

Yum China

CEO/CFO meeting takeaways: balancing expansion, traffic & margins

Maintain Rating: BUY | PO: 53.60 USD | Price: 42.52 USD

CEO/CFO investor meetings in the US

General investor feedback. We recently hosted YUMC's CEO & CFO with US investors. In general US investors were positive on long-term prospects, resilience and management quality. Discussions were focused on China macro, room for expansion, SSSG & margin outlook, competition, geopolitics and shareholder returns, but less so on short-term financials compared with Asian investors. **BofA view.** We maintain Buy. Despite a 4Q beat, we recognize the pressure of tough comps in 1Q/1H24 in a fluid environment, and do not see upside risk to 2024 consensus for now. But on the other hand, YUMC's proactive measures that balance expansion, traffic & margins could gradually flow through in P&L in coming quarters (with a normalizing base). As a consumer core holding with a solid track record, strategic moats and commitment to shareholder returns, YUMC could also be a beneficiary from inflow, should the recent China flow trend continue.

Competition always intense, but not further deteriorating

Competitive landscape. Competition, though still very intense, does not appear to further deteriorate, with signs of slowdown among some peers. Each brand has its own cycle. Despite the momentum of Tastien, even bigger value players (Dicos, Wallace, etc.), have seen limited growth now. Scale does not necessarily create economies, as value peers might incur higher food quality assurance and other compliance cost, and they are yet to prove the UE model in big cities with rising cost. **Strategies.** Unique products and cost competitiveness are key. Learning from peers, YUMC seeks to offer better products. For example, whole chickens are a signature product of Wallace, but now YUMC offers more flavors with competitive pricing. It sold 100mn beef burgers (with an upgraded juicy flavor) in 2023, close to its #1 competitor. It has also launched Chinese burgers nationwide, with further upgrade underway. YUMC's huge sourcing scale, together with stringent cost control, could differentiate itself from competition. It represents 25%+ of white-feather chicken consumption and >1/3 of imported sirloin steaks in China. **Continues on Page 3 for more on business and shareholder returns.**

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
Net Income (Adjusted - mn)	444.00	823.00	891.89	1,018	1,121
EPS	1.04	1.96	2.19	2.59	2.94
EPS Change (YoY)	-54.2%	87.6%	11.6%	18.6%	13.4%
Dividend / Share	0.480	0.514	0.640	0.640	0.640
Free Cash Flow / Share	1.74	1.83	4.45	0.944	5.01
EPS (XYUMF - HK\$)	1.04	1.96	2.19	2.59	2.94
Dividend / Share (XYUMF - HK\$)	0.480	0.514	0.640	0.640	0.640
Valuation (Dec)					
P/E	40.70x	21.70x	19.44x	16.40x	14.45x
Dividend Yield	1.13%	1.21%	1.51%	1.51%	1.51%
EV / EBITDA*	14.65x	11.57x	10.07x	8.86x	8.03x
Free Cash Flow Yield*	4.25%	4.42%	10.35%	2.11%	10.89%

* For full definitions of *IQmethod*SM measures, see page 8.

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Equity

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Stock Data

Price (NYS / HKG)	42.52 USD / 335.80 HKD
Price Objective	53.60 USD / 416.00 HKD
Date Established	4-Jan-2024 / 4-Jan-2024
Investment Opinion	B-1-7 / B-1-7
52-Week Range	33.55 USD-64.70 USD
Market Value (mn)	17,264 USD
Shares Outstanding (mn)	406.0 / 406.0
Average Daily Value (mn)	163.93 USD
Free Float	96.4%
BofA Ticker / Exchange	YUMC / NYS
BofA Ticker / Exchange	XYUMF / HKG
Bloomberg / Reuters	YUMC US / YUMC.N
ROE (2024E)	13.3%
Net Dbt to Eqty (NAA)	-12.9%

Acronyms

YUMC: Yum China

SSSG: same store sales growth

UE: unit economics

TA: ticket average

TC: ticket count

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Refer to important disclosures on page 10 to 13. Analyst Certification on page 6. Price Objective Basis/Risk on page 6.

