



Yum! Brands (YUM)

Updated May 9th, 2023 by Aristofanis Papadatos

Key Metrics

Current Price:	\$137	5 Year CAGR Estimate:	9.4%	Market Cap:	\$38.5 B
Fair Value Price:	\$125	5 Year Growth Estimate:	10.0%	Ex-Dividend Date¹:	5/25/2023
% Fair Value:	110%	5 Year Valuation Multiple Estimate:	-1.9%	Dividend Payment Date:	6/9/2023
Dividend Yield:	1.8%	5 Year Price Target	\$201	Years Of Dividend Growth:	6
Dividend Risk Score:	B	Retirement Suitability Score:	D	Rating:	Hold

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 54,000 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 \$38.5 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%. 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 May, Yum Brands reported (5/3/23) financial results for the first quarter of 2023. The company grew its currency-neutral sales 11% over the prior year's quarter thanks to 8% same-store sales growth and 3% growth of store count. KFC, Taco Bell, and Pizza Hut grew their sales 11%, 12% and 10%, respectively. Digital sales rose to a new all-time high and exceeded 45% of total sales. However, due to a strong dollar and the impact of the shutdown of stores in Russia, earnings-per-share edged up only 1%, from \$1.05 to \$1.06, and missed the analysts' consensus by \$0.07.

Yum Brands has outperformed its peers in business performance by a wide margin throughout 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$2.97	\$3.09	\$3.18	\$2.48	\$2.96	\$3.17	\$3.55	\$3.62	\$4.46	\$4.51	\$5.15	\$8.29
DPS	\$1.41	\$1.56	\$1.74	\$1.73	\$0.90	\$1.44	\$1.68	\$1.88	\$2.00	\$2.28	\$2.42	\$3.24
Shares²	443.0	434.0	420.0	355.0	332.0	313.0	309.0	307.0	298.0	287.0	280.0	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. During the last five years, Yum Brands has grown its earnings-per-share at an 8.8% 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 10.0% average annual rate over the next five years.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	23.5	24.1	25.2	31.7	24.4	26.7	29.4	25.8	26.9	26.4	26.6	24.2
Avg. Yld.	2.0%	2.1%	2.2%	2.2%	1.3%	1.7%	1.6%	2.0%	1.7%	1.9%	1.8%	1.6%

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.



Yum! Brands (YUM)

Updated May 9th, 2023 by Aristofanis Papadatos

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 26.6, which is higher than its 10-year average earnings multiple of 24.2. We assume that the stock will trade at its average valuation level in five years. If this occurs, the stock will incur a -1.9% annualized drag in total returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	47.5%	50.5%	54.7%	69.8%	30.4%	45.4%	47.3%	51.9%	44.8%	50.6%	47.0%	39.0%

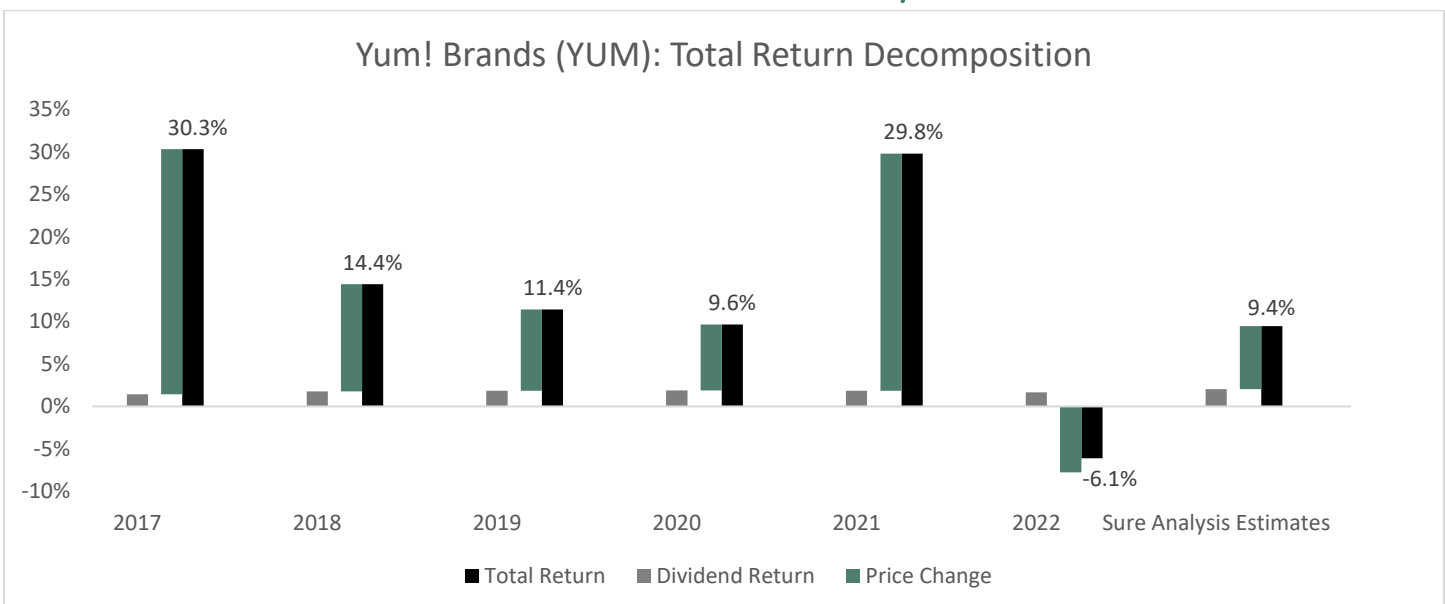
The above strategy of Yum Brands has greatly rewarded its shareholders. Nevertheless, this strategy has resulted in a highly leveraged balance sheet. Yum Brands' debt/assets ratio has skyrocketed, from 88% in 2015 to 253% now. This is why Moody's downgraded the bonds of Yum Brands to junk when the company announced its plan. As a result, while the 20-year bonds of other fast food chains yield about 4.5% per year, the 20-year bonds of Yum Brands yield 6.5%. Nevertheless, the net debt of Yum Brands is \$13.6 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 refranchising and aggressive share repurchases. The stock has outperformed the S&P 500 by a wide margin over the last 12 months (+24% vs. +4%) but it remains attractive from a long-term point of view. We expect the stock to offer a 9.4% average annual return over the next five years thanks to 10.0% earnings growth and its 1.8% dividend, partly offset by a -1.9% valuation headwind. We marginally lower our rating from "buy" to "hold" but reiterate that this premium stock is rarely found with such an attractive expected return.

Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

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.



Yum! Brands (YUM)

Updated May 9th, 2023 by Aristofanis Papadatos

Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	13,084	6,587	6,418	6,356	5,878	5,688	5,597	5,652	6,584	6,842
Gross Profit	3,425	2,558	2,551	2,666	2,687	2,658	2,814	2,687	3,166	3,307
Gross Margin	26.2%	38.8%	39.7%	41.9%	45.7%	46.7%	50.3%	47.5%	48.1%	48.3%
SG&A Exp.	1,412	1,028	1,058	1,129	999	895	917	1,064	1,060	1,140
D&A Exp.	721	328	319	310	253	137	112	146	164	146
Operating Profit	2,013	1,530	1,493	1,537	1,688	1,763	1,897	1,623	2,106	2,167
Op. Margin	15.4%	23.2%	23.3%	24.2%	28.7%	31.0%	33.9%	28.7%	32.0%	31.7%
Net Profit	1,091	1,051	1,283	1,643	1,340	1,542	1,294	904	1,575	1,325
Net Margin	8.3%	16.0%	20.0%	25.8%	22.8%	27.1%	23.1%	16.0%	23.9%	19.4%
Free Cash Flow	1,090	709	818	821	712	942	1,119	1,145	1,476	1,148
Income Tax	487	368	327	327	934	297	79	116	99	337

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	8,695	8,334	8,061	5,453	5,311	4,130	5,231	5,852	5,966	5,846
Cash & Equivalents	573	578	313	725	1,522	292	605	730	486	367
Accounts Receivable	319	325	324	370	400	561	584	534	596	648
Inventories	294	301	40	37	---	---	---	---	---	---
Goodwill & Int. Ass.	1,527	1,018	735	687	726	767	774	940	1,016	992
Total Liabilities	6,466	6,730	7,092	11,07	11,645	12,056	13,247	13,743	14,339	14,722
Accounts Payable	692	694	181	142	119	202	173	1,189	227	1,251
Long-Term Debt	2,989	3,344	3,928	9,125	9,804	10,072	10,485	10,725	11,246	11,851
Shareholder's Equity	2,166	1,547	911	-5,615	-6,334	-7,926	-8,016	-7,891	-8,373	-8,876
D/E Ratio	1.38	2.16	4.31	(1.63)	(1.55)	(1.27)	(1.31)	(1.36)	(1.34)	(1.34)

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	12.3%	12.3%	15.7%	24.3%	24.9%	32.7%	27.6%	16.3%	26.7%	22.4%
Return on Equity	50.5%	56.6%	104%	-69.9%	-22.4%	-21.6%	---	---	---	---
ROIC	21.0%	20.7%	26.1%	39.1%	38.4%	54.9%	56.1%	34.1%	55.2%	45.3%
Shares Out.	443.0	434.0	420.0	355.0	332.0	313.0	309.0	307.0	298.0	290.0
Revenue/Share	28.38	14.54	14.49	15.89	16.56	17.29	17.88	18.41	21.80	23.59
FCF/Share	2.36	1.57	1.85	2.05	2.01	2.86	3.58	3.73	4.89	3.96

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

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.