



Yum! Brands (YUM)

Updated February 10th, 2022 by Aristofanis Papadatos

Key Metrics

Current Price:	\$128	5 Year CAGR Estimate:	11.7%	Market Cap:	\$36.6 B
Fair Value Price:	\$119	5 Year Growth Estimate:	12.0%	Ex-Dividend Date:	2/16/2022 ¹
% Fair Value:	108%	5 Year Valuation Multiple Estimate:	-1.5%	Dividend Payment Date:	10/3/2022
Dividend Yield:	1.8%	5 Year Price Target	\$209	Years Of Dividend Growth:	5
Dividend Risk Score:	B	Retirement Suitability Score:	D	Last Dividend Increase:	14.0%

Overview & Current Events

Yum Brands owns the KFC, Pizza Hut, Taco Bell and The Habit Restaurants chains. It is present in more than 155 countries and has more than 53,000 restaurants, 60% of which are located abroad. KFC generates about half of the total revenue and operating profit of the company. Yum Brands has a market capitalization of \$36.6 billion.

Yum Brands completed its major 3-year transformation project in 2019. It spun-off its Chinese segment and refranchised its stores at a fast pace, from 77% in 2016 to 98% now. Yum Brands used proceeds from the sale of its stores to franchisees to buy back shares aggressively. In addition, thanks to the refranchising, the company has become more efficient, with much lower operating expenses and a wider operating margin. It is thus able to handle more leverage.

In early February, Yum Brands reported (2/10/22) financial results for the fourth quarter of 2021. The company grew its sales 9% over the prior year's quarter thanks to 5% same-store sales growth and 4% growth of store count. However, it was hurt by higher general and administrative expenses and company restaurant expenses. As a result, its adjusted earnings-per-share dipped -12%, from \$1.16 to \$1.02, and missed the analysts' consensus by \$0.07. On the bright side, Yum Brands opened a record number of 1678 gross new restaurants during the quarter and its annual digital sales exceeded \$22 billion. As a result, the market rewarded the stock with a 2% gain, despite the earnings miss.

Yum Brands has outperformed its peers in business performance by a wide margin during the pandemic thanks to its quick adjustment to an off-premise environment. It grew its earnings per share 2% in 2020 whereas McDonald's and Restaurant Brands International incurred a ~20% decrease in earnings-per-share in 2020.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$3.25	\$2.97	\$3.09	\$3.18	\$2.48	\$2.96	\$3.17	\$3.55	\$3.62	\$4.46	\$4.90	\$8.64
DPS	\$1.24	\$1.41	\$1.56	\$1.74	\$1.73	\$0.90	\$1.44	\$1.68	\$1.88	\$2.00	\$2.28	\$3.05
Shares²	451.0	443.0	434.0	420.0	355.0	332.0	313.0	309.0	307.0	298.0	290.0	250.0

Yum Brands has returned to strong growth mode thanks to the growth of its store count and its same-store sales. The company expects to grow its store count by 4%-5% per year in the upcoming years. Before the spin-off of its Chinese segment, Yum Brands grew its earnings-per-share at a 7.6% average annual rate. Thanks to the strong business momentum of Yum Brands, which has partly resulted from its drastic response to the pandemic, we expect the company to grow its earnings-per-share at a 12.0% average annual rate over the next five years.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	20.7	23.5	24.1	25.2	31.7	24.4	26.7	29.4	25.8	26.9	26.1	24.2
Avg. Yld.	1.8%	2.0%	2.1%	2.2%	2.2%	1.3%	1.7%	1.6%	2.0%	1.7%	1.8%	1.5%

¹ Estimated date.

² In millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Thanks to its exceptional growth record, Yum Brands usually enjoys a premium valuation. The stock is currently trading at a price-to-earnings ratio of 26.1, which is higher than its 10-year average earnings multiple of 24.2. We assume that the stock will revert to its average valuation level in the next five years. If this occurs, the stock will incur a -1.5% annualized drag on total returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	38.2%	47.5%	50.5%	54.7%	69.8%	30.4%	45.4%	47.3%	51.9%	44.8%	46.5%	35.3%