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Timestamp: 28 February 2024 03:30PM EST

iQprofileSM Yum China

Key Income Statement Data (Dec)	2022A	2023A	2024E	2025E	2026E
(US\$ Millions)					
Sales	9,569	10,978	11,811	13,044	13,962
Gross Profit	1,706	2,241	2,376	2,621	2,788
Sell General & Admin Expense	(594)	(638)	(666)	(697)	(727)
Operating Profit	629	1,106	1,172	1,373	1,535
Net Interest & Other Income	58	120	164	152	145
Associates	NA	NA	NA	NA	NA
Pretax Income	687	1,226	1,336	1,526	1,680
Tax (expense) / Benefit	(207)	(329)	(388)	(442)	(487)
Net Income (Adjusted)	444	823	892	1,018	1,121
Average Fully Diluted Shares Outstanding	425	420	408	393	381

Key Cash Flow Statement Data

Net Income	444	823	892	1,018	1,121
Depreciation & Amortization	602	453	619	661	711
Change in Working Capital	228	49	1,020	(530)	825
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	139	148	57	65	72
Cash Flow from Operations	1,413	1,473	2,588	1,215	2,729
Capital Expenditure	(679)	(710)	(800)	(850)	(850)
(Acquisition) / Disposal of Investments	176	(18)	0	0	0
Other Cash Inflow / (Outflow)	(19)	(15)	0	0	0
Cash Flow from Investing	(522)	(743)	(800)	(850)	(850)
Shares Issue / (Repurchase)	0	0	0	0	0
Cost of Dividends Paid	(202)	(216)	(257)	(247)	(240)
Cash Flow from Financing	(844)	(716)	(257)	(247)	(240)
Free Cash Flow	734	763	1,788	365	1,879
Net Debt	(1,088)	(916)	(2,447)	(2,564)	(4,203)
Change in Net Debt	6	2	(1,530)	(117)	(1,639)

Key Balance Sheet Data

Property, Plant & Equipment	2,118	2,310	2,491	2,680	2,819
Other Non-Current Assets	5,768	6,290	6,290	6,290	6,290
Trade Receivables	64	68	75	84	87
Cash & Equivalents	1,130	1,128	2,659	2,776	4,415
Other Current Assets	2,746	2,235	2,359	2,267	2,484
Total Assets	11,826	12,031	13,874	14,096	16,095
Long-Term Debt	42	44	44	44	44
Other Non-Current Liabilities	2,458	2,446	2,446	2,446	2,446
Short-Term Debt	0	168	168	168	168
Other Current Liabilities	2,166	2,254	3,405	2,792	3,838
Total Liabilities	4,666	4,912	6,063	5,450	6,496
Total Equity	7,160	7,119	7,811	8,646	9,599
Total Equity & Liabilities	11,826	12,031	13,873	14,096	16,095

iQmethodSM - Bus Performance*

Return On Capital Employed	4.9%	9.6%	9.4%	10.0%	10.1%
Return On Equity	6.6%	12.8%	13.3%	13.7%	13.6%
Operating Margin	6.9%	10.6%	10.4%	11.0%	11.4%
EBITDA Margin	12.9%	14.2%	15.2%	15.6%	16.1%

iQmethodSM - Quality of Earnings*

Cash Realization Ratio	3.2x	1.8x	2.9x	1.2x	2.4x
Asset Replacement Ratio	1.1x	1.6x	1.3x	1.3x	1.2x
Tax Rate (Reported)	30.1%	26.8%	29.0%	29.0%	29.0%
Net Debt-to-Equity Ratio	-15.2%	-12.9%	-31.3%	-29.7%	-43.8%
Interest Cover	NA	NA	NA	NA	NA

Key Metrics

* For full definitions of iQmethodSM measures, see page 8.

Company Sector

Restaurants

Company Description

As the first major global restaurant brand entering China, in 1987, YUMC is the largest restaurant company in China. YUMC completed the spin-off from Yum Brands and became a separately listed company in Oct 2016. It has the exclusive right to operate and sublicense the KFC, Pizza Hut and, subject to achieving certain agreed-upon milestones, Taco Bell brands in China, excluding HK, Taiwan and Macau. It also owns the East Dawning and Little Sheep marks.

Investment Rationale

Yum China has China's largest network, solid consumer know-how, strong branding and a leading supply chain. We believe the company's solid operations and opportunities around self-help initiatives would support steady growth. Capital return could also provide downside protection. We see risk reward to the upside.

