

# DP Eurasia

## Travel & leisure

18 July 2018

## Domino's in Russia and Turkey

DP Eurasia's (DPEU's) H118 trading statement highlighted the company's progress in tapping the under-penetrated Russian and Turkish pizza markets. Online sales continue to grow as a proportion of system sales following app upgrades in 2017. High barriers to entry in the Russian market, coupled with challenging weather and traffic, have restricted geographic diversity. However, with 4.3x more stores in Turkey than the number two competitor, we believe the maturing base and the company's expansion plans support market forecasts for strong annual EBITDA growth of 24% over the next three years.

### H118 trading statement

Total system sales growth was strong at 28.1% and Russian like-for-like sales growth normalised at 18.0% (H117's 31% resulted from early stage development), while Turkey also grew robustly at +10.9%. Online system sales growth of 64.5% was driven by app uptake in both markets, particularly Russia which displayed local currency growth of 88.6%. Leveraging the platform, online grew from c 50% to c 59% of delivery system sales but the Domino's UK figure of c 80% of total system sales indicates there is still upside potential. The current store mix is 37% corporate vs 63% franchised, with a medium-term equilibrium expectation of c 30:70.

### Roll-out in core markets

DPEU is the current market leader in the Turkish market with 521 stores and a store opening target of 30 per annum. The Russian market is competitive, but rapid expansion in greater Moscow has established a store count lead over key competitor Dodo Pizza. The growth plan is underpinned by projected store roll-outs, and although Dodo is the larger brand in Russia overall, there are ample areas to go for. Weather and road congestion limit store catchment areas given DPEU's strict 30-minute delivery standard. However, the total number of stores in Russia has grown at a CAGR of 74.7% since FY13, and the expanded commissary should support the operation for two to three years on projected openings rates.

### Valuation: Realistic P/E and EBITDA growth

Consensus forecasts suggest the existing business, combined with a clearly defined strategy, will enable DPEU to deliver growing returns for shareholders. This statement confirms that the company is on course on an expansion path that should result in EBITDA CAGR of 24% from FY17 to FY20. That forecast growth results in P/E decreasing from 33.3x at FY18e to an unstretched 16.6x in FY20e.

#### Consensus estimates

Year end	Revenue (TRYm)	PBT (TRYm)	Adjusted EBITDA (TRYm)	EPS (TRY)	DPS (TRY)	P/E (x)	Yield (%)
12/17	632.9	6.8	97.2	0.2	N/A	183.5	N/A
12/18e	791.6	55.9	119.3	0.3	0.02	33.3	0.2
12/19e	968.8	84.2	149.8	0.5	0.1	21.8	0.7
12/20e	1,163.4	121.3	186.8	0.7	0.2	16.6	1.7

Source: DPEU, Bloomberg

**Price** 168.2p

**Market cap** £245m

1GBP=TRY6.26

#### Share price graph



#### Share details

Code	DPEU
Listing	LSE
Shares in issue	145.4m

#### Business description

DP Eurasia is the fifth largest master franchisee of the Domino's pizza brand operating exclusively in Turkey, Russia, Azerbaijan and Georgia. The group offers pizza delivery and restaurant facilities at 672 corporate and franchised stores.

#### Bull

- Leading market positions in under-developed markets.
- FX risk is now hedged with the recent refinancing of euro-denominated loans to rouble-denominated loans in Russia.
- Global brand with an experienced management team.

#### Bear

- More developed competition in Russian pizza market.
- High inflation rates in Turkey could alter the consumer spending profile.
- Country risk including volatile FX markets.

#### Analysts

Paul Hickman	+44 (0)20 3681 2501
Neil Shah	+44 (0)20 3077 5715

[consumer@edisongroup.com](mailto:consumer@edisongroup.com)

**EDISON QUICKVIEWS ARE NORMALLY ONE OFF PUBLICATIONS WITH NO COMMITMENT TO WRITING ANY FOLLOW UP. QUICKVIEW NOTES USE CONSENSUS EARNINGS ESTIMATES.**

Edison is an investment research and advisory company, with offices in North America, Europe, the Middle East and AsiaPac. The heart of Edison is our world-renowned equity research platform and deep multi-sector expertise. At Edison Investment Research, our research is widely read by international investors, advisers and stakeholders. Edison Advisors leverages our core research platform to provide differentiated services including investor relations and strategic consulting. Edison is authorised and regulated by the [Financial Conduct Authority](#). Edison Investment Research (NZ) Limited (Edison NZ) is the New Zealand subsidiary of Edison. Edison NZ is registered on the New Zealand Financial Service Providers Register (FSP number 247505) and is registered to provide wholesale and/or generic financial adviser services only. Edison Investment Research Inc (Edison US) is the US subsidiary of Edison and is regulated by the Securities and Exchange Commission. Edison Investment Research Limited (Edison Aus) [46085869] is the Australian subsidiary of Edison. Edison Germany is a branch entity of Edison Investment Research Limited [4794244]. [www.edisongroup.com](http://www.edisongroup.com)

#### DISCLAIMER

Copyright 2018 Edison Investment Research Limited. All rights reserved. This report has been prepared and issued by Edison for publication globally. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of Edison at the time of publication. The securities described in the Investment Research may not be eligible for sale in all jurisdictions or to certain categories of investors. This research is issued in Australia by Edison Investment Research Pty Ltd (Corporate Authorised Representative (1252501) of Myonlineadvisers Pty Ltd (AFSL: 427484)) and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. The Investment Research is distributed in the United States by Edison US to major US institutional investors only. Edison US is registered as an investment adviser with the Securities and Exchange Commission. Edison US relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. As such, Edison does not offer or provide personalised advice. We publish information about companies in which we believe our readers may be interested and this information reflects our sincere opinions. The information that we provide or that is derived from our website is not intended to be, and should not be construed in any manner whatsoever as, personalised advice. Also, our website and the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. This document is provided for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. Edison has a restrictive policy relating to personal dealing. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report. Edison or its affiliates may perform services or solicit business from any of the companies mentioned in this report. The value of securities mentioned in this report can fall as well as rise and are subject to large and sudden swings. In addition it may be difficult or not possible to buy, sell or obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (ie without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision. To the maximum extent permitted by law, Edison, its affiliates and contractors, and their respective directors, officers and employees will not be liable for any loss or damage arising as a result of reliance being placed on any of the information contained in this report and do not guarantee the returns on investments in the products discussed in this publication. FTSE International Limited ("FTSE") (c) FTSE [2014]. "FTSE(r)" is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under license. All rights in the FTSE indices and/or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and/or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent.