



# Yum! Brands (YUM)

Updated November 6<sup>th</sup>, 2024 by Aristofanis Papadatos

## Key Metrics

<b>Current Price:</b>	\$135	<b>5 Year CAGR Estimate:</b>	11.3%	<b>Market Cap:</b>	\$37.3 B
<b>Fair Value Price:</b>	\$139	<b>5 Year Growth Estimate:</b>	9.0%	<b>Ex-Dividend Date<sup>1</sup>:</b>	11/25/2024
<b>% Fair Value:</b>	97%	<b>5 Year Valuation Multiple Estimate:</b>	0.6%	<b>Dividend Payment Date:</b>	12/6/2024
<b>Dividend Yield:</b>	2.0%	<b>5 Year Price Target</b>	\$214	<b>Years Of Dividend Growth:</b>	7
<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 59,000 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 \$37.3 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 November, Yum Brands reported (11/5/24) results for Q3-2024. It grew its sales only 1% over last year's quarter, as 5% growth of store count was almost offset by a -5% decline in same-store sales. KFC and Pizza Hut incurred pressure in same-store sales amid tough comparisons. Digital sales were over \$8 billion and exceeded 50% of total sales. Earnings-per-share dipped -5%, from \$1.44 to \$1.37, and missed the analysts' consensus by \$0.04, mostly due to a higher tax rate. Yum Brands keeps opening new stores at a fast pace this year and still expects 8% growth of operating income.

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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>EPS</b>	\$3.09	\$3.18	\$2.48	\$2.96	\$3.17	\$3.55	\$3.62	\$4.46	\$4.51	\$5.17	<b>\$5.75</b>	<b>\$8.85</b>
<b>DPS</b>	\$1.56	\$1.74	\$1.73	\$0.90	\$1.44	\$1.68	\$1.88	\$2.00	\$2.28	\$2.42	<b>\$2.68</b>	<b>\$3.60</b>
<b>Shares<sup>2</sup></b>	434.0	420.0	355.0	332.0	313.0	309.0	307.0	298.0	287.0	285.0	<b>283.0</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 10.3% average annual rate, in line with its 10-year growth 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 9.0% average annual rate over the next five years.

## Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
<b>Avg. P/E</b>	24.1	25.2	31.7	24.4	26.7	29.4	25.8	26.9	26.4	25.1	<b>23.5</b>	<b>24.2</b>
<b>Avg. Yld.</b>	2.1%	2.2%	2.2%	1.3%	1.7%	1.6%	2.0%	1.7%	1.9%	1.9%	<b>2.0%</b>	<b>1.7%</b>

<sup>1</sup> Estimated date.

<sup>2</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 23.5, which is slightly lower 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 enjoy a 0.6% annualized gain in total returns.

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

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>Payout</b>	50.5%	54.7%	69.8%	30.4%	45.4%	47.3%	51.9%	44.8%	50.6%	46.8%	<b>46.6%</b>	<b>40.7%</b>

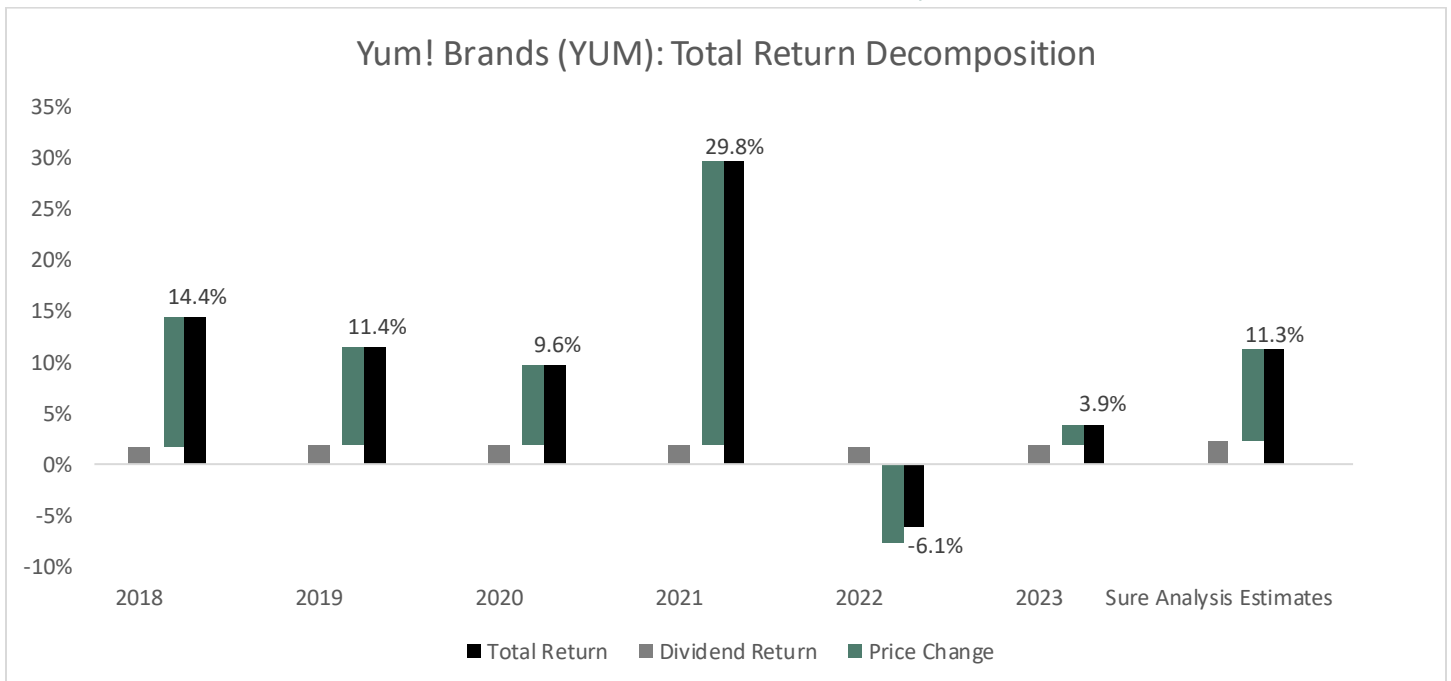
The above strategy of Yum Brands has greatly rewarded its shareholders. Nevertheless, this strategy has resulted in a highly leveraged balance sheet. Yum Brands' debt/assets ratio has skyrocketed, from 88% in 2015 to 219% now. This is why Moody's downgraded the bonds of Yum Brands to junk when the company announced its plan. As a result, while the 13-year bonds of other fast food chains yield about 4.5% per year, the 13-year bonds of Yum Brands yield 5.5%. Nevertheless, the net debt of Yum Brands is \$12.9 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. We expect the stock to offer an 11.3% average annual return over the next five years thanks to 9.0% earnings growth, its 2.0% dividend and a 0.6% valuation tailwind. We rate the stock as a buy and reiterate that this premium stock is rarely found with such an attractive expected return.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Revenue</b>	6,587	6,418	6,356	5,878	5,688	5,597	5,652	6,584	6,842	7,076
<b>Gross Profit</b>	2,558	2,551	2,666	2,687	2,658	2,814	2,687	3,166	3,307	3,496
<b>Gross Margin</b>	38.8%	39.7%	41.9%	45.7%	46.7%	50.3%	47.5%	48.1%	48.3%	49.4%
<b>SG&amp;A Exp.</b>	1,028	1,058	1,129	999	895	917	1,064	1,060	1,140	1,187
<b>D&amp;A Exp.</b>	328	319	310	253	137	112	146	164	146	153
<b>Operating Profit</b>	1,530	1,493	1,537	1,688	1,763	1,897	1,623	2,106	2,167	2,309
<b>Op. Margin</b>	23.2%	23.3%	24.2%	28.7%	31.0%	33.9%	28.7%	32.0%	31.7%	32.6%
<b>Net Profit</b>	1,051	1,283	1,643	1,340	1,542	1,294	904	1,575	1,325	1,597
<b>Net Margin</b>	16.0%	20.0%	25.8%	22.8%	27.1%	23.1%	16.0%	23.9%	19.4%	22.6%
<b>Free Cash Flow</b>	709	818	821	712	942	1,119	1,145	1,476	1,148	1,318
<b>Income Tax</b>	368	327	327	934	297	79	116	99	337	221

## Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Total Assets</b>	8,334	8,061	5,453	5,311	4,130	5,231	5,852	5,966	5,846	6,231
<b>Cash &amp; Equivalents</b>	578	313	725	1,522	292	605	730	486	367	512
<b>Accounts Receivable</b>	325	324	370	400	561	584	534	596	648	737
<b>Inventories</b>	301	40	37	---	---	---	---	---	---	---
<b>Goodwill &amp; Int. Ass.</b>	1,018	735	687	726	767	774	940	1,016	992	1,019
<b>Total Liabilities</b>	6,730	7,092	11,07	11,645	12,056	13,247	13,743	14,339	14,722	14,089
<b>Accounts Payable</b>	694	181	142	119	202	173	1,189	227	1,251	1,169
<b>Long-Term Debt</b>	3,344	3,928	9,125	9,804	10,072	10,485	10,725	11,246	11,851	11,195
<b>Shareholder's Equity</b>	1,547	911	-5,615	-6,334	-7,926	-8,016	-7,891	-8,373	-8,876	-7,858
<b>D/E Ratio</b>	2.16	4.31	(1.63)	(1.55)	(1.27)	(1.31)	(1.36)	(1.34)	(1.34)	(1.42)

## Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Return on Assets</b>	12.3%	15.7%	24.3%	24.9%	32.7%	27.6%	16.3%	26.7%	22.4%	26.4%
<b>Return on Equity</b>	56.6%	104%	---	---	---	---	---	---	---	---
<b>ROIC</b>	20.7%	26.1%	39.1%	38.4%	54.9%	56.1%	34.1%	55.2%	46.2%	51.0%
<b>Shares Out.</b>	434.0	420.0	355.0	332.0	313.0	309.0	307.0	298.0	290.0	285.0
<b>Revenue/Share</b>	14.54	14.49	15.89	16.56	17.29	17.88	18.41	21.80	23.59	24.83
<b>FCF/Share</b>	1.57	1.85	2.05	2.01	2.86	3.58	3.73	4.89	3.96	4.62

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

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