

## Sphera Franchise Group (SFG)

**HOLD**

### Interim Update – Q1 2025

**Price Target: 40,6 RON (+6,3%)**

#### Key Points

- Sphera Franchise Group reported in Q1 2025 a revenue drop of -0,9% to 362,6 mln. RON compared to RON 365,9 mln. in the same period last year, below our estimates of 383,8 mln. The slowdown was due to a decrease in sales in its flagship KFC restaurant chain (-2,0% to 311,3 mln.), followed by a -1,0% drop from Pizza Hut, while the Taco Bell franchise continued on its growth with a 15,6% increase in revenues (to 24,1 mln. RON).
- A more cautious consumer behaviour mainly triggered the negative surprise in Q1, as the then-unfolding political crisis took its toll on spending. Also, the extreme weather patterns, especially in the first month of the year, with increased snowfall that impacted deliveries, harmed sales.
- Historically, sales in the first quarter are not the strongest, on average accounting for 22,6% of annual sales, compared to Q2 sales, which usually make up some 24,2% of annual revenues. However, consumer confidence (tradingeconomics) in the second quarter continued to decline in the second quarter, reaching -24,8 in June, compared to -17,4 in March and -20,4 in December last year, signaling that the revenue slowdown might have continued in the second quarter also.
- More worryingly, same-store sales in its flagship KFC franchise recorded its second decline in a row, dropping by -6,4% in Q1, after a -2,5% drop in Q4 2024. Given the current fiscal uncertainty and impending government expenses contraction, we see it less likely for the company to meet its ambitious sales target for the year of 1.738,2 mln. RON, but also our previous estimate of 1.694,7 mln. We've therefore lowered our full year forecast to 1.649 mln. RON, even though we expect a rebound in the second part of the year.
- We revise our price target to 40,6 RON/share, implying a 6,3% upside from the current market price and a Hold recommendation. We see a 3.2% upside on our DDM model, with a lower sales trajectory, compensated by a lower discount rate. Relative to peers, the stock also seems fairly priced at 41,8 RON/share, implying a 9,5% upside.

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#### Sector: Restaurants

#### Shares information

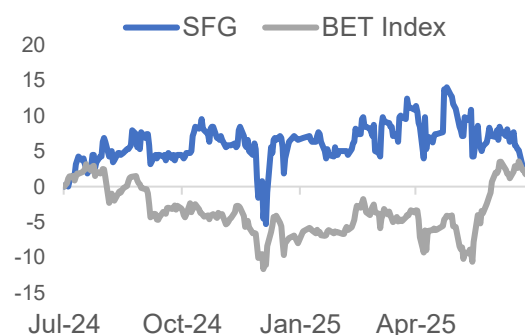
Min/max price, 52 weeks.	35.1 – 43.3
Dividend/share	1.09
Total Shares (mln.)	38.8
Capitalization (RON mln.)	1,493.7
52 weeks liquidity (RON mln.)	207.7

#### Major Shareholders

	%
Shaletia Ventures Ltd.	29.5
Computerland Romania	20.5
Wellkept Group	17.1
Institutional	29.1
Retail	3.8

#### 1 year performance vs BET

	%
SFG	+0.9
BET Index	+3.4



source: Bloomberg

## Q1 Results Overview

Sphera recorded a -0.9% drop in restaurant sales in the first quarter of this year, from 365,9 mln. RON to 362,6 mln. RON, below our estimates, due to a -2,0% decline in KFC franchise sales, to 311,3 mln. RON and Pizza Hut (-1,0%). Taco Bell was the only franchise to grow, reaching 24,1 mln. RON (+15,6%). Overall, revenues from all three franchises in Romania were down by 1,9%, while in Italy sales grew by 3,3% and in Moldova by 23,2%.

Same store sales in its flagship KFC franchise declined by -6,4% in Q1, while all store sales declined by only 3,4%. The decline was due to tighter consumer spending in the first quarter of the year, owing to the political crisis, bad weather (snowfall) that impeded deliveries, but also due to increased competition in the chicken meals segment.

Same store sales for Pizza Hut declined by 1,0% compared to the same period last year, slightly worse compared to the -0,5% drop in Q4 2024. For Taco Bell, same-store sales increased by 8,1% while all store revenues increased by almost double (+15,6%).