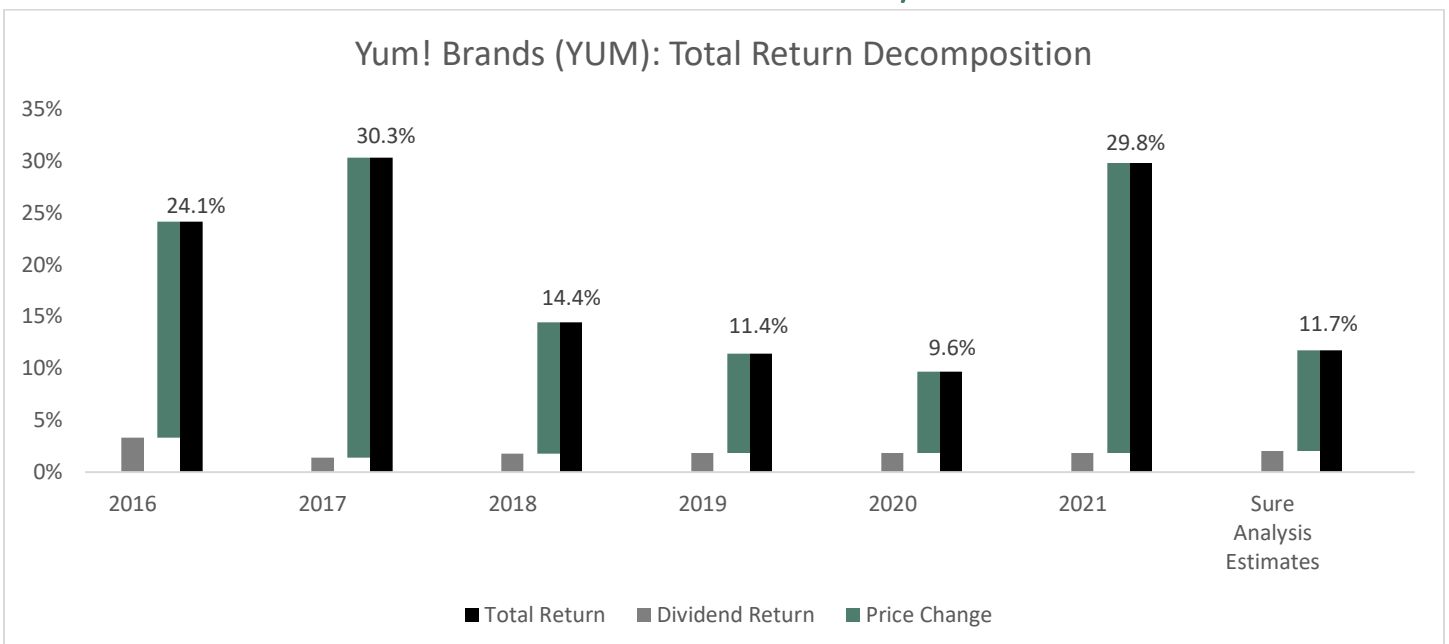
The above strategy of Yum Brands has greatly rewarded its shareholders. Nevertheless, this strategy has resulted in a highly leveraged balance sheet. Yum Brands' debt/assets ratio has skyrocketed, from 88% in 2015 to 222% now. This is why Moody's downgraded the bonds of Yum Brands to junk when the company announced its plan. As a result, while the 20-year bonds of other fast food chains yield about 3.0% per year, the 20-year bonds of Yum Brands yield 5.0%. Nevertheless, the net debt of Yum Brands is \$12.8 billion, which is less than 10 times its annual earnings.

The strength of Yum's brands and their appeal to consumers constitute a significant competitive advantage. Thanks to its established brands, the company enjoys reliable free cash flows. As a result, the company is not likely to have issues servicing its debt. It is also worth noting that Yum Brands has proved markedly resilient during recessions, mostly thanks to its low-priced fast food offerings. In the Great Recession, when most companies saw their earnings collapse, Yum Brands grew its earnings-per-share by 29%, from \$1.68 in 2007 to \$2.17 in 2009. In the downturn caused by the pandemic, Yum Brands has proved resilient once again, as it has remained on its growth trajectory.

Final Thoughts & Recommendation

Yum Brands has greatly rewarded shareholders with its franchising and aggressive share repurchases. In addition, the company is recovering strongly from the pandemic and hence it could offer an 11.7% average annual return over the next five years. It thus maintains its buy rating. Investors should note that this premium stock is rarely found with an attractive expected return and hence the current headwind from the pandemic could be presenting an opportunity.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	13,633	13,084	6,587	6,418	6,356	5,878	5,688	5,597	5,652
Gross Profit	3,781	3,583	2,717	2,791	2,867	2,924	4,054	4,362	2,687
Gross Margin	27.7%	27.4%	41.2%	43.5%	45.1%	49.7%	71.3%	77.9%	47.5%
SG&A Exp.	1,510	1,412	1,028	1,058	1,129	999	2,103	2,285	1,064
D&A Exp.	665	721	328	319	310	253	137	112	146
Operating Profit	2,138	2,013	1,530	1,493	1,537	1,688	1,763	1,897	1,623
Op. Margin	15.7%	15.4%	23.2%	23.3%	24.2%	28.7%	31.0%	33.9%	28.7%
Net Profit	1,597	1,091	1,051	1,283	1,643	1,340	1,542	1,294	904
Net Margin	11.7%	8.3%	16.0%	20.0%	25.8%	22.8%	27.1%	23.1%	16.0%
Free Cash Flow	1,195	1,090	709	818	821	712	942	1,119	1,145
Income Tax	537	487	368	327	327	934	297	79	116

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	9,013	8,695	8,334	8,061	5,453	5,311	4,130	5,231	5,852
Cash & Equivalents	776	573	578	313	725	1,522	292	605	730
Accounts Receivable	301	319	325	324	370	400	561	584	534
Inventories	313	294	301	40	37	---	---	---	---
Goodwill & Int. Ass.	1,724	1,527	1,018	735	687	726	767	774	940
Total Liabilities	6,760	6,466	6,730	7,092	11,07	11,645	12,056	13,247	13,743
Accounts Payable	684	692	694	181	142	119	202	173	1,189
Long-Term Debt	2,942	2,989	3,344	3,928	9,125	9,804	10,072	10,485	10,725
Shareholder's Equity	2,154	2,166	1,547	911	-5,615	-6,334	-7,926	-8,016	-7,891
D/E Ratio	1.37	1.38	2.16	4.31	(1.63)	(1.55)	(1.27)	(1.31)	(1.36)

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	17.9%	12.3%	12.3%	15.7%	24.3%	24.9%	32.7%	27.6%	16.3%
Return on Equity	80.3%	50.5%	56.6%	104%	-69.9%	-22.4%	-21.6%	---	---
ROIC	30.6%	21.0%	20.7%	26.1%	39.1%	38.4%	54.9%	56.1%	34.1%
Shares Out.	451.0	443.0	434.0	420.0	355.0	332.0	313.0	309.0	307.0
Revenue/Share	28.82	28.38	14.54	14.49	15.89	16.56	17.29	17.88	18.41
FCF/Share	2.53	2.36	1.57	1.85	2.05	2.01	2.86	3.58	3.73

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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