

Monday, December 19, 2016 | update

AmRest: buy (upgraded)

EAT PW; EATP.WA | Retail, Poland

AmRest Rides Strong Momentum Heading Into 2017

Not including the German Starbucks stores acquired in May 2016, AmRest achieved year-over-year EBITDA growth of an impressive 25.3% to PLN 156m in the third quarter of 2016, with the core EBITDA margin reaching a record 15.5%. The stellar Q3 performance showcased the Company's future growth potential, supported by the new medium-term strategy of the US fast-food chain YUM! Brands, which plans to put another 2,150 of its restaurants in the hands of franchisees across the world. The November 2016 acquisition of fifteen German KFC restaurants from YUM! in our view was only the first of what we think could be a string of acquisitions in Germany for AmRest in the medium term. Assuming continued organic growth and improvement in the profits generated by the German franchisees, we believe AmRest can grow EBITDA at an average annual rate of 25.7% between 2016 and 2018, far outpacing the competition. Accordingly, we are raising our price target for EAT to PLN 334 per share, and we are upgrading the stock to buy.

Delivering impressive earnings growth

AmRest continued to improve the sales effectiveness of its restaurants in the core geographic markets in Q3 2016, with sales per restaurant in Hungary and Russia showing double-digit expansion. Further, in spite of the pressure put by the low-margin Starbucks stores in Germany, the Company maintained the quarterly EBIT at a stable level compared to the same period in 2015, thanks to strong profits generated by operations in Spain, the Czech Republic, China, Russia, and other CEE. In future quarters, we expect continued upward momentum in the core markets, especially in Russia (where the local business generated high like-for-like growth in Q3, supported by favorable FX trends), China, and Germany, as the local stores continue to improve profitability.

Continued expansion in Germany

After buying 144 German Starbucks stores in May, in November 2016 AmRest announced it would be taking over fifteen KFC restaurants in Germany, and we think it may make more acquisitions there in the future given the plans of YUM! Brands to shift more restaurant ownership to franchisees. The KFC name is fairly underrepresented in Germany, offering potential for AmRest to develop the brand and expand the franchise from the current 140 to a target 300 locations.

M&A plans justify a premium price

Based on the strong growth achieved to date, and the recent and planned M&A activity, we expect AmRest can achieve annual EBITDA growth at an average rate of 25.7% in 2016-2018, with the competition trailing far behind with an average 7.9% EBITDA CAGR (led by the Mexican multi-brand restaurant operator Alsea, offering 2016-2018E EBITDA CAGR of 16.5%). The unparalleled earnings momentum, likely to receive a sharp boost in the future with M&A, in our view justifies the premium at which AmRest is valued relative to its peers.

| (PLN m) | 2014 | 2015 | 2016E | 2017E | 2018E |
|---------------|---------|---------|---------|---------|---------|
| Revenue | 2,952.7 | 3,338.7 | 4,203.3 | 5,266.3 | 6,080.7 |
| EBITDA | 356.4 | 419.6 | 542.2 | 698.9 | 833.1 |
| EBITDA margin | 12.1% | 12.6% | 12.9% | 13.3% | 13.7% |
| EBIT | 109.9 | 195.7 | 271.9 | 375.7 | 465.9 |
| Net profit | 51.7 | 160.0 | 189.3 | 267.9 | 337.2 |
| DPS | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| P/E | 118.1 | 38.1 | 32.2 | 22.8 | 18.1 |
| P/CE | 23.7 | 15.9 | 13.3 | 10.3 | 8.7 |
| P/BV | 6.7 | 5.9 | 4.8 | 4.0 | 3.3 |
| EV/EBITDA | 19.7 | 16.6 | 13.1 | 10.0 | 8.1 |
| DYield | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |

| | |
|---------------|------------|
| Current Price | PLN 287.70 |
| Target Price | PLN 334.00 |
| Market Cap | PLN 6,103m |
| Free Float | PLN 1,386m |
| ADTV (3M) | PLN 5.05m |

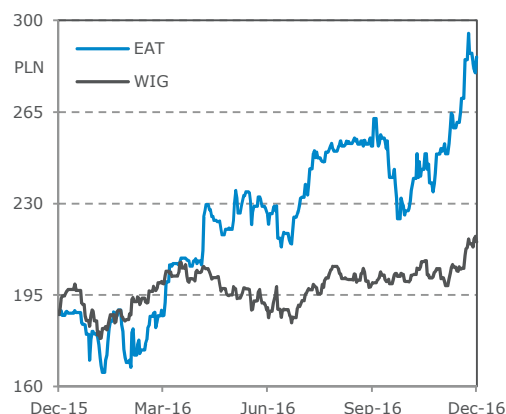
Ownership

| | |
|---------------|--------|
| FCapital Lux | 61.85% |
| NN OFE | 9.59% |
| Gosha Holding | 5.85% |
| Others | 22.71% |

Business Profile

AmRest is the largest restaurant operator in Central and Eastern Europe managing 1,155 restaurants in 13 countries. AmRest's portfolio comprises seven brands which can be grouped into two main categories: 1) quick service restaurants: KFC, Burger King, and Starbucks and 2) casual dining establishments: Pizza Hut, La Tagliatella, Blue Frog, and Kabb.

EAT vs. WIG



| Company | Target Price | | Rating | |
|---------|--------------|--------|--------|--------|
| | new | old | new | old |
| AmRest | 334.00 | 236.00 | buy | reduce |

| Company | Current Price | Target Price | Upside / Downside |
|---------|---------------|--------------|-------------------|
| AmRest | 287.70 | 334.00 | +16.1% |

| Forecast revision since last update | 2016E | 2017E | 2018E |
|-------------------------------------|-------|--------|--------|
| Revenue | +0.2% | +2.1% | +4.2% |
| EBITDA | +3.0% | +10.0% | +15.1% |
| Net profit | +8.3% | +31.0% | +34.5% |

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Forecast Update

AmRest's performance in Q3 2016 confirmed its ability to generate sustained fast-paced growth in quarterly EBITDA, supported by improving sales effectiveness, which helps offset upward pay pressures. We believe AmRest China can maintain its EBITDA margins around 11% in 2017, and in Russia we anticipate significant gains in profits next year. As part of a new plan **to become more franchised by handing over about 2,150 owned restaurants to franchisees by the end of 2018, resulting in an increase in franchise restaurant ownership from 93% to 98%**, in November the American fast food restaurant operator **YUM! Brands agreed to sell fifteen of its German KFC locations to AmRest, in a deal which, we think, marks the beginning of a longer relationship between the two firms.** Based on the strong organic growth delivered to date, coupled with the potential offered by M&A activity, we are upgrading our earnings outlook for AmRest with a **2016-2018E EBITDA CAGR projection of 25.7%**, well above the average expected of the competition. At the same time, we maintain that AmRest faces a **potential slowdown in Poland due to the planned introduction of a Sunday trading ban and a possible VAT hike from 5% to 8%.**

Summary of updated earnings estimates

| (PLN m) | 2016 | | | 2017 | | |
|----------------|-------|-------|--------|-------|-------|-------|
| | old | new | chng | old | new | chng |
| Revenue | 4,196 | 4,203 | 0.2% | 5,159 | 5,266 | 2.1% |
| Gross margin | 17.6% | 17.4% | -0.3pp | 17.3% | 17.4% | 0.1pp |
| EBITDA | 526.6 | 542.2 | 3.0% | 635.3 | 698.9 | 10.0% |
| margin | 12.5% | 12.9% | 0.3pp | 12.3% | 13.3% | 1pp |
| EBIT | 254.6 | 271.9 | 6.8% | 298.1 | 375.7 | 26.0% |
| Pre-tax income | 209.4 | 227.4 | 8.6% | 250.9 | 332.6 | 32.5% |
| Net income | 174.8 | 189.3 | 8.3% | 204.5 | 267.9 | 31.0% |

Source: AmRest, Dom Maklerski mBanku

Actual 2016 Q3 and YTD earnings

| (PLN m) | 3Q'16 | 3Q'15 | change | 9M'16 /16E | 9M'15 /15 |
|--------------|---------|-------|----------|------------|-----------|
| Revenue | 1,157.6 | 861.2 | 34.4% | 71.5% | 72.5% |
| Gross profit | 201.6 | 156.8 | 28.6% | 70.4% | 72.7% |
| margin | 17.4% | 18.2% | -0.8p.p. | | |
| SG&A | 234.7 | 186.6 | 25.8% | 71.0% | 69.4% |
| EBIT | 90.9 | 67.9 | 33.9% | 73.9% | 80.1% |
| margin | 7.9% | 7.9% | 0p.p. | | |
| EBITDA | 160.7 | 123.5 | 30.1% | 75.0% | 76.5% |
| margin | 13.9% | 14.3% | -0.5p.p. | | |
| Net income | 62.5 | 65.2 | -4% | 72.7% | 73.8% |