EBITDA was 26,6% lower compared to the same period last year, at 41,6 mln. RON, mostly impacted by a large increase (+12,4%) in salary expenses, owing to the minimum wage increase.

Overall, net income declined by a whopping 71,1% to 6,5 mln. RON, making our previous year-end target less reachable (98,7 mln.). We thus revised our net income forecast for the full year to 81,7 mln. RON, with a negative impact on 2026 dividends.

(RON, ths)	Q1 2024	Q1 2025	% var
<b>Restaurant Sales</b>	<b>365.924</b>	<b>362.587</b>	<b>-0,9%</b>
COGS (Cost of Goods Sold)	-116.199	-115.355	-0,7%
<b>Gross Profit</b>	<b>249.725</b>	<b>247.232</b>	<b>-1,0%</b>
Salary Expenses	-82.498	-92.716	12,4%
Rent Expenses	-7.677	-6.406	-16,6%
Royalty Expenses	-21.997	-21.644	-1,6%
Advertising Expenses	-17.685	-16.143	-8,7%
General and Admin Expenses	-15.512	-15.847	2,2%
Other Operational Expenses	-47.556	-52.800	11,0%
<b>EBITDA</b>	<b>56.800</b>	<b>41.676</b>	<b>-26,6%</b>
Depreciation and Amortization	-25.456	-28.376	11,5%
Other Income	771	1.982	157,1%
<b>EBIT</b>	<b>32.115</b>	<b>15.282</b>	<b>-52,4%</b>
Financial Income	332	117	-64,8%
Financial Expenses	-5.998	-5.779	-3,7%
<b>Pre-tax profit</b>	<b>26.449</b>	<b>9.620</b>	<b>-63,6%</b>
Income Tax	-3.811	-3.067	-19,5%
<b>Net Result</b>	<b>22.638</b>	<b>6.553</b>	<b>-71,1%</b>

source: SFG, own estimates

## DDM Valuation

We evaluate SFG using a Discounted Dividend Model (DDM), which indicates a price per share of 39,4 RON, 3,2% above the market level. We used a discount rate (COE) of 14,0%. Other assumptions in the model include:

- Market risk premium of 7.9%, calculated using the historical total return of the BET index and the 10-year government bond yield of 7.4%;
- Beta of 0.83, estimated through linear regression relative to the BET index;
- Terminal value, estimated using the Gordon Growth Model, with a terminal growth rate of 4.0%, slightly above the long-term inflation rate.

(RON, ths)	Reported	Reported	Estimated	Estimated	Estimated	Estimated	Estimated	Estimated
DDM Model	31-Dec-23	31-Dec-24	31-Dec-25	31-Dec-26	31-Dec-27	31-Dec-28	31-Dec-29	31-Dec-30
<b>Restaurant Sales</b>	<b>1.469.172</b>	<b>1.548.382</b>	<b>1.649.224</b>	<b>1.836.566</b>	<b>2.013.526</b>	<b>2.207.200</b>	<b>2.419.275</b>	<b>2.651.623</b>
% Change	11,1%	5,4%	6,5%	11,4%	9,6%	9,6%	9,6%	9,6%
<b>EBITDA</b>	<b>212.151</b>	<b>248.168</b>	<b>240.132</b>	<b>283.852</b>	<b>327.843</b>	<b>360.672</b>	<b>417.249</b>	<b>460.615</b>
EBITDA Margin	14,4%	16,0%	14,6%	15,5%	16,3%	16,3%	17,2%	17,4%
<b>Net Profit</b>	<b>71.186</b>	<b>96.776</b>	<b>81.753</b>	<b>113.982</b>	<b>145.600</b>	<b>168.229</b>	<b>206.901</b>	<b>234.267</b>
% Change	33,6%	39,0%	34,0%	40,2%	44,4%	46,6%	49,6%	50,9%
Equity	142.130	154.431	140.631	174.160	207.151	231.234	271.446	300.448
<b>ROE</b>	<b>50,1%</b>	<b>62,7%</b>	<b>58,1%</b>	<b>65,4%</b>	<b>70,3%</b>	<b>72,8%</b>	<b>76,2%</b>	<b>78,0%</b>
Dividend Payout Ratio	118,3%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%
Dividends	44.886	81.443	48.388	81.753	113.982	145.600	168.229	206.901
Discount Rate			0,94	0,82	0,72	0,63	0,56	0,49
<b>Dividend NPV</b>			<b>45.328</b>	<b>67.204</b>	<b>82.221</b>	<b>92.165</b>	<b>93.447</b>	<b>100.853</b>
PV Dividends	481.219							
PV Terminal Value	1.046.646							
Terminal Growth Rate	4,0%							
Equity Value	1.527.865							
Number of Shares	38.799							
<b>Price/Share</b>	<b>39,38</b>							
Market Price	38,15							
<b>Upside/Downside</b>	<b>3,2%</b>							