Stock Data

Shares / Common - Dual Listed	1.00
Price to Book Value	2.5x

Continued from front page

Expansion: market potential & corporate readiness

Room for expansion. With 3k cities in China, KFC is in 2k cities and Pizza Hut (PH) is in 800 cities. Lower-tier cities presents more opportunities with both lower penetrations and stronger consumption momentum, and stores in lower-tier cities generate better profit margins. Even large cities still enjoy room for growth, as Japan sees 28 McDonald's stores/mn population, vs. 21 KFC stores/mn population in Shanghai, a city with the highest store density for YUMC. YUMC also sees structural tailwinds as China migrates from a starch-centric diet structure to more protein consumption. **Readiness.** YUMC has accelerated expansion, on the condition that it maintains payback of 2 years for KFC and 3 years for PH. The smaller formats with improve UE, digitalization, strength in supply chains and other self-help (such as the Mega program, under which one restaurant manager can run more stores) all serve as enablers for faster expansion.

SSSG: TC over TA in the near term

In our view, TC will be a focus over TA in the near term, given more value and the new delivery initiatives (to expand from shared meals to one-person meals). Delivery has always been a key TC driver, and YUMC now switches from exclusive riders to a blend of exclusive riders and platform riders (such as Meituan), to cater to increasing delivery TC. Our channel checks suggest some initial transitional issues, but YUMC expects largely smooth transitions in the coming months. The recent change of delivery fee structures (lowering delivery fee/order from RMB9 to RMB6, but charging packaging fees) has not seen strong consumer pushback. **By brand,** we expect KFC to see some YoY TA declines in the near term, but YUMC looks for a largely stable trend longer-term (TA in the range of RMB high-30s to low-40s in recent years). It will broaden its price band, so that premium products (such as wagyu beef burgers) can offer buffer against more value. Meanwhile, YUMC thinks PH's TA of RMB94 is still a bit high, and can go even lower in coming years as it expands further to lower-tier cities. RMB50 or lower could represent half of China's pizza market, but PH only has single digit % shares in that segment. PH is now taking measures to introduce more pizza products priced at RMB39 or 49.

Margins: looking for a largely stable trend

In general, YUMC targets largely stable OP margins, though in the near term we do not rule out some margin erosion due to tough comps. **By line-item,** despite more value offered to consumers, YUMC hopes to avoid big fluctuation in cost of sales, on the back of supply chain support (lower sourcing cost and use of cheaper cuts and ingredients, without compromising quality) and China's cost deflation. Self-help could also hopefully slow the pace of rising labor cost. For now, key margin buffers could still come from other operating expenses and G&A leverage (general & admin expenses). **By brand,** YUMC feel comfortable with KFC's restaurant margin (17.7% in 2023, at the higher end of the historical range), and would reinvest additional gains in consumers. However, PH might still enjoy some upside to restaurant margins (11.8% in 2023), but it is hard to reach the historical high of mid- to high-teens margins given a lower price point now.

Shareholder returns: strong commitment

YUMC has already announced shareholder returns of US\$1.5bn in 2024 (US\$1.25bn in buyback, and US\$250mn in dividend), which represents 8.7% of its current market cap, as YUMC sees good value in its own shares after the previous correction. Its run rate is already ahead of its 2024-26 total commitment of US\$3bn, but whether YUMC will upsize its mandate still remains to be seen. In addition, with annual shareholder returns above free cashflow, we expect its net cash positions (US\$3.7bn as of end-2023) to decline in the near term, but YUMC still hopes to maintain a certain level of net cash without elaborating on further details.

Geopolitics and other brands

Geopolitics. KFC and PH are now perceived as China-centric brands, given their localized menus and marketing, as well as commitment to local communities. As a



result, YUMC has not witnessed impact from geopolitics in recent years. **Coffee.** YUMC is happy with Lavazza's product offerings, but still pilot-testing different store formats before stepping up expansion. K-coffee stores in smaller cities could be another focus, though currently its new store expansion does not take into consideration K-coffee stores, as K-coffee stores are considered as add-ons to adjacent KFC stores, given kitchen sharing. **Chinese cuisine.** YUMC is satisfied with its Huang Ji Huang brand (steam pot), and would not rule out the potential of overseas expansion under the brand in the future. It also turned around Little Sheep (hot pot) in 2023, with a revamped menu focusing on Mongolian style food. Little Sheep is pilot-testing one-person hot pot recently, and will resume expansion step by step in the future.

Financials

Exhibit 1: YUMC:P&L

Steady growth in 2024E and beyond

USD\$mn	2022	2023	2024E	2025E	2026E
Revenue	9,569	10,978	11,811	13,044	13,962
Cost of Sales	7,863	8,737	9,435	10,423	11,174
Gross Profit	1,706	2,241	2,376	2,621	2,788
Other Income	94	0	48	48	48
SG&A expenses	594	638	666	697	727
Operating Profit	629	1,106	1,172	1,373	1,535
Net Interest Expense	-84	-169	-164	-152	-145
Profit Before Taxation	687	1,226	1,336	1,526	1,680
Income Tax	-207	-329	-388	-442	-487
Minority Interest	36	74	57	65	72
Net Profit	442	827	892	1,018	1,121
Adj. NPAT (adj. for one-off tax impact)	446	842	892	1,018	1,121

Source: BofA Global Research estimates, Company

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Exhibit 2: YUMC: Cash flow

Stronger cash generation from 2024E-2026E

USD\$mn	2022	2023	2024E	2025E	2026E
EBITDA	1,231	1,559	1,791	2,034	2,246
Less Changes in WK					
Capital	228	49	1,020	-530	825
Other Non-Cash Items	77	25	0	0	0
Gross Operating Cash flow	1,536	1,633	2,811	1,505	3,072
Less Net Interest Paid	84	169	164	152	145
Less Tax Paid	-207	-329	-388	-442	-487
Net Operating Cash flow	1,413	1,473	2,588	1,215	2,729
Capex	-679	-710	-800	-850	-850
Other, net	-19	-15	0	0	0
Net investing Cash flow	-522	-743	-800	-850	-850
Dividend	-202	-216	-257	-247	-240
Others	-642	-500	0	0	0
Net Financing Cash flow	-844	-716	-257	-247	-240
Change in Cash	47	14	1,530	117	1,639
Exchange Difference	-53	-16	0	0	0
Beginning Cash Balance	1,136	1,130	1,128	2,659	2,776
Ending Cash Balance	1,130	1,128	2,659	2,776	4,415

Source: BofA Global Research estimates, Company

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Exhibit 3: YUMC: Balance sheet

Healthy Balance Sheet

USD\$mnn	2022	2023	2024E	2025E	2026E
Current Assets					
Bank Balances and Cash	1,130	1,128	2,659	2,776	4,415
Inventories	417	424	651	534	733
Trade Receivables	64	68	75	84	87
Others	307	339	236	261	279
Total Current Assets	3,940	3,431	5,092	5,126	6,987
Non-Current Assets					
Property, Plant and Equipment	2,118	2,310	2,491	2,680	2,819
LT Investments & Receivables	361	332	332	332	332
Intangible Assets	2,147	2,082	2,082	2,082	2,082
Deferred Tax Assets	113	129	129	129	129
Others	3,147	3,747	3,747	3,747	3,747
Total Non-Current Assets	7,886	8,600	8,781	8,970	9,109
Total Assets	11,826	12,031	13,874	14,096	16,095
Current Liabilities					
Payables & Accruals	2,098	2,164	3,346	2,726	3,768
Income taxes payable	68	90	59	65	70
Total Current Liabilities	2,166	2,422	3,573	2,960	4,006
Non-Current Liabilities					
Long term debt	42	44	44	44	44
Others	2,458	2,446	2,446	2,446	2,446
Total Non-Current Liabilities	2,500	2,490	2,490	2,490	2,490
Total Liabilities	4,666	4,912	6,063	5,450	6,496
Minority Interest	666	701	758	823	894
Shareholders' Equity	6,482	6,405	7,040	7,811	8,692

Source: BofA Global Research estimates, Company

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Exhibit 4: YUMC: Ratio Analysis