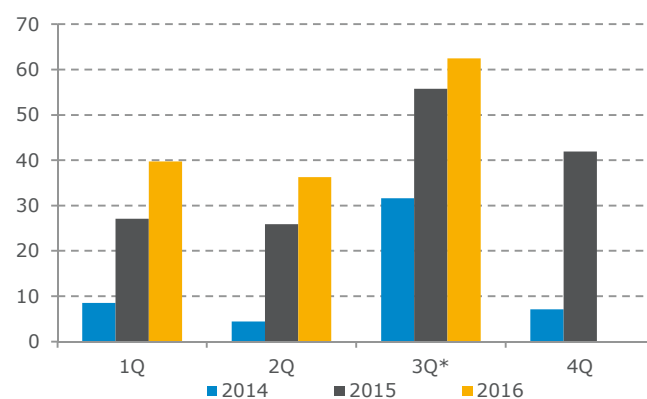
Source: AmRest, Dom Maklerski mBanku

A Stellar Third Quarter

At PLN 156m, AmRest's EBITDA for Q3 2016 (not including Starbucks Germany) showed a year-over-year surge of 25.3%, and it reached the highest quarterly level since Q2 2015 in spite of unfavorable base effects (in Q3 2015 EBITA grew 23.2% y/y). As a result, the core EBITDA margin expanded by 1ppt to 15.5% - the highest level in five years.

The quarterly revenue was up 34.4% y/y to PLN 1,158m, and the gross margin contracted by 0.8ppt to 17.4% under pressure from the newly acquired German Starbucks stores. Through improved sales effectiveness and cost discipline, AmRest restricted the year-over-year increase in SG&A expenses to 25.8%, less than the 34.4% growth in the period's revenue, **and it reduced the SG&A/sales ratio by 0.85ppt to 10%.** Moreover, **AmRest maintained the Q3 2016 EBIT margin stable at the year-ago level of 7.9% despite the negative impact of Starbucks Germany,** and it posted a contraction in EBITDA margin due to the decreasing share of D&A expenses. **The trends observed in Q3 2016 are expected to continue driving profits in future quarters.**

Quarterly net profits in 2014-2016



Source: AmRest, Dom Maklerski mBanku

*adjusted for a PLN 9.4m tax credit

Geographic Segments

AmRest **Russia** delivered marked **improvement in sales per restaurant** in Q3 2016, with the 11.5% y/y growth to PLN 1,043,000 supported by an appreciation in the RUB/PLN exchange rate, expected to accelerate in future quarters. In **Hungary** as well sales per location posted strong, 13.1% growth to PLN 1,018,000, and the other divisions also improved their sales effectiveness in Q3 2016, as shown in the following table.

AmRest Q3 2016 restaurant count and avg. sales per restaurant

| | Revenue (PLN m) | | Restaurant count | | Revenue per restaurant (PLN 1000) | |
|--------------|-----------------|--------|------------------|-------|-----------------------------------|--------|
| | 3Q'16 | Y/Y | 3Q'16 | Y/Y | 3Q'16 | Y/Y |
| Poland | 373.2 | 12.2% | 360 | 7.5% | 1,036.8 | 4.4% |
| Czech Rep. | 123.8 | 16.6% | 106 | 7.1% | 1,168.1 | 8.9% |
| Hungary | 55.0 | 32.7% | 54 | 17.4% | 1,018.2 | 13.1% |
| Other CEE | 34.2 | 0.3x | 46 | 15.0% | 743.0 | 9.4% |
| Russia | 125.2 | 27.5% | 120 | 14.3% | 1,043.4 | 11.5% |
| Spain | 216.1 | 18.6% | 232 | 13.7% | 931.5 | 4.3% |
| Germany | 155.3 | 50.8x | 145 | 71.5x | 1,070.8 | -28.6% |
| Other WE | 4.4 | -14.0% | 10 | 11.1% | 444.2 | -22.6% |
| China | 58.7 | 5.2% | 33 | 17.9% | 1,779.9 | -10.7% |
| Unattributed | 11.6 | 24.6% | 0.0% | n/a | n/a | n/a |
| Total | 1,157.6 | 34.4% | 1,106 | 27.4% | 1,046.6 | 5.5% |
| Adjusted | 1,005.9 | 16.8% | 963 | 10.9% | 1,044.5 | 5.3% |

Source: AmRest, Dom Maklerski mBanku

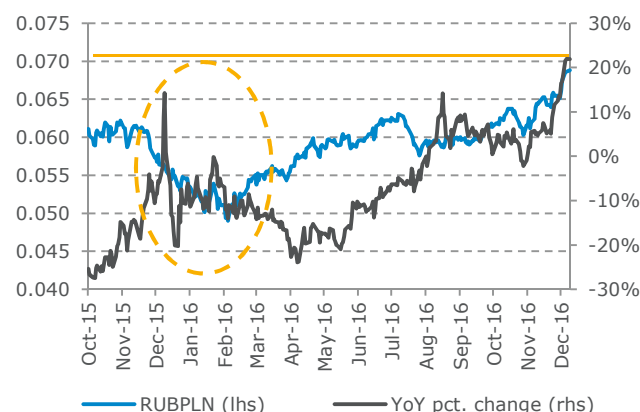
YoY change in Q3 2016 EBITDA and EBITDA margins

| (PLN m) | EBITDA | | | EBITDA margin | | |
|---------------------|--------|-------|-------|---------------|--------|----------|
| | 3Q'16 | 3Q'15 | Y/Y | 3Q'16 | 3Q'15 | Y/Y |
| Poland | 52.2 | 45.4 | 15.0% | 14.0% | 13.7% | 0.3p.p. |
| Czech Rep. | 24.8 | 18.8 | 31.9% | 20.0% | 17.7% | 2.3p.p. |
| Hungary | 7.8 | 6.2 | 26.6% | 14.2% | 14.9% | -0.7p.p. |
| Other CEE | 6.4 | 4.4 | 45.5% | 18.8% | 16.2% | 2.5p.p. |
| Russia | 15.8 | 9.5 | 66.9% | 12.6% | 9.7% | 3p.p. |
| Spain | 49.2 | 39.4 | 24.9% | 22.8% | 21.6% | 1.1p.p. |
| Germany | 4.6 | -1.3 | n/a | 3.0% | -44.1% | n/a |
| Other WE | -1.1 | 0.0 | n/a | -25.7% | -0.9% | n/a |
| China | 6.5 | 2.6 | 153% | 11.0% | 4.6% | 6.4p.p. |
| Unattributed | -5.7 | -1.7 | n/a | -48.8% | -18.6% | n/a |
| Total (ex. charges) | 160.6 | 123.1 | 30.4% | 13.9% | 14.3% | -0.4p.p. |

Source: AmRest, Dom Maklerski mBanku

As of 14 December 2016, the RUBPLN exchange rate was 22.5% higher than on the same day in 2015 at 0.06851 – the highest level this year. According to our calculations, if the ruble retained its value against the zloty through 2017, this could provide a boost of 15% to the yearly revenue of the Russian division. **The positive FX effects, combined with strong (we assume double-digit) like-for-like growth, according to our forecasts can boost the revenue per restaurant for AmRest Russia by 20% in 2017.**

YoY change in RUBPLN exchange rate



Source: Bloomberg, Dom Maklerski mBanku

Alongside strong sales, in Q3 2016 AmRest achieved better-than-expected profit margins in China (+7ppts y/y to 11%), Russia (+3pp to 9.9%), and Spain (a rebound of 1.1ppt to 22.8% after three quarters of falls). **AmRest Poland also posted year-over-year margin growth by offsetting upward pressure on employee compensation with cost savings (mainly on food supplies) and higher revenues per restaurant (dilution of fixed costs).**

Continued Expansion in Germany

On 30 November 2016, AmRest signed an agreement to acquire fifteen restaurants in Germany from Kentucky Fried Chicken (Great Britain) Ltd., German Branch, a subsidiary of YUM! Brands. The deal follows the acquisition of 144 German Starbucks stores on 23 May 2016. A month before the agreement with AmRest, KFC sold eleven of its locations in Stuttgart and Dusseldorf to the Australian restaurant operator Collins Foods.

