



Analyst Corner: 'Sell' Westlife Development with TP of Rs 343

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Anandrathi

Even on a high base (20.7%), Westlife reported another quarter of strong, 14.5%, SSSG. Revenue growth was driven by menu innovations (What's Spice Fest) and brand extensions (McCafe and McDelivery). On the greater supply-chain efficiency, the restaurant operating-margin growth came at a good 23%. We are upbeat about its profitable growth, though premium valuations would keep a lid on further potential in the stock. Thus, we lower our rating to a 'Sell'.

Driven by strong, 14.5%, same-store sales growth (SSSG), Westlife's revenue rose 21.5%. This was driven by menu innovation, strong growth in McCafe, McDelivery, and the breakfast menu. During the quarter, it introduced 'What's Your Spice Fest' menu innovation where it launched nine new products with different spices from around the world and two new beverages. The firm opened eight restaurants in Q3, taking its restaurant count to 292, and added 12 McCafes, taking the

count to 182.

Driven by cost efficiencies, a better product mix and controlled employee expenses, the firm reported a 193bp margin expansion for 9M FY19. The ROP 2.0 platform is boosting efficiencies along with early breakeven, resulting in profitable growth. Further, enhanced scale, price hikes, value offerings, brand extensions and cost efficiencies from new stores would support margins gains. We expect a 22% revenue CAGR and a 458bp EBITDA margin expansion over FY18-21.

We like restaurants with all-day, high value-for-money menus. We believe the café, breakfast, rice platform and beverages, along with the delivery platform, would contribute considerably to revenue ahead. We are upbeat about its profitable growth, though premium valuations would keep a lid on further potential in the stock. Thus, we lower our rating to a Sell, with a higher TP of Rs 343 (earlier Rs 270), based on 40x FY21e EPS and 22.8x FY21e EV/EBITDA.

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