source: SFG, own estimates

## Multiples Valuation

We evaluate SFG at 41,8 RON/share (+9,5% upside), based on the average relative valuation of three price multiples: EV/EBITDA, P/E, and P/B. We used a sample of comparable companies with franchise-based business models. Importantly, the selected companies needed to include royalty income in their business models, which is why we preferred a local sample instead of large global restaurant groups.

Multiples	2025e	+/-
Target Price @ EV/EBITDA	26,24	-31,2%
Target Price @ P/E	49,01	28,5%
Target Price @ P/B	50,03	31,1%

<b>Target Price AVG</b>	<b>41,76</b>
Market Price SFG	38,15
Upside/Downside	<b>9,5%</b>

source: BBG, own estimates

2025e	SFG	Peers
PE	18,11	23,26
EV/EBITDA	6,17	5,67
PB	10,53	2,05
PB ROE adj.		13,80
ROE	50,0%	7,4%

source: BBG, own estimates

## Financial Statements

(RON ths, consolidated)	Reported 2023	Reported 2024	Estimated 2025e	Estimated 2026e	Estimated 2027e	Estimated 2028e	Estimated 2029e	Estimated 2030e
<b>Restaurant Sales</b>	<b>1.469.172</b>	<b>1.548.382</b>	<b>1.649.224</b>	<b>1.836.566</b>	<b>2.013.526</b>	<b>2.207.200</b>	<b>2.419.275</b>	<b>2.651.623</b>
COGS (Cost of Goods Sold)	-479.405	-483.551	-508.446	-564.367	-616.732	-673.846	-736.172	-804.222
<b>Gross Profit</b>	<b>989.767</b>	<b>1.064.831</b>	<b>1.140.777</b>	<b>1.272.200</b>	<b>1.396.794</b>	<b>1.533.354</b>	<b>1.683.103</b>	<b>1.847.400</b>
Salary Expenses	-325.207	-344.065	-389.386	-426.358	-454.825	-501.693	-532.814	-585.995
Rent Expenses	-34.644	-33.863	-38.330	-42.685	-46.797	-51.299	-56.228	-61.628
Royalty Expenses	-87.935	-93.014	-98.953	-110.194	-120.812	-132.432	-145.157	-159.097
Advertising Expenses	-75.351	-79.750	-85.517	-95.231	-104.407	-114.450	-125.446	-137.494
General and Admin Expenses	-61.976	-63.338	-69.112	-78.800	-88.406	-99.116	-111.059	-124.377
Other Operational Expenses	-192.503	-202.633	-219.347	-235.081	-253.704	-273.693	-295.152	-318.195
<b>EBITDA</b>	<b>212.151</b>	<b>248.168</b>	<b>240.132</b>	<b>283.852</b>	<b>327.843</b>	<b>360.672</b>	<b>417.249</b>	<b>460.615</b>
Depreciation and Amortization	-103.218	-107.273	-117.228	-124.820	-132.653	-140.731	-149.057	-157.635
Other Income	0	3.286	3.500	3.898	4.273	4.684	5.134	5.627
<b>EBIT</b>	<b>108.933</b>	<b>144.181</b>	<b>126.404</b>	<b>162.930</b>	<b>199.463</b>	<b>224.626</b>	<b>273.326</b>	<b>308.607</b>
Financial Income	1.239	564	557	620	680	745	817	895
Financial Expenses	-26.177	-25.499	-26.087	-25.377	-23.795	-21.669	-23.751	-26.032
<b>Pre-tax profit</b>	<b>83.995</b>	<b>119.246</b>	<b>100.874</b>	<b>138.173</b>	<b>176.348</b>	<b>203.702</b>	<b>250.392</b>	<b>283.470</b>
Income Tax	-12.248	-21.859	-18.491	-23.489	-29.979	-34.629	-42.567	-48.190
Result before minorities	71.747	97.387	82.383	114.683	146.369	169.072	207.825	235.280
Minorities	-561	-611	-630	-701	-769	-843	-924	-1.013
<b>Net Result</b>	<b>71.186</b>	<b>96.776</b>	<b>81.753</b>	<b>113.982</b>	<b>145.600</b>	<b>168.229</b>	<b>206.901</b>	<b>234.267</b>