Financial metrics of KFC Germany acquisitions

| (EUR m) | AmRest | Collins Foods |
|-----------------------|-------------|---------------|
| Restaurant count | 15 | 11 |
| Value (EUR m) | 10.3 | 12.7 |
| Sales (EUR m) | 27.4* | 22.5** |
| Sales per restaurant* | EUR 608,900 | EUR 681,800 |

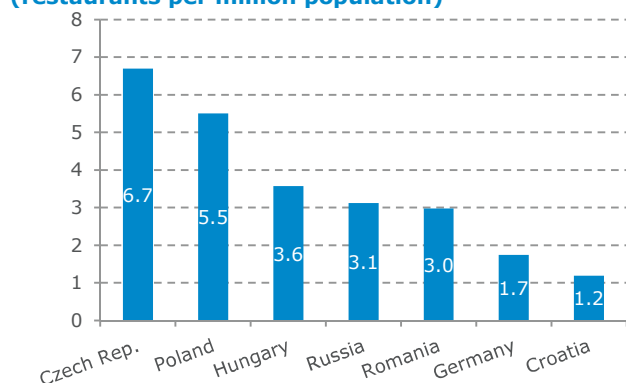
Source: AmRest, Dom Maklerski mBanku;

*LTM sales in August 2016; **LTM sales in October 2016

***Quarterly amount

The EUR 10.3m price that AmRest paid for the fifteen German KFC locations included assets and personnel, but did not include debt. **Assuming the restaurants generate ca. 6% EBITDA margin, the acquisition was made at 6.3x LTM EV/EBITDA** (compared to the Starbucks acquisition at 7x 2015 EV/EBITDA). The German KFC locations for now generate lower EBITDA than the Starbucks locations and than AmRest's KFC locations in other markets, **but we think they have potential to significantly improve profits in the future, especially given KFC's relatively low market penetration rate in Germany** at 1.7 locations per 1 million population compared to 18.4 for McDonald's and 8.6 for Burger King.

KFC market penetration rates by country (restaurants per million population)



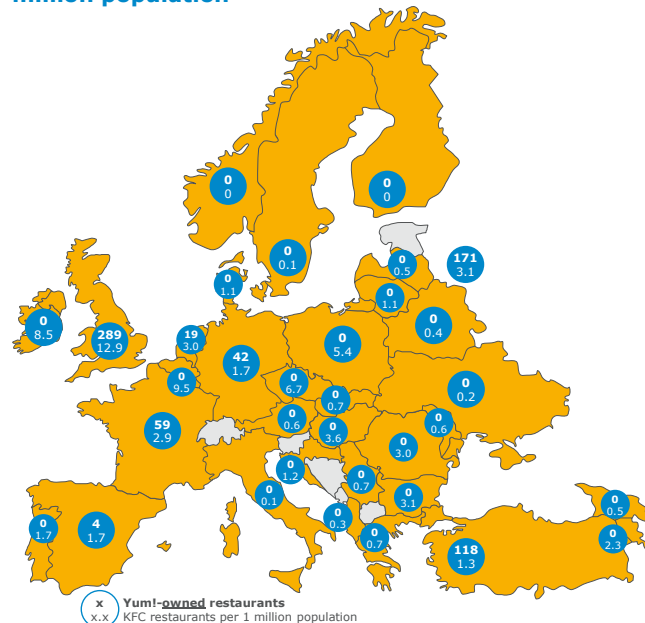
Source: AmRest, Dom Maklerski mBanku

The 140 existing German KFC restaurants generate annual sales of about EUR 200m. **According to the CEO of KFC Germany, Insa Klasing, the operator is entering a new phase of growth where it will expand its presence in the local market from 140 to 300 locations, to be managed by the most growth-oriented franchisees.** With this in mind, we predict that AmRest will expand its German Starbucks & KFC portfolio at a stable rate of a combined 19 restaurants per year in 2017-2019, though of course the actual pace will be determined by acquisition opportunities as they emerge. Using economies of scale, by applying its proven and successful management strategy to the new locations, we believe AmRest can gradually grow the EBITDA margin of the German KFC business to a target 9.3% in 2019.

Future M&A activity

Given the plans of YUM! Brands to become more franchised by handing over more locations to growth-oriented franchisees, of which AmRest is one with a 2012-2016 restaurant CAGR of 10%, and considering AmRest's strategy of growth through organic development and acquisitions, **we believe the Company may be looking to acquire more restaurants from YUM in Germany, France, Denmark, and Russia, in the future.**

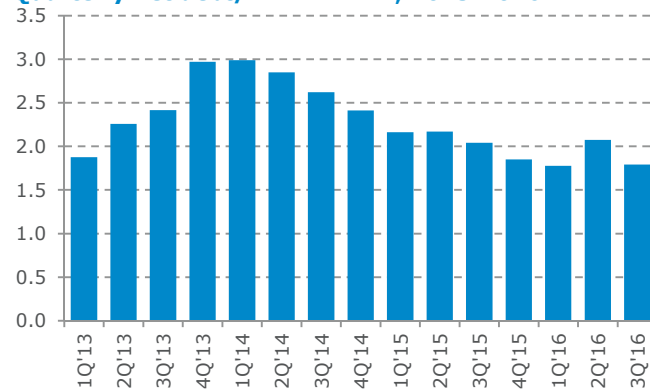
YUM! Brands restaurants and KFC locations per million population



Source: YUM, Dom Maklerski mBanku

With growing earnings, AmRest is increasing its capacity to finance M&A transactions. **This is reflected in the fact that, after paying PLN 155.2m for the German Starbucks stores, the Company was still able to improve its net debt/EBITDA ratio by 0.25x y/y to 1.79x at September 2016.**

Quarterly net debt/LTM EBITDA, 2013-2016



Source: AmRest, Dom Maklerski mBanku

These and other acquisitions, not necessarily targeted at brands that are already part of AmRest's portfolio, can provide an upside catalyst to our valuation.

Risks

Location risk

AmRest faces the risk of value impairment on restaurant locations which fail to perform as well as expected due to internal factors (if the menus fail to accommodate the tastes of the local clientele) or external factors (lack of access roads, change of the surrounding scenery due to development). We expect the annual write-offs to approximate PLN 20m. With that said, we expect the Company can leverage its experience in picking the best possible locations for new restaurants to minimize location risk.

Failure of China expansion plans

AmRest is focusing on expanding the Blue Frog and Kabb restaurant chains in China and its success there is marked by uncertainty as to how well these types of restaurants can perform in the Chinese market, and by risk of potential unfavorable changes in local restaurant regulations.

Economic risk

The revenues of AmRest's restaurants partly rely on consumer spending in its home markets which in turns depends on economic growth. Casual dining restaurants, which account for 33.9% of AmRest's portfolio, are more sensitive to economic cycles.

Bad investment choices

AmRest could conceivably make a wrong choice when it comes to future investment in the restaurant market,

moreover it faces risk of an extended integration of a new acquisition into its organization. With that said, we are confident based on the track record to date that the investment risk in case of the Company is minimal.

Political risk

Political risks include risk of unfavorable regulatory changes such as possible bans on Sunday trading in Poland or other countries. In Poland a bill banning Sunday trading, backed by the ruling party, has already made its way to the Parliament, and if passed it will impact's AmRest's earnings through **shopping center-based restaurants which account for about 50% of the Company's total sales network. We have analyzed the potential revenue losses after the introduction of the Sunday trading ban – the results are presented in the table below.**

Another form of political risk faced by AmRest is a possible raise in the VAT rate from the current 5% to 8% based on a June 2016 interpretation of VAT on food service issued by the Polish Finance Ministry. The 5% VAT rate that AmRest has been able to pay to date is thanks to a decision by its local Tax Office. **If raised from 5% to 8%, a VAT hike would depress the EBITDA margins on AmRest's Polish restaurants by 1.5-2ppts.** In calculating the sensitivity of AmRest's EBITDA margin to the VAT hike, we took as the variable the projected rate of contraction in the 2017E EBITDA margin. At the same time, we assume that in 2018 the EBITDA margin would recover at a rate equivalent to one-third of the expected 2017 contraction rate.

EAT target price sensitivity analysis to revenue declines due to a Sunday trading ban and EBITDA margin contraction after a VAT hike from 5% to 8%

| | | Decrease in 2017E Polish EBITDA margin | | | | | | |
|---|--------|--|-----------|-----------|-----------|-----------|-----------|-----------|
| Decrease in revenue due to Sunday trading ban | | 0.0 p.p. | -0.5 p.p. | -1.0 p.p. | -1.5 p.p. | -2.0 p.p. | -2.5 p.p. | -3.0 p.p. |
| | 0.0% | 329 | 327 | 325 | 324 | 322 | 320 | 319 |
| | -4.1% | 324 | 322 | 321 | 319 | 318 | 316 | 315 |
| | -5.6% | 323 | 321 | 319 | 318 | 316 | 315 | 313 |
| | -7.1% | 321 | 319 | 318 | 317 | 315 | 314 | 312 |
| | -8.6% | 320 | 318 | 317 | 315 | 314 | 312 | 311 |
| | -10.1% | 318 | 317 | 315 | 314 | 312 | 311 | 309 |

Source: AmRest, Dom Maklerski mBanku

Our forecasts vs. consensus expectations

Compared to consensus expectations, our 2016-2018 revenue projections for AmRest are 1-7% higher to reflect a higher sales forecast for Starbucks Germany, and stronger growth in revenue per restaurant anticipated in Russia. Our EBITDA expectations are also higher than the market averages as they assume fast-paced expansion in Germany, stable margins in CEE, and improving EBITDA

margins in China, Spain, and Russia. The higher-than-average EBIT projections are based on less aggressive D&A forecasts, and they are part of the reason behind the high variation between our net profit estimates and the average analysts' forecasts. The other reason is that we expect faster deleveraging, coupled with assumed effective tax rates of 20% in 2016-2018.