Recovery margin

	2022	2023	2024E	2025E	2026E
Revenue Growth (%)	-2.9	14.7	7.6	10.4	7.0
Earnings Growth (%)	-55.4	87.1	7.8	14.2	10.1
Core Earnings Growth (%)	-15.0	88.8	5.9	14.2	10.1
Restaurant Margin (%)	14.1	16.3	16.4	16.7	17.0
Operating Margin (%)	6.9	10.6	10.4	11.0	11.4
Net Margin (%)	4.6	7.5	7.6	7.8	8.0
Adj. net margin (%)	4.7	7.7	7.6	7.8	8.0
Effective Tax Rate (%)	30.1	26.9	29.0	29.0	29.0
Balance Sheet					
Net Cash (USDmn)	3,110	2,388	3,919	4,036	5,675
Net Debt/Equity (%)	48.0	37.3	55.7	51.7	65.3
ROE (%)	0.0	0.0	0.0	0.0	0.0
ROCE (%)	0.0	0.0	0.0	0.0	0.0
Inventory Days	54.6	47.6	55.0	55.0	55.0
Receivable Days	2.6	2.3	2.3	2.3	2.3
Payable Days	285	241	282	282	282
Working Capital Cycle	-228	-191	-225	-225	-225

Source: BofA Global Research estimates, Company

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Price objective basis & risk

Yum China (YUMC / XYUMF)

Our PO is US\$53.6/share (HK\$416/share), based on an equal blend of P/E, DCF and EV/EBITDA. Our DCF value for YUMC is US\$57.9/share, derived from a 9.8% WACC, 0.8x beta and 3% terminal growth rate. Our P/E-based valuation is US\$47.9/share, based on a 22x 2024E P/E, 20% below its historical average giving rising competition. Our EV/EBITDA value is US\$55/share, based on 10x 2024E EV/EBITDA, also 20% below its historical average giving rising competition. We assume US\$/HK\$ exchange rate at 7.76. Upside risks: better-than-expected SSSG, better than expected macro, lower than expected cost inflation, less competition amid industry consolidation trend. Downside risks: weaker than expected SSSG, weaker than expected macro, higher than expected cost inflation, rising competition, new waves of pandemic outbreak.

Analyst Certification

I, Chen Luo, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

APR - Consumer Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	ABC-MART	AMKYF	2670 JP	Arashi Nishizawa
	Adastria	PNMOF	2685 JP	Arashi Nishizawa
	AmorePacific Corp	AMRPF	090430 KS	Ahyung Cho
	Anta Sports	ANPDF	2020 HK	Lucy Yu
	Asahi Group Holdings	ASBRF	2502 JP	Haruka Ono
	Avenue Supermarts	XWCVF	DMART IN	Aditya Mathur
	BGF Retail	XWAHF	282330 KS	Ahyung Cho
	Bosideng	BSDGF	3998 HK	Lucy Yu
	BUD APAC	BDWBF	1876 HK	Chen Luo, CFA
	China Resources Beer (Holdings) Co Ltd	CRHKF	291 HK	Chen Luo, CFA
	Cosmos Pharmaceutical	CSMYF	3349 JP	Arashi Nishizawa
	Dabur India	DBUIF	DABUR IN	Aditya Mathur
	DESCENTE	DESLF	8114 JP	Arashi Nishizawa
	DPC Dash Ltd	DPCDF	1405 HK	Lucy Yu
	Eastroc	XEBSF	605499 CH	Jack Chen
	Eclat	ECLAF	1476 TT	Ronald Leung, CFA
	GOLDWIN	GWNCF	8111 JP	Arashi Nishizawa
	H&H International Holdings	BTSDF	1112 HK	Lynn Wu
	Haier Smart Home Co Ltd	TTHEF	600690 CH	Lucy Yu
	Haier Smart Home Co Ltd	HRSHF	6690 HK	Lucy Yu
	Henan Shuanghui Investment & Dev	HSUIF	000895 CH	Chen Luo, CFA
	Hindustan Unilever	HINLF	HUVR IN	Aditya Mathur
	Hisense Home Appliance	XMBQF	000921 CH	Lucy Yu
	Hisense Home Appliance	HISEF	921 HK	Lucy Yu
	ITC	ITCTF	ITC IN	Aditya Mathur
	JINS HOLDINGS	JNDOF	3046 JP	Arashi Nishizawa
	Kobe Bussan	KOBNF	3038 JP	Arashi Nishizawa
	KT&G	KTCIF	033780 KS	Ahyung Cho
	Kweichow Moutai Co. Ltd.	XHJBF	600519 CH	Chen Luo, CFA
	Li Ning Co Ltd	LNNGF	2331 HK	Lucy Yu
	Luzhou Laojiao	XMBBF	000568 CH	Lynn Wu
	Makalot Industrial	MAKAF	1477 TT	Ronald Leung, CFA
	Man Wah Holdings	MAWHF	1999 HK	Yoyo Pang
	MatsukiyoCocokara & Co	MSMKF	3088 JP	Arashi Nishizawa
	Mengniu Dairy	CIADF	2319 HK	Chen Luo, CFA
	Merida Industry Co Ltd	MIUYF	9914 TT	Ronald Leung, CFA
	MINISO Group Holdings	MNSO	MNSO US	Lucy Yu
	MINISO Group Holdings	XKTAF	9896 HK	Lucy Yu

