Yum China Holdings, Inc. (YUMC)

Updated February 16th, 2025, by Yiannis Zourmpanos

Key Metrics

Current Price:	$49	**5 Year CAGR Estimate:**	12.2%	**Market Cap:**	$18.6 B
Fair Value Price:	$51	**5 Year Growth Estimate:**	10.0%	**Ex-Dividend Date:**	03/06/2025
% Fair Value:	97%	**5 Year Valuation Multiple Estimate:**	0.7%	**Dividend Payment Date:**	03/27/2025
Dividend Yield:	2.0%	**5 Year Price Target**	$82	**Years Of Dividend Growth:**	3
Dividend Risk Score:	D	**Retirement Suitability Score:**	F	**Rating:**	Buy

Overview & Current Events

Yum China Holdings, Inc. (YUMC) is China's largest restaurant company, with 16,395 restaurants in over 1,800 cities. Yum China separated from Yum! Brands in October 2016.

On February 6th, 2025, Yum China announced Q4 2024 results, reporting non-GAAP diluted EPS of $0.77, which beat market estimates by $0.12. The quarter's revenue was reported at $3.07 billion, which was up 5% year-over-year.

Yum China delivered record financial results in Q4 and FY 2024, driven by strong system sales growth, expanding margins, and accelerated shareholder returns. In Q4, total system sales increased 4% YoY, with same-store sales reaching 99% of prior-year levels and an 8th consecutive quarter of transaction growth. Total revenue rose 4% YoY to $2.6 billion, supported by 534 net new store openings, bringing the total store count to 16,395. Operating profit surged 36% year-over-year to $151 million, with OP margin expanding 140 basis points to 5.8%, driven by restaurant margin improvements and operational efficiencies.

For FY 2024, Yum China achieved record total revenues of $11.3 billion, a 5% year-over-year increase excluding foreign exchange impacts. Same-store sales reached 97% of 2023 levels, while delivery sales grew 14% year-over-year, reinforcing digital sales dominance at 90% of total company sales. The company opened 1,751 net new stores, increasing its footprint by 12% year-over-year, and returned $1.5 billion to shareholders, including $1.24 billion in share repurchases—equivalent to 8% of shares outstanding as of December 31st, 2024. Looking ahead, Yum China remains focused on expanding its store network, targeting 1,600 to 1,800 net new stores in 2025, with an ambitious $3 billion capital return plan through 2026, further solidifying its commitment to sustainable long-term value creation.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS		$1.36	$1.01	$1.24	$1.84	$1.51	$1.22	$1.20	$1.97	$2.33	***$2.54***	***$4.08***
DPS		$0.00	$0.10	$0.42	$0.48	$0.24	$0.48	$0.48	$0.52	$0.64	***$0.96***	***$1.15***
Shares[1]		383.3	384.7	379.0	376.0	420.0	428.0	423.0	420.0	388.0	***421.4***	***469.5***

Yum China has grappled with COVID-19-related challenges with intermittent lockdowns from 2020 to the current year, which has affected its earnings in recent years. However, we believe the company is well-positioned for growth in the coming years with a favorable industry outlook. The fast-food restaurant industry still has a lot of room for growth, constituting only about 17% of restaurant spending compared with 61% in the US. We believe the trend will change in the coming years, driven by secular trends and Yum China.

Yum China plans to accelerate expansion by opening 1,600 to 1,800 net new stores in 2025, aiming to reach 20,000 stores by 2026. The company is increasing its franchise mix, targeting 40-50% for KFC and 20-30% for Pizza Hut in the coming years to enhance scalability and profitability. Additionally, Yum China will invest $700 million to $800 million in capital expenditures for store development, technology, and supply chain enhancements.

Therefore, we now expect an EPS growth rate of 10.0%, which reflects the company's growth prospects as China's economy is recovering. The company continues to expand its store count, which will catalyze EPS growth in the next five

[1] 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.

years. In addition, the company will be able to grow its dividends at a healthy pace in the future, and we have assumed a dividend growth rate of 20.0% for the next five years.

Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E		20.0	35.1	31.4	23.9	33.2	48.6	39.8	28.3	14.0	***19.3***	***20.0***
Avg. Yld.			0.3%	1.1%	1.1%	0.5%	0.8%	1.0%	0.9%	2.0%	***2.0%***	***1.4%***

Yum China is trading at a forward P/E of 19.3, significantly lower than the five-year average of 32.8. The stock is trading at a discount due to the uncertain economic outlook of the Chinese economy. We expect the P/E to normalize as earnings grow and have assumed a conservative P/E of 20.0 by 2030, leading to our five-year price target of $82.