Our projections vs. consensus

| (PLN m) | 2016P | | | 2017P | | | 2018P | | |
|------------|---------|-----------|---------|---------|-----------|---------|---------|-----------|---------|
| | mDM | consensus | differ. | mDM | consensus | differ. | mDM | consensus | differ. |
| Revenue | 4,203.3 | 4,174.7 | +1% | 5,266.3 | 4,996.7 | +5% | 6,080.7 | 5,664.7 | +7% |
| EBIT | 271.9 | 251.7 | +8% | 375.7 | 305.5 | +23% | 465.9 | 365.4 | +27% |
| EBITDA | 542.2 | 521.7 | +4% | 698.9 | 620.2 | +13% | 833.1 | 714.5 | +17% |
| Net profit | 189.3 | 169.0 | +12% | 267.9 | 211.5 | +27% | 337.2 | 263.5 | +28% |

Source: Bloomberg, Dom Maklerski mBanku

Valuation

We used DCF analysis and relative valuation to assess the value of AmRest. The DCF model yielded a per-share valuation of PLN 301 and the value obtained with multiples comparison amounted to PLN 328, implying a 9-month price target of PLN 334 per share.

| (PLN) | weight | price |
|--------------------|-----------------|-------|
| Relative Valuation | 50% | 328 |
| DCF Analysis | 50% | 301 |
| | price | 315 |
| | 9m target price | 334 |

DCF Valuation

Assumptions:

- Cash flows are discounted to their present value as of the end of November 2016. Equity value is calculated based on net debt at year-end 2015.
- We assume the EBITDA margin will expand by 0.3ppt in 2016 and continue to grow in subsequent years to reach 14% in 2021.
- Total annual CAPEX is projected at PLN 528.9m in 2016 and PLN 553.9m in 2017. Average CAPEX per restaurant is assumed at PLN 3.4m in Q4'16-2021P.

Annual maintenance CAPEX is assumed at 1.0% of annual sales.

- We expect AmRest to recognize asset impairment losses of PLN 20m a year in the forecast period.
- The annual income tax rate is 20% throughout the forecast period.
- Risk-free rate is 3.5% (equivalent to the yield on Polish 10-year Treasuries).
- We assume that FCF after FY2025 will grow at an annual rate of 2.0%.
- Beta is 1.1x.

Projected restaurant count by division

| | 2014 | 2015P | 2016P | 2017P | 2018P | 2019P |
|-----------------|------------|------------|--------------|--------------|--------------|--------------|
| Poland | 320 | 346 | 372 | 398 | 421 | 441 |
| Czech Republic. | 94 | 102 | 108 | 128 | 148 | 164 |
| Other CEE | 58 | 89 | 108 | 140 | 168 | 194 |
| Russia | 101 | 109 | 123 | 135 | 147 | 159 |
| Spain | 190 | 216 | 241 | 271 | 294 | 310 |
| Germany | 0 | 0 | 143 | 178 | 210 | 242 |
| New Markets | 37 | 42 | 44 | 56 | 68 | 80 |
| Total | 800 | 904 | 1,139 | 1,306 | 1,456 | 1,590 |

Source: AmRest, Dom Maklerski mBanku

Revenue projection by division

| (PLN m) | 2014 | 2015P | 2016P | 2017P | 2018P | 2019P |
|-----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Poland | 1,193.7 | 1,321.5 | 1,428.3 | 1,542.7 | 1,650.7 | 1,743.6 |
| Czech Republic. | 358.9 | 415.8 | 482.8 | 555.5 | 655.9 | 740.9 |
| Other CEE | 175.1 | 240.8 | 340.2 | 442.8 | 546.0 | 640.4 |
| Russia | 410.9 | 402.8 | 461.5 | 616.1 | 693.6 | 756.3 |
| Spain | 621.6 | 704.4 | 832.5 | 945.7 | 1,043.5 | 1,121.7 |
| Germany | 0.0 | 3.1 | 375.8 | 831.6 | 1,090.7 | 1,334.5 |
| New Markets | 192.5 | 240.6 | 242.7 | 285.4 | 354.0 | 422.5 |
| Unattributed | 0.0 | 18.9 | 35.1 | 46.3 | 46.3 | 46.3 |
| Total | 2,952.7 | 3,329.1 | 4,163.7 | 5,220.0 | 6,034.3 | 6,759.9 |

Source: AmRest, Dom Maklerski mBanku

EBITDA projection by division

| (PLN m) | 2014 | 2015P | 2016P | 2017P | 2018P | 2019P |
|--------------------------------|------------|------------|------------|------------|------------|------------|
| Poland | 164.4 | 180.8 | 191.6 | 205.4 | 219.7 | 232.1 |
| Czech Republic. | 52.0 | 71.7 | 92.8 | 108.7 | 128.3 | 145.0 |
| Other CEE | 15.3 | 34.8 | 53.8 | 70.4 | 86.9 | 101.9 |
| Russia | 43.2 | 40.5 | 53.4 | 86.0 | 98.3 | 107.2 |
| Spain | 130.9 | 146.4 | 171.8 | 198.3 | 218.8 | 235.2 |
| Germany | 0.0 | -1.8 | 11.9 | 43.4 | 86.9 | 123.9 |
| New Markets | -32.5 | 0.2 | 15.0 | 31.0 | 38.4 | 45.9 |
| Unattributed | -16.9 | -36.0 | -27.3 | -24.3 | -24.3 | -24.3 |
| Total (ex. adjustments) | 356 | 437 | 563 | 719 | 853 | 967 |

Source: AmRest, Dom Maklerski mBanku

EBITDA margin projection by division

| | 2014 | 2015P | 2016P | 2017P | 2018P | 2019P |
|--------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Poland | 13.8% | 13.7% | 13.4% | 13.3% | 13.3% | 13.3% |
| Czech Republic. | 14.5% | 17.2% | 19.2% | 19.6% | 19.6% | 19.6% |
| Other CEE | 8.7% | 14.5% | 15.8% | 15.9% | 15.9% | 15.9% |
| Russia | 10.5% | 10.0% | 11.6% | 14.0% | 14.2% | 14.2% |
| Spain | 21.1% | 20.8% | 20.6% | 21.0% | 21.0% | 21.0% |
| Germany | n/a | -57.8% | 3.2% | 5.2% | 8.0% | 9.3% |
| New Markets | -16.9% | 0.1% | 6.2% | 10.9% | 10.9% | 10.9% |
| Unattributed | n/a | n/a | n/a | n/a | n/a | n/a |
| Total (ex. adjustments) | 12.1% | 13.1% | 13.5% | 13.8% | 14.1% | 14.3% |

Source: AmRest, Dom Maklerski mBanku

Projection of quarterly sales per restaurant by division

| (PLN 1,000) | 2014 | 2015P | 2016P | 2017P | 2018P | 2019P |
|--------------------------------|--------------|--------------|----------------|----------------|----------------|----------------|
| Poland | 964.2 | 992.1 | 994.6 | 1,001.8 | 1,007.3 | 1,010.4 |
| Czech Republic. | 980.7 | 1,060.8 | 1,149.5 | 1,176.9 | 1,188.2 | 1,187.4 |
| Other CEE | 788.7 | 819.0 | 863.4 | 892.8 | 886.4 | 884.5 |
| Russia | 1,154.1 | 959.1 | 994.5 | 1,194.1 | 1,229.7 | 1,235.8 |
| Spain | 844.5 | 867.5 | 910.8 | 923.6 | 923.5 | 928.6 |
| Germany | | | 1,314.1 | 1,295.4 | 1,405.5 | 1,476.2 |
| New Markets | 1,300.8 | 1,523.1 | 1,411.1 | 1,427.1 | 1,427.3 | 1,427.4 |
| Total (ex. adjustments) | 963.0 | 976.9 | 1,019.0 | 1,067.5 | 1,092.2 | 1,109.3 |