APR - Consumer Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	New Oriental Education & Technology	EDU	EDU US	Lucy Yu
	New Oriental Education & Technology	NWOEF	9901 HK	Lucy Yu
	Nitori Holdings	NCLTF	9843 JP	Arashi Nishizawa
	Proya Cosmetics	XPXCF	603605 CH	Lynn Wu
	Ryohin Keikaku	RYKKF	7453 JP	Arashi Nishizawa
	Ryohin Keikaku	RYKKY	RYKKY US	Arashi Nishizawa
	Samsonite International	SMSOF	1910 HK	Jack Chen
	Seven & i Holdings	SVNDF	3382 JP	Arashi Nishizawa
	Shenzhou International	SZHIF	2313 HK	Chen Luo, CFA
	Sun Art Retail Group	SURRF	6808 HK	Chen Luo, CFA
	Sundrug	SDGCF	9989 JP	Arashi Nishizawa
	TAL	TAL	TAL US	Lucy Yu
	Tingyi	TCYMF	322 HK	Jack Chen
	Titan Company	XNXAF	TTAN IN	Aditya Mathur
	Topsports International Holding Ltd.	TPSRF	6110 HK	Lucy Yu
	Tsingtao Brewery	TSGTF	168 HK	Lynn Wu
	Tsingtao Brewery	XTSOF	600600 CH	Lynn Wu
	Uni-president China	UNPSF	220 HK	Jack Chen
	UNITED ARROWS	UARWF	7606 JP	Arashi Nishizawa
	United Breweries	UBWRF	UBBL IN	Aditya Mathur
	Varun Beverages	XMKDF	VL IN	Aditya Mathur
	WH Group Limited	WHGRF	288 HK	Chen Luo, CFA
	Wuliangye Yibin	YBWUF	000858 CH	Chen Luo, CFA
	Yili Industrial Group	XIDRF	600887 CH	Chen Luo, CFA
	Yum China	YUMC	YUMC US	Chen Luo, CFA
	Yum China	XYUMF	9987 HK	Chen Luo, CFA

