



# Yum! Brands (YUM)

Updated February 7<sup>th</sup>, 2025 by Aristofanis Papadatos

## Key Metrics

<b>Current Price:</b>	\$144	<b>5 Year CAGR Estimate:</b>	10.4%	<b>Market Cap:</b>	\$36.6 B
<b>Fair Value Price:</b>	\$143	<b>5 Year Growth Estimate:</b>	9.0%	<b>Ex-Dividend Date:</b>	2/21/2025
<b>% Fair Value:</b>	101%	<b>5 Year Valuation Multiple Estimate:</b>	-0.1%	<b>Dividend Payment Date:</b>	3/7/2025
<b>Dividend Yield:</b>	2.0%	<b>5 Year Price Target</b>	\$220	<b>Years Of Dividend Growth:</b>	8
<b>Dividend Risk Score:</b>	B	<b>Retirement Suitability Score:</b>	C	<b>Rating:</b>	Buy

## 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 60,000 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%. 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 (2/6/25) results for Q4-2024. It grew its sales 8% over the prior year's quarter thanks to 14% growth at Taco Bell, 6% growth at KFC and 3% growth at Pizza Hut. Store count grew 5%. Digital sales were over \$9 billion and exceeded 50% of total sales. Earnings-per-share grew 28%, from \$1.26 to \$1.61, and exceeded the analysts' consensus by \$0.01. Yum Brands keeps opening new stores at a fast pace. Management provided guidance for 8% growth of operating income in 2025. Accordingly, we expect earnings-per-share of \$5.92 this year. Thanks to the strong business momentum and the positive guidance, the stock rallied 10% on the day of the earnings release.

Yum Brands 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	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
<b>EPS</b>	\$3.18	\$2.48	\$2.96	\$3.17	\$3.55	\$3.62	\$4.46	\$4.51	\$5.17	\$5.48	<b>\$5.92</b>	<b>\$9.11</b>
<b>DPS</b>	\$1.74	\$1.73	\$0.90	\$1.44	\$1.68	\$1.88	\$2.00	\$2.28	\$2.42	\$2.68	<b>\$2.84</b>	<b>\$3.44</b>
<b>Shares<sup>1</sup></b>	420.0	355.0	332.0	313.0	309.0	307.0	298.0	287.0	285.0	283.0	<b>281.0</b>	<b>250.0</b>

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 a 9.1% average annual rate, faster than its 10-year growth rate of 6.2%. 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 9.0% average annual rate over the next five years.

## Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
<b>Avg. P/E</b>	25.2	31.7	24.4	26.7	29.4	25.8	26.9	26.4	25.1	24.6	<b>24.3</b>	<b>24.2</b>
<b>Avg. Yld.</b>	2.2%	2.2%	1.3%	1.7%	1.6%	2.0%	1.7%	1.9%	1.9%	2.0%	<b>2.0%</b>	<b>1.6%</b>

<sup>1</sup> In millions.

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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 24.3, which is marginally 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 -0.1% annualized drag in total returns.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	54.7%	69.8%	30.4%	45.4%	47.3%	51.9%	44.8%	50.6%	46.8%	48.9%	<b>48.0%</b>	<b>37.8%</b>

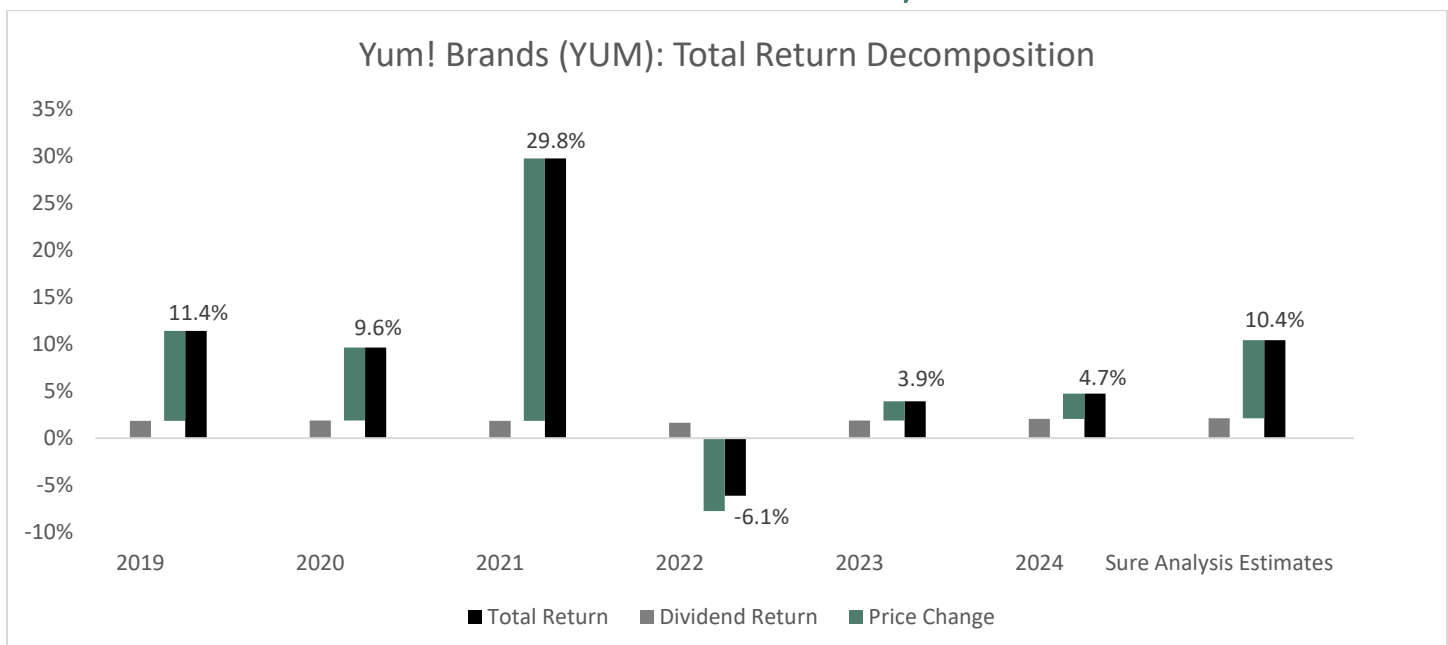
The above strategy of Yum Brands has greatly rewarded its shareholders. Nevertheless, this strategy has resulted in a highly leveraged balance sheet. Yum Brands' debt/assets ratio has skyrocketed, from 88% in 2015 to 214% now. This is why Moody's downgraded the bonds of Yum Brands to junk when the company announced its plan. As a result, while the 13-year bonds of other fast food chains yield about 5.0% per year, the 13-year bonds of Yum Brands yield 6.0%. Nevertheless, the net debt of Yum Brands is \$13.0 billion, which is less than 9 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 proved resilient once again, as it remained on its growth trajectory.