Source: AmRest, Dom Maklerski mBanku

Projected YoY pct. change in quarterly sales per restaurant by division

| | 2014 | 2015P | 2016P | 2017P | 2018P | 2019P |
|--------------------------------|--------------|-------------|-------------|-------------|-------------|-------------|
| Poland | 0.7% | 2.9% | 0.2% | 0.7% | 0.5% | 0.3% |
| Czech Republic. | -3.7% | 8.2% | 8.4% | 2.4% | 1.0% | -0.1% |
| Other CEE | 2.2% | 3.8% | 5.4% | 3.4% | -0.7% | -0.2% |
| Russia | -15.0% | -16.9% | 3.7% | 20.1% | 3.0% | 0.5% |
| Spain | 2.7% | 2.7% | 5.0% | 1.4% | 0.0% | 0.6% |
| Germany | | | | -1.4% | 8.5% | 5.0% |
| New Markets | 11.0% | 17.1% | -7.4% | 1.1% | 0.0% | 0.0% |
| Total (ex. adjustments) | -0.5% | 1.4% | 4.3% | 4.8% | 2.3% | 1.6% |

Source: AmRest, Dom Maklerski mBanku

DCF Model

| (PLN m) | 2016P | 2017P | 2018P | 2019P | 2020P | 2021P | 2022P | 2023P | 2024P | 2024P | 2025P+ |
|---------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|--------|
| Revenue | 4,203 | 5,266 | 6,081 | 6,806 | 7,422 | 7,935 | 8,398 | 8,852 | 9,298 | 9,253 | |
| change | 25.9% | 25.3% | 15.5% | 11.9% | 9.1% | 6.9% | 5.8% | 5.4% | 5.0% | -0.5% | |
| EBITDA | 542 | 699 | 833 | 947 | 1,034 | 1,110 | 1,174 | 1,239 | 1,300 | 1,299 | |
| EBITDA margin | 12.9% | 13.3% | 13.7% | 13.9% | 13.9% | 14.0% | 14.0% | 14.0% | 14.0% | 14.0% | |
| D&A | 270.3 | 323.2 | 367.3 | 405.4 | 426.7 | 435.0 | 435.1 | 434.5 | 433.6 | 434.3 | |
| EBIT | 272 | 376 | 466 | 541 | 607 | 675 | 738 | 804 | 866 | 865 | |
| EBIT margin | 6.5% | 7.1% | 7.7% | 8.0% | 8.2% | 8.5% | 8.8% | 9.1% | 9.3% | 9.3% | |
| Tax on EBIT | 47.8 | 75.1 | 93.2 | 108.3 | 121.5 | 134.9 | 147.7 | 160.8 | 173.2 | 172.9 | |
| NOPLAT | 224 | 301 | 373 | 433 | 486 | 540 | 591 | 643 | 693 | 692 | |

| | | | | | | | | | | | |
|-----------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--|
| CAPEX | -528.9 | -553.9 | -531.1 | -517.0 | -482.9 | -437.1 | -433.2 | -430.9 | -429.8 | -434.3 | |
| Working capital | -75.2 | 81.7 | 62.6 | 46.4 | 36.3 | 29.3 | 24.6 | 22.9 | 21.4 | -21.2 | |

| | | | | | | | | | | | |
|-----------------|--------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-----|
| FCF | -110 | 152 | 271 | 368 | 466 | 567 | 617 | 670 | 718 | 670 | 684 |
| WACC | 8.3% | 8.3% | 8.5% | 8.7% | 8.7% | 8.8% | 8.9% | 8.9% | 9.0% | 9.0% | |
| Discount factor | 99.3% | 91.7% | 84.5% | 77.8% | 71.5% | 65.7% | 60.4% | 55.4% | 50.9% | 46.7% | |
| PV FCF | -109.0 | 139.0 | 229.4 | 286.1 | 333.2 | 372.6 | 372.6 | 371.2 | 365.1 | 312.9 | |

| | | | | | | | | | | | |
|---------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|--|
| WACC | 8.3% | 8.3% | 8.5% | 8.7% | 8.7% | 8.8% | 8.9% | 8.9% | 9.0% | 9.0% | |
| Cost of debt | 4.5% | 4.5% | 4.5% | 4.5% | 4.5% | 4.5% | 4.5% | 4.5% | 4.5% | 4.5% | |
| Risk-free rate | 3.5% | 3.5% | 3.5% | 3.5% | 3.5% | 3.5% | 3.5% | 3.5% | 3.5% | 3.5% | |
| Credit risk premium | 1.0% | 1.0% | 1.0% | 1.0% | 1.0% | 1.0% | 1.0% | 1.0% | 1.0% | 1.0% | |
| Effective tax rate | 17.6% | 20.0% | 20.0% | 20.0% | 20.0% | 20.0% | 20.0% | 20.0% | 20.0% | 20.0% | |
| Net debt / EV | 13.3% | 11.9% | 8.9% | 4.2% | 3.8% | 2.7% | 1.5% | 0.2% | 0.0% | 0.0% | |
| Cost of equity | 9.0% | 9.0% | 9.0% | 9.0% | 9.0% | 9.0% | 9.0% | 9.0% | 9.0% | 9.0% | |
| Risk premium | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% | |
| Beta | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 | |

| | |
|---|------------|
| FCF after the forecast period | 2.00% |
| Terminal value | 9,839 |
| Present value of terminal value | 4,593 |
| Present value of FCF in the forecast period | 2,673 |
| Enterprise value | 7,266 |
| Net debt | 804 |
| Minority interests | 71.0 |
| Equity value | 6,391 |
| Number of shares (millions) | 21.21 |
| Equity value per share (PLN) | 301 |
| 9M cost of equity | 6.2% |
| 9M target price (PLN) | 320 |
| EV/EBITDA ('17) at target price | 11.2 |
| P/E ('17) at target price | 25.3 |
| TV / EV | 63% |

Sensitivity Analysis

| | FCF growth after the forecast period | | | | |
|----------------|--------------------------------------|------|------------|------|------|
| | 1.0% | 1.5% | 2.0% | 2.5% | 3.0% |
| WACC -1.0 p.p. | 327 | 344 | 362 | 384 | 409 |
| WACC -0.5 p.p. | 301 | 316 | 333 | 353 | 377 |
| WACC | 289 | 304 | 320 | 339 | 361 |
| WACC +0.5 p.p. | 277 | 291 | 307 | 325 | 347 |
| WACC +1.0 p.p. | 256 | 268 | 283 | 300 | 319 |

Relative Valuation

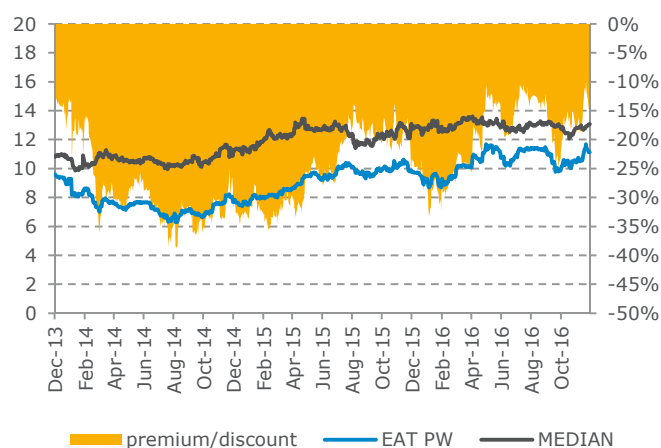
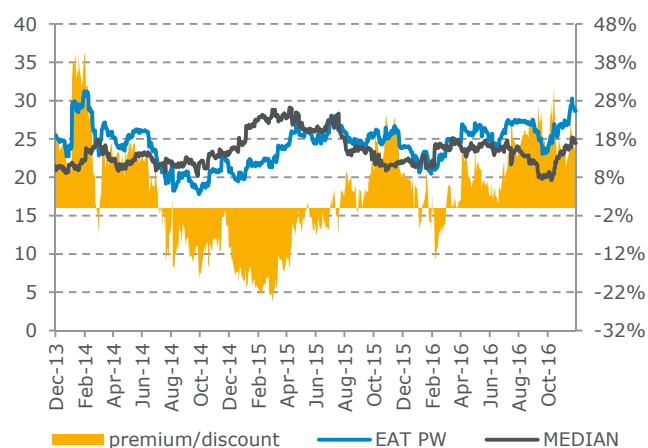
The relative valuation model is a comparison of AmRest's earnings multiples (P/E and EV/EBITDA) with the multiples of a peer group of international restaurant operators. The directly comparable group consists of McDonald, Starbucks, YUM! Brands, Alsea, and Collins Foods. The other companies are managers and operators of fast food and casual dining restaurants. Historically AmRest has been valued at a 15% discount to peers on EV/EBITDA (and we apply the same discount in our valuation model), most likely due to its higher debt and lack of dividends. In addition, AmRest has adopted an aggressive approach to amortization whereby depreciation and amortization expenses in 2015 were equivalent to 53.4% of EBITDA (compared to a peer group average of 31.7%).