NEUTRAL

	Anjoy Foods	XSWCF	603345 CH	Jack Chen
	Asian Paints	XSAFF	APNT IN	Aditya Mathur
	China Feihe	CHFLF	6186 HK	Lynn Wu
	Chow Tai Fook Jewellery	CJWF	1929 HK	Ronald Leung, CFA
	Fast Retailing	FRCOF	9983 JP	Arashi Nishizawa
	Fast Retailing	FRCOY	FRCOY US	Arashi Nishizawa
	Fenbi Ltd	XFTTF	2469 HK	Lucy Yu
	Giant Manufacturing	GTMUF	9921 TT	Ronald Leung, CFA
	Godrej Consumer Products	XGOCF	GCPL IN	Aditya Mathur
	Gree Electric Appliances	ZHUHF	000651 CH	Chen Luo, CFA
	GS Retail	XGLTF	007070 KS	Ahyung Cho
	Haidilao International Holding Ltd.	HDALF	6862 HK	Lucy Yu
	Hengan Intl	HEGIF	1044 HK	Jack Chen
	Hotel Shilla	HSLLF	008770 KS	Ahyung Cho
	Hyundai Dept Store	HDTSF	069960 KS	Ahyung Cho
	Jason Furniture	XVZDF	603816 CH	Yoyo Pang
	Jubilant FoodWorks	XJUBF	JUBI IN	Aditya Mathur
	Kirin Holdings	KNBWF	2503 JP	Haruka Ono
	Kirin Holdings	KNBWY	KNBWY US	Haruka Ono
	LG H&H	LGHMF	051900 KS	Ahyung Cho
	L'Occitane International S.A.	LCCTF	973 HK	Lynn Wu
	Nestle India	XNTEF	NEST IN	Aditya Mathur
	Nongfu Spring	NNFSF	9633 HK	Jack Chen
	Pan Pacific International HD	DQJCF	7532 JP	Arashi Nishizawa
	Robam Appliance	XVPDF	002508 CH	Lucy Yu
	Sapphire Foods	XLQLF	SAPPHIRE IN	Aditya Mathur
	Shinsegae	SDKLF	004170 KS	Ahyung Cho
	Tata Consumer Products	XTCUF	TATACONS IN	Aditya Mathur
	Yamada Holdings	YMDAF	9831 JP	Arashi Nishizawa
	Yankershop Food	XYNKF	002847 CH	Jack Chen

UNDERPERFORM

	Bairun	XSBZF	002568 CH	Jack Chen
	Blue Moon	XBMGF	6993 HK	Jack Chen
	Britannia Industries	XJNDF	BRIT IN	Aditya Mathur
	Colgate-Palmolive India	CPIYF	CLGT IN	Aditya Mathur
	E-Mart	EMRTF	139480 KS	Ahyung Cho
	Feng Tay	FTGYF	9910 TT	Ronald Leung, CFA



APR - Consumer Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Foshan Haitian Flavouring & Food Co Ltd	XCMJF	603288 CH	Lynn Wu
	Fuling Zhacai	XSRTF	002507 CH	Lynn Wu
	Heilan Home Co Ltd	XYWDF	600398 CH	Lucy Yu
	Jiangsu Yanghe Brewery	XJBTF	002304 CH	Chen Luo, CFA
	Ligao Foods	XLFLF	300973 CH	Jack Chen
	Lotte Shopping	LOSPF	023530 KS	Ahyung Cho
	Marico	MAIOF	MRCO IN	Aditya Mathur
	Oppein Home Group	KKXRF	603833 CH	Yoyo Pang
	Pidilite Industries	PDLFF	PIDI IN	Aditya Mathur
	Seria	SAOGF	2782 JP	Arashi Nishizawa
	Shanghai Jahwa	SNJUF	600315 CH	Lynn Wu
	Shanghai M&G Stationery	XBHUF	603899 CH	Yoyo Pang
	Shanxi Fen Wine	XCKZF	600809 CH	Lynn Wu
	SHIMAMURA	SHAOF	8227 JP	Arashi Nishizawa
	Smoore	SMORF	6969 HK	Jack Chen
	Suofeiyi Home Collection Co Ltd	XGUZF	002572 CH	Yoyo Pang
	United Spirits	XUNIF	UNSP IN	Aditya Mathur
	Want Want China	WWNTF	151 HK	Chen Luo, CFA
	WORKMAN	WKISF	7564 JP	Arashi Nishizawa
	Xiabu Xiabu	XIAXF	520 HK	Lucy Yu
	Yihai Intl	YNNHF	1579 HK	Lucy Yu
	Yihai Kerry Arawana	XYIHF	300999 CH	Lynn Wu
	Yonghui Superstores Co Ltd	XQYXF	601933 CH	Lucy Yu
	Zhejiang Semir Garment Co Ltd	XARGF	002563 CH	Lucy Yu

RSTR

	Midea Group Co Ltd	XMGEF	000333 CH	Chen Luo, CFA
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RVW

	Adani Wilmar	XWMAF	AWLTD IN	Aditya Mathur
	Fancf	FACYF	4921 JP	Yuri Nishizaki
	Kose	KOSCF	4922 JP	Yuri Nishizaki
	Pola Orbis HD	PORBF	4927 JP	Yuri Nishizaki
	Shimano	SHMDF	7309 JP	Yuri Nishizaki
	Shiseido	SSDOF	4911 JP	Yuri Nishizaki
	Shiseido	SSDOY	SSDOY US	Yuri Nishizaki

IQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

Valuation Toolkit

Numerator

Denominator

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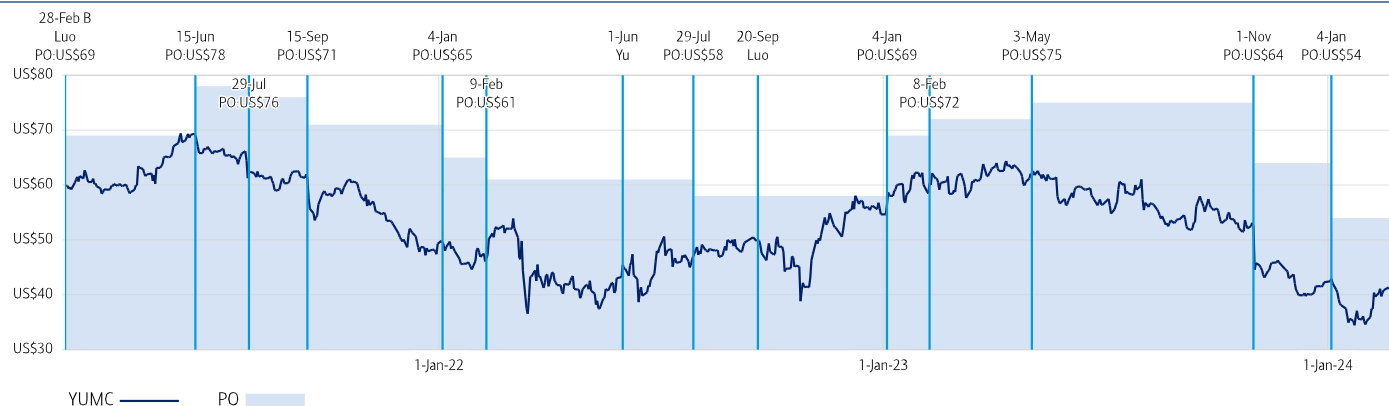
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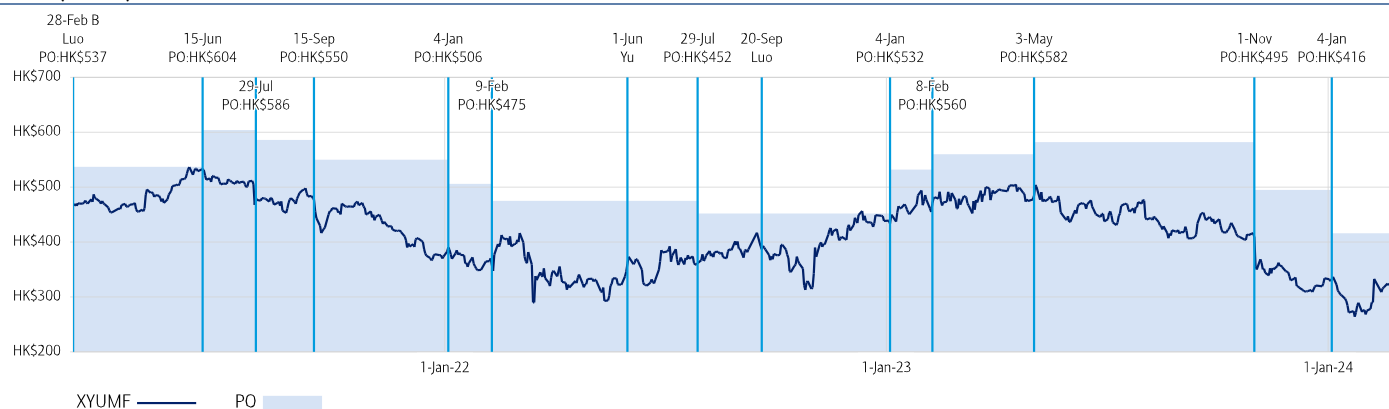
Yum China (YUMC) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Yum China (XYUMF) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Equity Investment Rating Distribution: Restaurants Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	21	58.33%	Buy	10	47.62%
Hold	10	27.78%	Hold	3	30.00%
Sell	5	13.89%	Sell	4	80.00%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2}Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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