(RON ths, consolidated)	Reported 2023	Reported 2024	Estimated 2025e	Estimated 2026e	Estimated 2027e	Estimated 2028e	Estimated 2029e	Estimated 2030e
Tangible Assets	478.836	542.897	586.138	630.406	676.803	725.416	776.337	829.660
Intangible Assets	58.137	59.304	59.304	59.304	59.304	59.304	59.304	59.304
Other Fixed Assets	33.179	30.057	32.903	34.717	37.052	39.499	42.063	44.747
<b>Total Fixed Assets</b>	<b>570.152</b>	<b>632.258</b>	<b>678.345</b>	<b>724.427</b>	<b>773.159</b>	<b>824.219</b>	<b>877.703</b>	<b>933.710</b>
Inventory	14.953	16.396	17.213	18.162	19.383	20.664	22.004	23.409
Receivables	10.164	12.661	13.292	14.024	14.968	15.956	16.992	18.076
Other Current Assets	7.900	6.465	6.787	7.161	7.643	8.148	8.676	9.230
Cash and Cash Equivalents	98.147	115.764	106.934	104.151	111.157	118.498	126.188	134.240
<b>Total Current Assets</b>	<b>131.164</b>	<b>151.286</b>	<b>144.225</b>	<b>143.499</b>	<b>153.152</b>	<b>163.266</b>	<b>173.860</b>	<b>184.954</b>
<b>Total Assets</b>	<b>701.316</b>	<b>783.544</b>	<b>822.571</b>	<b>867.926</b>	<b>926.311</b>	<b>987.485</b>	<b>1.051.563</b>	<b>1.118.665</b>
Retained Earnings	79.825	95.158	80.765	113.695	146.082	169.554	209.150	237.528
Other Equity	62.305	59.273	59.866	60.464	61.069	61.680	62.297	62.919
<b>Shareholder Equity</b>	<b>142.130</b>	<b>154.431</b>	<b>140.631</b>	<b>174.160</b>	<b>207.151</b>	<b>231.234</b>	<b>271.446</b>	<b>300.448</b>
Minority Interests	486	556	508	629	749	836	981	1.086
<b>Total Shareholder Equity</b>	<b>142.616</b>	<b>154.987</b>	<b>141.139</b>	<b>174.789</b>	<b>207.899</b>	<b>232.069</b>	<b>272.427</b>	<b>301.533</b>
<b>Long-term Financial Liabilities</b>	<b>303.299</b>	<b>350.622</b>	<b>390.485</b>	<b>397.886</b>	<b>413.113</b>	<b>435.902</b>	<b>449.590</b>	<b>471.514</b>
Other Long-term Liabilities	6.234	6.829	9.540	9.011	8.621	7.554	7.791	8.171
Trade and Other Payables	145.959	156.103	156.729	159.422	165.235	173.746	179.201	187.940
<b>Short-term Financial Liabilities</b>	<b>98.360</b>	<b>108.484</b>	<b>117.610</b>	<b>119.630</b>	<b>123.992</b>	<b>130.379</b>	<b>134.473</b>	<b>141.030</b>
Other Short-term Liabilities	4.848	6.519	7.067	7.189	7.451	7.835	8.081	8.475
<b>Total Liabilities</b>	<b>558.700</b>	<b>628.557</b>	<b>681.432</b>	<b>693.137</b>	<b>718.412</b>	<b>755.416</b>	<b>779.136</b>	<b>817.131</b>

source: SFG, own estimates

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Alex Dodoi

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1. they have no financial interest in the financial instruments that include the company(ies) mentioned in this report.

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Company	Symbol	Explanatory note No.
Sphera Francise Group	SFG	5, 7, 10, 11

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