Historically AmRest has been valued at a 15% discount to peers on EV/EBITDA (and we apply the same discount in our valuation model), most likely due to its higher debt and lack of dividends. In addition, AmRest has adopted an aggressive approach to amortization whereby depreciation and amortization expenses in 2015 were equivalent to 53.4% of EBITDA (compared to a peer group average of 31.7%). Going forward we believe the valuation discount will narrow as EBITDA grows at a projected 2016-2018 CAGR of 25.7%. We attach a 10% premium to the P/E and EV/EBITDA ratios of AmRest to reflect its faster-than-average growth and the potential carried by possible future acquisitions.

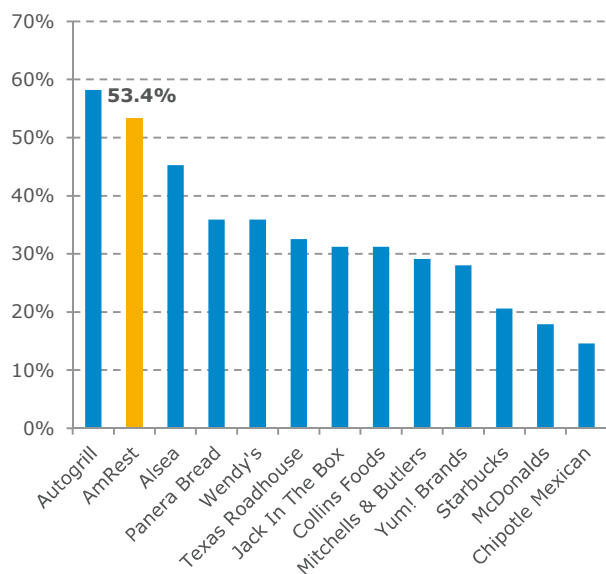
Multiples Comparison

| | price | 2016E | PEG 2017E | 2018E | 2016E | P/E 2017E | 2018E | EV/EBITDA 2016E | 2017E | 2018E |
|---------------------------------|--------------|------------|--------------|------------|-------------|--------------|-------------|--------------------|-------------|------------|
| Direct Competition (70%) | | | | | | | | | | |
| McDonalds | 123.4 | 1.2 | 2.3 | 2.6 | 21.8 | 20.0 | 18.7 | 13.3 | 12.9 | 12.6 |
| Starbucks | 57.7 | 11.0 | 2.0 | 1.5 | 30.5 | 27.0 | 23.3 | 16.5 | 14.8 | 13.1 |
| Yum! Brands | 64.3 | -1.9 | 2.3 | 1.8 | 25.0 | 22.7 | 20.4 | 14.3 | 14.6 | 14.5 |
| Alsea S.A.B. de C.V | 59.0 | -27.8 | 0.5 | 1.0 | 51.3 | 30.7 | 24.5 | 12.2 | 10.6 | 9.3 |
| Collins Foods | 6.5 | -0.1 | 1.1 | 1.6 | 19.9 | 17.2 | 15.7 | 10.1 | 9.0 | 8.1 |
| Minimum | | -27.8 | 0.5 | 1.0 | 19.9 | 17.2 | 15.7 | 10.1 | 9.0 | 8.1 |
| Maximum | | 11.0 | 2.3 | 2.6 | 51.3 | 30.7 | 24.5 | 16.5 | 14.8 | 14.5 |
| Median | | -0.1 | 2.0 | 1.6 | 25.0 | 22.7 | 20.4 | 13.3 | 12.9 | 12.6 |
| Other Peers (30%) | | | | | | | | | | |
| Chipotle Mexican | 390.9 | -2.9 | 0.1 | 0.8 | 258.0 | 43.0 | 30.8 | 51.3 | 18.9 | 14.5 |
| Panera Bread | 213.1 | 2.0 | 1.9 | 1.3 | 31.7 | 27.7 | 23.4 | 13.0 | 11.8 | 10.6 |
| Wendy 's | 13.8 | -1.8 | 2.8 | 1.4 | 33.9 | 30.6 | 25.9 | 14.6 | 14.5 | 13.7 |
| Jack In The Box | 112.5 | 1.0 | 0.9 | 1.2 | 30.2 | 23.7 | 20.2 | 14.1 | 12.4 | 11.7 |
| Mitchells & Butlers | 243.2 | 0.2 | -4.9 | 3.0 | 6.9 | 7.0 | 6.8 | 6.6 | 6.7 | 6.7 |
| Texas Roadhouse | 49.6 | 1.0 | 1.9 | 1.4 | 27.9 | 24.7 | 21.4 | 13.0 | 11.6 | 10.4 |
| Autogrill | 8.5 | 0.6 | 2.7 | 1.2 | 23.9 | 22.1 | 19.0 | 6.7 | 6.4 | 6.0 |
| Minimum | | -2.9 | -4.9 | 0.8 | 6.9 | 7.0 | 6.8 | 6.6 | 6.4 | 6.0 |
| Maximum | | 2.0 | 2.8 | 3.0 | 258.0 | 43.0 | 30.8 | 51.3 | 18.9 | 14.5 |
| Median | | 0.6 | 1.9 | 1.3 | 30.2 | 24.7 | 21.4 | 13.0 | 11.8 | 10.6 |
| AmRest | 287.7 | 1.8 | 0.5 | 0.7 | 32.2 | 22.8 | 18.1 | 13.1 | 10.0 | 8.1 |
| Implied Valuation | | | | | | | | | | |
| Multiples | | 0.1 | 2.0 | 1.5 | 26.5 | 23.3 | 20.7 | 13.2 | 12.6 | 12.0 |
| premium (discount) | | 1169% | -73% | -53% | 22% | -2% | -13% | -1% | -20% | -32% |
| Multiple weight | | | 0% | | | 50% | | | 50% | |
| Year weight | | 0% | 0% | 0% | 33% | 33% | 33% | 33% | 33% | 33% |
| Premium (discount) to valuation | | | | | 10% | 10% | 10% | 10% | 10% | 10% |
| Value per share (PLN) | 328 | | | | | | | | | |

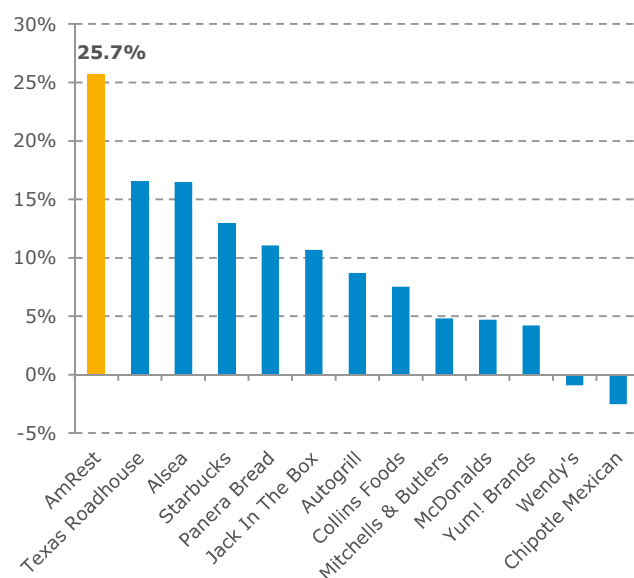
Comparison of 12M blended forward P/E (left chart) and EV/EBITDA (right chart), EAT vs. peers