Safety, Quality, Competitive Advantage, & Recession Resiliency

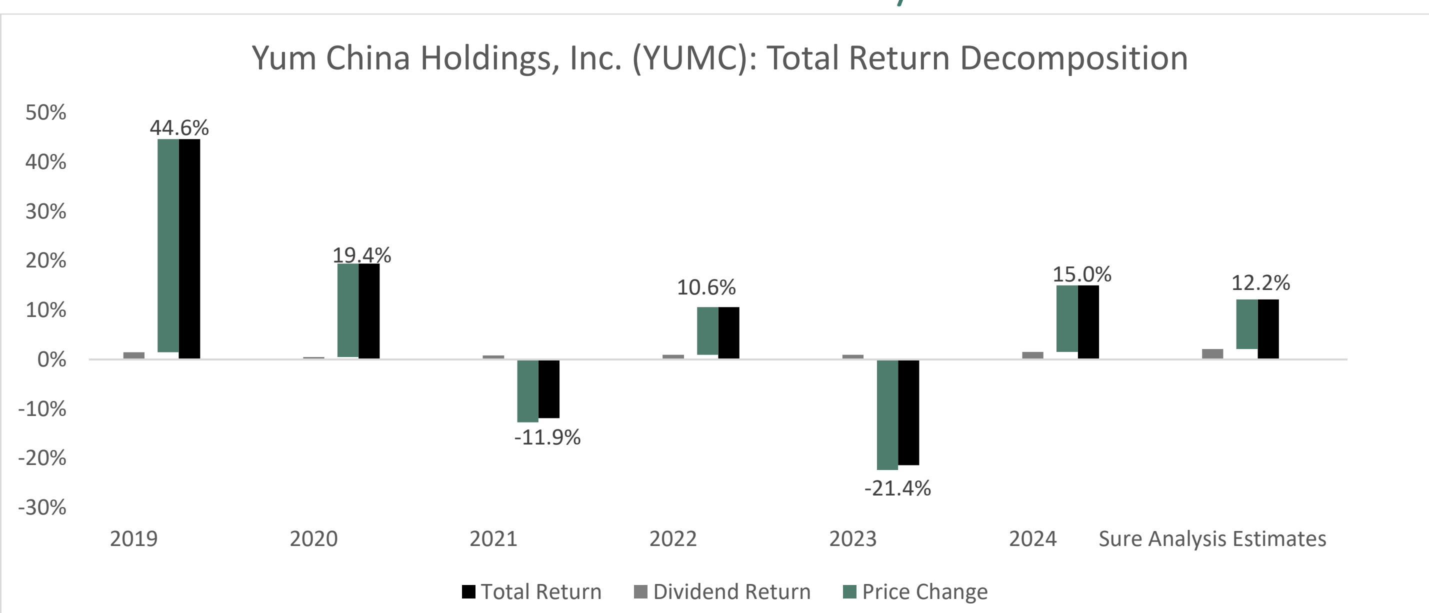
Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout			10%	34%	26%	16%	39%	40%	26%	27%	***38%***	***28%***

Yum China's most important competitive advantage is its high brand value. Moreover, focusing on menu innovations and efficient supply chain infrastructure, which results in cost advantages compared to smaller brands, gives Yum China an edge over other fast-food restaurant businesses. In addition, Yum China, as the largest restaurant chain, benefits from economies of scale, which allows it to exert significant influence over suppliers and guarantee access to food and other raw materials at stable, reasonable pricing. The business also operates in a recession-proof industry since everyone still requires food and drink to survive, no matter the macroeconomic situation. Y Yum China repurchased approximately 31.3 million shares in 2024, returning $1.24 billion to shareholders, and has committed to an additional $360 million in share repurchases during the first half of 2025.

Final Thoughts & Recommendation

Yum China's fundamental business model is solid that will likely continue to thrive. The company has a solid balance sheet with $3.3 billion available in cash and short-term investments as of the last quarter, which it can utilize to continue to expand and pay dividends to shareholders. Despite the strong bull run, we maintain our buy rating premised upon the 12.2% annualized total returns for the medium-term, driven by forecasted earnings-per-share growth of 10.0%, a starting yield of 2.0%, and a stable valuation.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	6,934	6,909	7,075	7,769	8,415	8,776	8,263	9,853	9,569	10,980
Gross Profit	841	908	1,096	1,284	1,315	1,401	1,267	1,406	1,427	1,885
Gross Margin	12.1%	13.1%	15.5%	16.5%	15.6%	16.0%	15.3%	14.3%	14.9%	17.2%
SG&A Exp.	389	395	429	495	456	487	479	564	594	638
D&A Exp.	411	425	402	409	445	428	450	516	602	453
Operating Profit	469	511	652	761	830	863	709	734	658	1,133
Op. Margin	6.8%	7.4%	9.2%	9.8%	9.9%	9.8%	8.6%	7.4%	6.9%	10.3%
Net Profit	(7)	323	498	398	708	713	784	990	442	827
Net Margin	-0.1%	4.7%	7.0%	5.1%	8.4%	8.1%	9.5%	10.0%	4.6%	7.5%
Free Cash Flow	775	913	866	884	1,333	1,185	1,114	1,131	734	763
Income Tax	54	168	156	379	214	260	295	369	207	329

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	3,257	3,201	3,727	4,287	4,610	6,950	10,875	13,223	11,830	12,030
Cash & Equivalents	238	425	885	1,059	1,266	1,046	1,158	1,136	1,130	1,128
Acc. Receivable	60	33	74	79	80	88	99	67	64	68
Inventories	260	189	268	297	307	380	398	432	417	424
Goodwill & Int.	216	192	167	340	520	481	1,218	2,552	2,270	2,197
Total Liabilities	1,303	1,216	1,284	1,440	1,633	3,775	4,404	5,301	4,666	4,912
Accounts Payable	501	438	480	420	619	623	708	830	727	786
Long-Term Debt	-	-	-	-	-	-	-	-	-	168
Total Equity	1,888	1,921	2,377	2,765	2,873	3,077	6,206	7,056	6,482	6,405
LTD/E Ratio	-	-	-	-	-	-	-	-	-	0.03

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets		10.0%	14.4%	9.9%	15.9%	12.3%	8.8%	8.2%	3.5%	6.9%
Return on Equity		17.0%	23.2%	15.5%	25.1%	24.0%	16.9%	14.9%	6.5%	11.6%
ROIC		16.4%	22.5%	15.0%	24.3%	23.2%	16.3%	13.8%	5.9%	11.5%
Shares Out.	-	-	383.3	384.7	379.0	376.0	420.0	428.0	425.0	420.0
Revenue/Share	17.78	17.72	19.17	19.52	21.30	22.62	20.55	22.70	22.52	26.14
FCF/Share	1.99	2.34	2.35	2.22	3.37	3.05	2.77	2.61	1.73	1.82

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

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