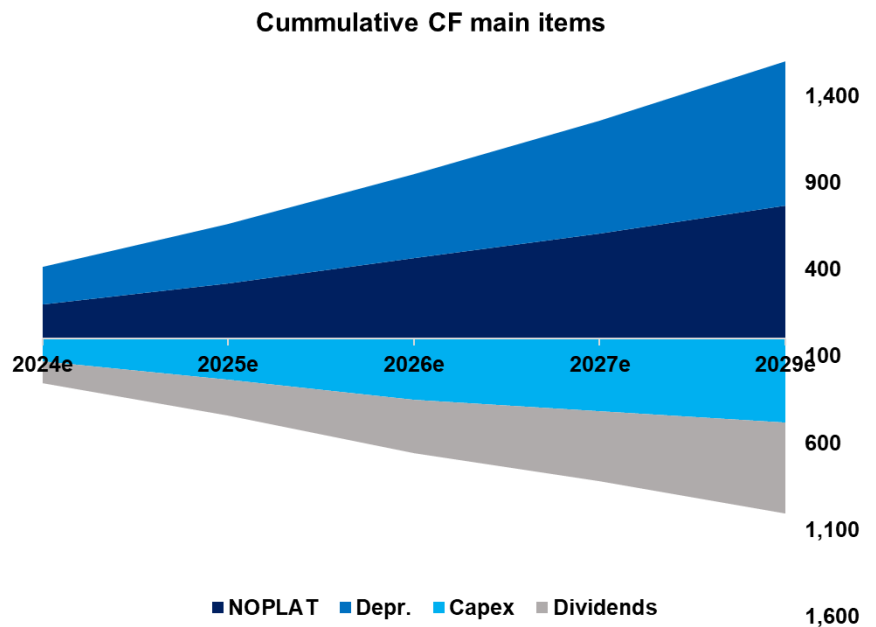
Our YE forecast of revenues EBITDA and Net Profit are largely in line with the current development of sales and profitability, in the absence of any major disruptions from the macroeconomic or business side. In terms of revenues, as mentioned above, we remain conservative in forecasting compared to already 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 half 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% 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%
- 25% 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 50% in perpetuity.
- Terminal value growth at 3%, slightly above half of forecasted inflation
- EBIT margin in perpetuity of 7%, lower than current levels (7.4% in 2023) and than forecasted levels (8.2% in 2024, 8.5% in 2025, 9.5% in 2026e, 8.9% in 2027e, 9% in 2028e and 9% in 2029e)
- Organic CAPEX at levels congruent with the development plan stated by the company at a conservative RON11.5mn per new store
- We have assumed going forward a CAPEX yearly sum of around RON50mn – growing with inflation and tied to expansion plans.



Source: Company data, Erste Group Research

SFG DCF valuation

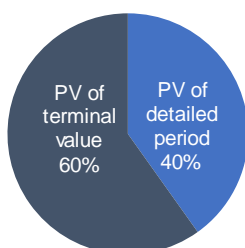
WACC calculation

	2025e	2026e	2027e	2028e	2029e	TV
Risk free rate	6.0%	6.0%	6.0%	6.0%	6.0%	5.0%
Equity risk premium	7.5%	7.5%	7.5%	7.5%	7.5%	7.0%
Beta	1.0	1.0	1.0	1.0	1.0	1.2
Cost of equity	13.5%	13.5%	13.5%	13.5%	13.5%	13.4%
Cost of debt	7.0%	7.0%	7.0%	7.0%	7.0%	6.0%
Effective tax rate	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%
After-tax cost of debt	5.9%	5.9%	5.9%	5.9%	5.9%	5.0%
Equity weight	25%	25%	25%	25%	25%	50%
WACC	7.8%	7.8%	7.77%	7.77%	7.77%	9.2%

DCF valuation

(RON mn)	2025e	2026e	2027e	2028e	2029e	TV
<i>Sales growth</i>	9.6%	9.4%	4.5%	4.5%	4.5%	3.0%
EBIT	142	175	171	184	188	151
<i>EBIT margin</i>	8.5%	9.5%	8.9%	9.2%	9.0%	7.0%
<i>Tax rate</i>	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%
Taxes on EBIT	-22.8	-28.0	-27.4	-29.4	-30.1	-24.2
NOPLAT	119.5	147.2	143.8	154.4	157.9	127.0
+ Depreciation	127	144	162	175	186	67
<i>Capital expenditures / Depreciation</i>	86.4%	80.3%	40.0%	37.5%	35.5%	100.0%
+/- Change in working capital	-17	-19	-10	-10	-11	-19
<i>Chg. working capital / chg. Sales</i>	-11.8%	-11.8%	-11.8%	-11.8%	-11.8%	-30.0%
- Capital expenditures	-109.5	-115.6	-64.8	-65.4	-66.1	-66.9
Free cash flow to the firm	119.3	156.9	231.3	253.2	267.5	108.2
<i>Terminal value growth</i>						3.0%
Terminal value						1,791.2
Discounted free cash flow - December 31 2023	110.7	135.1	184.8	187.7	184.0	1,196.1
Enterprise value - December 31 2023	1,998					
Minorities	1					
Non-operating assets	0					
Net debt (incl. lease liabilities)	305					
Other adjustments	0					
Equity value - (RON bn) December 31 2023	1,692.4					
Number of shares outstanding (mn)	1					
Cost of equity	13.5%					
Fair value, RON mn	1,842.0					
Number of shares outstanding (mn)	38.8					
Fair value per share, RON	47.47					
Share price	39					
<i>Upside/downside Official NAV (%)</i>	21.7%					

Enterprise value breakdown



Sensitivity (Equity value - RON mn)

		Terminal value EBIT margin				
		6.0%	6.5%	7.0%	7.5%	8.0%
WACC	8.2%	47.19	50.55	53.90	57.26	60.61
	8.7%	44.29	47.35	50.41	53.47	56.53
	9.2%	41.84	44.66	47.47	50.29	53.10
	9.7%	39.77	42.37	44.98	47.58	51.23
	10.2%	38.95	41.37	43.80	46.22	48.65
		Terminal value growth				
		2.0%	2.5%	3.0%	3.5%	4.0%
WACC	8.2%	47.47	50.41	53.90	58.14	63.38
	8.7%	44.98	47.47	50.41	53.90	58.14
	9.2%	42.83	44.98	47.47	50.41	53.90
	9.7%	40.96	42.83	44.98	47.47	50.41
	10.2%	39.31	40.96	42.83	44.98	47.47

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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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