Comparison of 2015 D&A/EBITDA ratios

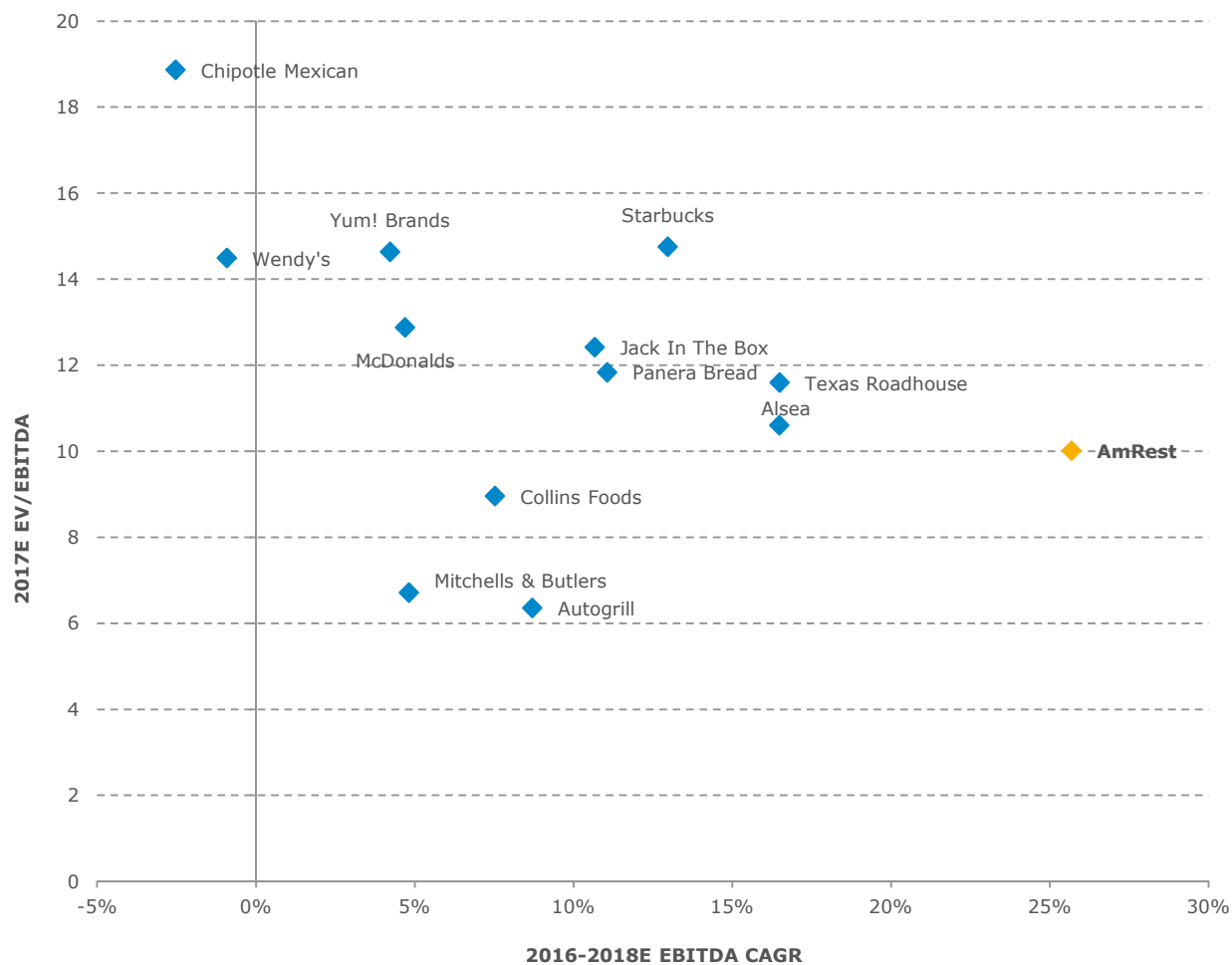


Comparison of 2016-2018E EBITDA CAGR



Source: Bloomberg, Dom Maklerski mBanku

Comparison of 2017E EV/EBITDA and 2016-2018E EBITDA CAGR: AmRest vs. selected peers



Source: Bloomberg, Dom Maklerski mBanku

Income Statement

| (PLN m) | 2014 | 2015 | 2016P | 2017P | 2018P | 2019P | 2020P |
|-------------------------------------|----------|----------|----------|----------|----------|----------|----------|
| Revenue | 2,952.7 | 3,338.7 | 4,203.3 | 5,266.3 | 6,080.7 | 6,806.3 | 7,422.4 |
| change | 9.3% | 13.1% | 25.9% | 25.3% | 15.5% | 11.9% | 9.1% |
| Restaurant expenses | -2,501.5 | -2,759.4 | -3,473.9 | -4,349.3 | -5,021.7 | -5,626.9 | -6,115.9 |
| Food | -886.8 | -972.2 | -1,184.6 | -1,489.0 | -1,710.6 | -1,909.4 | -2,077.6 |
| Payroll and employee benefits | -609.5 | -686.2 | -900.8 | -1,138.9 | -1,334.1 | -1,511.0 | -1,637.4 |
| Franchise fees | -136.9 | -153.4 | -193.6 | -239.9 | -275.5 | -307.5 | -334.5 |
| Rent and other expenses | -868.2 | -947.7 | -1,194.9 | -1,481.4 | -1,701.6 | -1,899.1 | -2,066.4 |
| Gross profit | 451.2 | 579.3 | 729.4 | 917.0 | 1,059.0 | 1,179.4 | 1,306.5 |
| gross profit margin | 15.3% | 17.4% | 17.4% | 17.4% | 17.4% | 17.3% | 17.6% |
| General and administrative expenses | -195.4 | -251.6 | -281.3 | -331.9 | -355.5 | -374.9 | -414.7 |
| Impairment losses | -40.4 | -16.8 | -20.8 | -20.0 | -20.0 | -20.0 | -20.0 |
| Total operating costs | -105.5 | -115.1 | -155.4 | -189.4 | -217.7 | -243.0 | -264.5 |
| EBIT | 109.9 | 195.7 | 271.9 | 375.7 | 465.9 | 541.4 | 607.3 |
| change | 531.0% | 78.1% | 38.9% | 38.2% | 24.0% | 16.2% | 12.2% |
| EBIT margin | 3.7% | 5.9% | 6.5% | 7.1% | 7.7% | 8.0% | 8.2% |
| Financing gains / losses | -44.6 | -33.5 | -44.5 | -43.2 | -46.7 | -38.6 | -30.9 |
| Pre-tax profit | 65.3 | 162.3 | 227.4 | 332.6 | 419.2 | 502.9 | 576.4 |
| Discontinued operations | | | | | | | |
| Tax | -19.3 | -4.9 | -39.9 | -66.5 | -83.8 | -100.6 | -115.3 |
| Minority interests | -5.6 | -2.7 | -1.8 | -1.9 | -1.9 | -1.9 | -2.0 |
| Net profit | 51.7 | 160.0 | 189.3 | 267.9 | 337.2 | 404.2 | 463.2 |
| change | 419.5% | 209.7% | 18.3% | 41.6% | 25.9% | 19.9% | 14.6% |
| margin | 1.7% | 4.8% | 4.5% | 5.1% | 5.5% | 5.9% | 6.2% |
| D&A | 206.1 | 223.9 | 270.3 | 323.2 | 367.3 | 405.4 | 426.7 |
| EBITDA | 356.4 | 419.6 | 542.2 | 698.9 | 833.1 | 946.8 | 1,034.0 |
| change | 29.7% | 17.7% | 29.2% | 28.9% | 19.2% | 13.6% | 9.2% |
| EBITDA margin | 12.1% | 12.6% | 12.9% | 13.3% | 13.7% | 13.9% | 13.9% |
| Shares at year-end (millions) | 21.2 | 21.2 | 21.2 | 21.2 | 21.2 | 21.2 | 21.2 |
| EPS | 2.4 | 7.5 | 8.9 | 12.6 | 15.9 | 19.1 | 21.8 |

Balance Sheet

| (PLN m) | 2014 | 2015 | 2016P | 2017P | 2018P | 2019P | 2020P |
|-------------------------------|---------|---------|---------|---------|---------|---------|---------|
| ASSETS | 2,621.8 | 2,849.1 | 3,014.5 | 3,523.1 | 3,849.9 | 4,012.3 | 4,183.4 |
| Fixed assets | 2,220.8 | 2,325.4 | 2,717.1 | 2,947.8 | 3,111.7 | 3,223.2 | 3,279.4 |
| Property, plant and equipment | 1,016.3 | 1,060.0 | 1,271.7 | 1,502.3 | 1,666.2 | 1,777.8 | 1,834.0 |
| Goodwill | 578.3 | 583.1 | 741.7 | 741.7 | 741.7 | 741.7 | 741.7 |
| Intangible assets | 528.1 | 574.1 | 584.2 | 584.2 | 584.2 | 584.2 | 584.2 |
| Prepayments | 28.4 | 33.4 | 41.4 | 41.4 | 41.4 | 41.4 | 41.4 |
| Other | 69.6 | 74.8 | 78.2 | 78.2 | 78.2 | 78.2 | 78.2 |
| Current assets | 401.1 | 523.8 | 297.4 | 575.4 | 738.2 | 789.1 | 903.9 |
| Inventory | 51.6 | 64.3 | 76.7 | 96.1 | 111.0 | 124.3 | 135.5 |
| Receivables | 66.3 | 92.1 | 92.5 | 115.9 | 133.8 | 149.8 | 163.3 |
| Cash and cash equivalents | 257.2 | 317.9 | 76.0 | 307.9 | 435.5 | 455.0 | 543.2 |
| Other | 25.9 | 49.5 | 52.2 | 55.4 | 57.8 | 60.0 | 61.9 |