## Final Thoughts & Recommendation

Yum Brands has greatly rewarded shareholders with its refranchising and aggressive share repurchases. The stock has a premium valuation but it is attractive from a long-term point of view. Despite its 10% rally after its latest earnings release, the stock can still offer a 10.4% average annual return over the next five years thanks to 9.0% earnings growth and its 2.0% dividend, partly offset by a -0.1% valuation headwind. We maintain our buy rating and reiterate that this premium stock is rarely found with an attractive expected return.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	6,418	6,356	5,878	5,688	5,597	5,652	6,584	6,842	7,076	7,549
Gross Profit	2,551	2,666	2,687	2,658	2,814	2,687	3,166	3,307	3,496	3,584
Gross Margin	39.7%	41.9%	45.7%	46.7%	50.3%	47.5%	48.1%	48.3%	49.4%	47.5%
SG&A Exp.	1,058	1,129	999	895	917	1,064	1,060	1,140	1,187	1,181
D&A Exp.	319	310	253	137	112	146	164	146	153	175
Operating Profit	1,493	1,537	1,688	1,763	1,897	1,623	2,106	2,167	2,309	2,403
Op. Margin	23.3%	24.2%	28.7%	31.0%	33.9%	28.7%	32.0%	31.7%	32.6%	31.8%
Net Profit	1,283	1,643	1,340	1,542	1,294	904	1,575	1,325	1,597	1,486
Net Margin	20.0%	25.8%	22.8%	27.1%	23.1%	16.0%	23.9%	19.4%	22.6%	19.7%
Free Cash Flow	818	821	712	942	1,119	1,145	1,476	1,148	1,318	1,432
Income Tax	327	327	934	297	79	116	99	337	221	414

## Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	8,061	5,453	5,311	4,130	5,231	5,852	5,966	5,846	6,231	6,727
Cash & Equivalents	313	725	1,522	292	605	730	486	367	512	616
Accounts Receivable	324	370	400	561	584	534	596	648	737	775
Inventories	40	37	---	---	---	---	---	---	---	---
Goodwill & Int. Ass.	735	687	726	767	774	940	1,016	992	1,019	1,152
Total Liabilities	7,092	11,07	11,645	12,056	13,247	13,743	14,339	14,722	14,089	14,375
Accounts Payable	181	142	119	202	173	1,189	227	1,251	1,169	1,211
Long-Term Debt	3,928	9,125	9,804	10,072	10,485	10,725	11,246	11,851	11,195	11,333
Shareholder's Equity	911	-5,615	-6,334	-7,926	-8,016	-7,891	-8,373	-8,876	-7,858	-7,648
D/E Ratio	4.31	(1.63)	(1.55)	(1.27)	(1.31)	(1.36)	(1.34)	(1.34)	(1.42)	(1.48)

## Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	15.7%	24.3%	24.9%	32.7%	27.6%	16.3%	26.7%	22.4%	26.4%	22.9%
Return on Equity	104%	---	---	---	---	---	---	---	---	---
ROIC	26.1%	39.1%	38.4%	54.9%	56.1%	34.1%	55.2%	46.2%	51.0%	42.6%
Shares Out.	420.0	355.0	332.0	313.0	309.0	307.0	298.0	290.0	285.0	285.0
Revenue/Share	14.49	15.89	16.56	17.29	17.88	18.41	21.80	23.59	24.83	26.49
FCF/Share	1.85	2.05	2.01	2.86	3.58	3.73	4.89	3.96	4.62	5.02

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

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