| (PLN m) | 2014 | 2015 | 2016P | 2017P | 2018P | 2019P | 2020P |
|------------------------|---------|---------|---------|---------|---------|---------|---------|
| EQUITY AND LIABILITIES | 2,621.8 | 2,849.1 | 3,014.5 | 3,523.1 | 3,849.9 | 4,012.3 | 4,183.4 |
| Equity | 911.5 | 1,033.0 | 1,272.7 | 1,535.5 | 1,866.3 | 2,262.9 | 2,313.0 |
| Minority interests | 64.1 | 71.0 | 71.9 | 70.0 | 68.1 | 66.2 | 64.2 |
| Long-term liabilities | 1,293.0 | 1,179.6 | 944.0 | 1,064.0 | 964.0 | 654.0 | 714.0 |
| Loans | 1,116.0 | 1,035.9 | 792.6 | 912.6 | 812.6 | 502.6 | 562.6 |
| Other | 177.0 | 143.7 | 151.3 | 151.3 | 151.3 | 151.3 | 151.3 |
| Current liabilities | 353.2 | 565.4 | 726.0 | 853.7 | 951.4 | 1,029.2 | 1,092.2 |
| Loans | 0.3 | 89.4 | 219.8 | 219.8 | 219.8 | 219.8 | 219.8 |
| Trade creditors | 344.9 | 461.8 | 483.3 | 605.6 | 699.2 | 773.7 | 834.0 |
| Other | 8.0 | 14.2 | 22.9 | 28.3 | 32.4 | 35.7 | 38.4 |
| Debt | 1,116.4 | 1,125.4 | 1,012.4 | 1,132.4 | 1,032.4 | 722.4 | 782.4 |
| Net debt | 859.2 | 807.5 | 936.4 | 824.5 | 596.9 | 267.4 | 239.2 |
| (Net debt / Equity) | 94.3% | 78.2% | 73.6% | 53.7% | 32.0% | 11.8% | 10.3% |
| (Net debt / EBITDA) | 2.4 | 1.9 | 1.7 | 1.2 | 0.7 | 0.3 | 0.3 |
| BVPS | 43.0 | 48.7 | 60.0 | 72.4 | 88.0 | 106.7 | 109.0 |

Cash Flow

| (PLN m) | 2014 | 2015 | 2016P | 2017P | 2018P | 2019P | 2020P |
|-------------------------------------|--------|--------|--------|--------|--------|--------|--------|
| Cash flow from operating activities | 295.9 | 441.8 | 421.3 | 670.9 | 765.2 | 854.1 | 924.2 |
| Pre-tax profit | 65.3 | 162.3 | 218.8 | 267.9 | 337.2 | 404.2 | 463.2 |
| D&A | 206.1 | 223.9 | 270.3 | 323.2 | 367.3 | 405.4 | 426.7 |
| Working capital | 12.0 | 37.3 | -75.2 | 81.7 | 62.6 | 46.4 | 36.3 |
| Other | 12.5 | 18.3 | 7.4 | -1.9 | -1.9 | -1.9 | -2.0 |
| Cash flow from investing activities | -316.2 | -403.1 | -678.1 | -553.9 | -531.1 | -517.0 | -482.9 |
| CAPEX | -318.3 | -340.8 | -543.2 | -553.9 | -531.1 | -517.0 | -482.9 |
| Other | 2.1 | -62.3 | -134.9 | 0.0 | 0.0 | 0.0 | 0.0 |
| Cash flow from financing activities | 12.6 | -37.5 | -137.6 | 109.8 | -112.8 | -325.4 | -361.8 |
| Loans | 25.3 | 4.8 | -118.1 | 120.0 | -100.0 | -310.0 | 60.0 |
| Dividends | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | -404.2 |
| Other | -12.7 | -42.3 | -19.5 | -10.2 | -12.8 | -15.4 | -17.6 |
| Change in cash (eop) | -7.7 | 1.1 | -394.4 | 226.8 | 121.2 | 11.8 | 79.4 |
| Cash at period-end | 257.2 | 317.9 | 76.0 | 307.9 | 435.5 | 455.0 | 543.2 |
| DPS (PLN) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 19.1 |
| FCF | -22.7 | 110.1 | -124.0 | 151.6 | 271.4 | 368.0 | 466.0 |
| (CAPEX/Sales) | 10.8% | 10.2% | 12.9% | 10.5% | 8.7% | 7.6% | 6.5% |

Trading Multiples

| | 2014 | 2015 | 2016P | 2017P | 2018P | 2019P | 2020P |
|-------------------------------|-------|-------|-------|-------|-------|-------|-------|
| P/E | 118.1 | 38.1 | 32.2 | 22.8 | 18.1 | 15.1 | 13.2 |
| P/CE | 23.7 | 15.9 | 13.3 | 10.3 | 8.7 | 7.5 | 6.9 |
| P/BV | 6.7 | 5.9 | 4.8 | 4.0 | 3.3 | 2.7 | 2.6 |
| P/S | 2.1 | 1.8 | 1.5 | 1.2 | 1.0 | 0.9 | 0.8 |
| FCF/EV | -0.3% | 1.6% | -1.7% | 2.2% | 4.0% | 5.7% | 7.3% |
| EV/EBITDA | 19.7 | 16.6 | 13.1 | 10.0 | 8.1 | 6.8 | 8.3 |
| EV/EBIT | 63.9 | 35.7 | 26.2 | 18.6 | 14.5 | 11.9 | 10.5 |
| EV/S | 2.4 | 2.1 | 1.7 | 1.3 | 1.1 | 0.9 | 0.9 |
| DYield | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 6.6% |
| Price (PLN) | 287.7 | 287.7 | 287.7 | 287.7 | 287.7 | 287.7 | 287.7 |
| Shares at year-end (millions) | 21.2 | 21.2 | 21.2 | 21.2 | 21.2 | 21.2 | 21.2 |
| MC (PLN m) | 6,103 | 6,103 | 6,103 | 6,103 | 6,103 | 6,103 | 6,103 |
| Minority interests (PLN m) | 64 | 71 | 72 | 70 | 68 | 66 | 64 |
| EV (PLN m) | 7,027 | 6,982 | 7,112 | 6,998 | 6,768 | 6,437 | 6,407 |

List of abbreviations and ratios contained in the report:

EV – net debt + market value
EBIT – Earnings Before Interest and Taxes
EBITDA – EBIT + Depreciation and Amortisation
P/CE – price to earnings with amortisation
MC/S – market capitalisation to sales
EBIT/EV – operating profit to economic value
P/E – (Price/Earnings) – price divided by annual net profit per share
ROE – (Return on Equity) – annual net profit divided by average equity
P/BV – (Price/Book Value) – price divided by book value per share
Net debt – credits + debt papers + interest bearing loans – cash and cash equivalents
EBITDA margin – EBITDA/Sales

OVERWEIGHT (OW) – a rating which indicates that we expect a stock to outperform the broad market

NEUTRAL (N) – a rating which indicates that we expect the stock to perform in line with the broad market

UNDERWEIGHT (UW) – a rating which indicates that we expect the stock to underperform the broad market

Recommendations of Dom Maklerski mBanku:

A recommendation is valid for a period of 6-9 months, unless a subsequent recommendation is issued within this period. Expected returns from individual recommendations are as follows:

BUY – we expect that the rate of return from an investment will be at least 15%

ACCUMULATE – we expect that the rate of return from an investment will range from 5% to 15%

HOLD – we expect that the rate of return from an investment will range from -5% to +5%

REDUCE – we expect that the rate of return from an investment will range from -5% to -15%

SELL – we expect that an investment will bear a loss greater than 15%

Recommendations are updated at least once every nine months.

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The production of this recommendation was completed on December 19, 2016, 8:35 AM.

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Strong and weak points of valuation methods used in recommendations:

DCF – acknowledged as the most methodologically correct method of valuation; it consists in discounting financial flows generated by a company; its weak point is the significant susceptibility to a change of forecast assumptions in the model.

Relative – based on a comparison of valuation multipliers of companies from a given sector; simple in construction, reflects the current state of the market better than DCF; weak points include substantial variability (fluctuations together with market indices) as well as difficulty in the selection of the group of comparable companies.

Economic profits – discounting of future economic profits; the weak point is high sensitivity to changes in the assumptions made in the valuation model.

Discounted Dividends (DDM) – discounting of future dividends; the weak point is high sensitivity to changes in the assumptions as to future dividends made in the valuation model.

NAV – valuation based on equity value, one of the most frequently used method in case of developing companies; the weak point of the method is that it does not factor in future changes in revenue/profits of a company.

mBank issued the following investment recommendations for AmRest in the 12 months prior to this publication

| Rating | reduce | hold | accumulate | buy |
|---------------------|------------|------------|------------|------------|
| Rating date | 2016-09-16 | 2016-05-06 | 2016-04-06 | 2016-02-02 |
| Price on rating day | 252.00 | 220.00 | 208.50 | 188.50 |
| WIG on rating day | 47,198.39 | 46,430.16 | 47,790.29 | 44,294.89 |

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