

## Yum Brands Inc

## Key Takeaways from fireside chat with YUM CFO

Maintain Rating: NEUTRAL | PO: 151.00 USD | Price: 134.23 USD

## Consumers still spending; brands well-positioned

We hosted a fireside chat with YUM CFO and investor meetings with Chris Turner, at the NYSE Investor Conference in London. YUM is seeing macroeconomic headwinds manifest differently by market, but consumer spending has been resilient overall. The fast food segment is advantaged in periods of economic pressure, and YUM has worked to strength its brands' positions. Menu innovation featuring absolute price-point value (e.g., \$5 wraps at KFC, \$6.99 Melts at PH) has increased lower income consumer traffic single diner occasions. At Taco Bell, marketing/brand resonance, strong value proposition and digital strength keep the flywheel spinning.

## Unit economics support faster unit growth

YUM reaffirmed its LT algorithm of 5% net new unit growth, 7% system sales growth and 8% core operating profit growth. Strong unit economics underpin YUM's confidence in achieving 5% net new unit growth (raised from 4-5% at last year's investor day); 80% of new units are opening in markets with payback periods of 5 years or less. In developed markets, commodity and labor inflation served as headwinds last year but has begun to abate (and should do so through the year); in emerging markets, labor inflation has been muted, generating rising returns on positive SSSG.

## Tech amplifies scale advantages

YUM's scale helps absorb high fixed costs associated with technology investments. Combinatory power of YUM's brand-specific marketing teams, internal data science capabilities, and outsourced technology (e.g., Collider marketing & consumer insights, Kvantum analytics) help optimize marketing spending. On loyalty, YUM believes it is well-positioned competitively. While competition centers around program design NT, in the long run loyalty's competitive advantage will be defined by leveraging data effectively. For YUM, tech investments support strong digital sales (about 45% of system sales) which in turn translate into higher check sizes (up-selling, full menu breadth vs. in-store ordering) and higher frequency.

## Higher rates mean lower leverage, not slower growth

YUM's scaled, well capitalized franchisees are better able to weather the storm of rising interest rates than smaller competitors: among the 15 publicly traded franchisees that drive 60% of net new unit growth, leverage averages <1x Adj. Debt/EBITDA. YUM does, however, expect leverage to drift lower in the current interest rate environment (from the 5x leverage previously viewed as optimizing the cost of capital under lower rates).

## Long term quality compounder but valuation looks fair

While we are impressed with YUM's ability to execute well across brands and markets, we believe YUM's diversified portfolio limits potential EPS upside. Valuation remains elevated as investors gravitate toward more stable business models and anticipate an earnings tailwind from China's recovery. We maintain our Neutral rating. Our \$151 PO is based on applying a 1.3x relative P/E multiple (25x absolute) to our forward EPS (\$6.00).

27 June 2023

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## Stock Data

Price	134.23 USD
Price Objective	151.00 USD
Date Established	4-May-2023
Investment Opinion	B-2-7
52-Week Range	103.97 USD - 143.25 USD
Mrkt Val (mn) / Shares Out (mn)	37,596 USD / 280.1
Average Daily Value (mn)	281.03 USD
BofA Ticker / Exchange	YUM / NYS
Bloomberg / Reuters	YUM US / YUM.N
ROE (2023E)	NA
Net Dbt to Eqty (Dec-2022A)	NA
ESGMeter™	High

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YUM – Yum! Brands

PH – Pizza Hut

SSSG – same-store sales growth

NT – near term

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Refer to important disclosures on page 3 to 5. Analyst Certification on page 2. Price Objective Basis/Risk on page 2.

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Timestamp: 27 June 2023 04:06PM EDT

## Price objective basis & risk

### Yum Brands Inc (YUM)

Our \$151 PO is based on YUM trading at a 1.3x relative P/E multiple and works out to a PE of 25x on 2Q24-1Q25 EPS. On valuation, Yum Brands currently sits above its historical 5-year averages. Although EPS growth exceeded that of the market against last year's COVID depressed results, we expect growth to moderate from here. Yum's returns on assets have been stable relative to the market. We believe the historical range remains relevant and supports our estimates.

Upside risks: faster than expected recovery from COVID restrictions in China, better than expected unit growth in China, and ability for top-line growth to offset a difficult YoY comparison given 2020's strong comps.

Downside risks: weak China comp and unit growth due to COVID restrictions, ongoing competitive challenges in China, continued soft sales trends in the KFC and Pizza Hut brands.

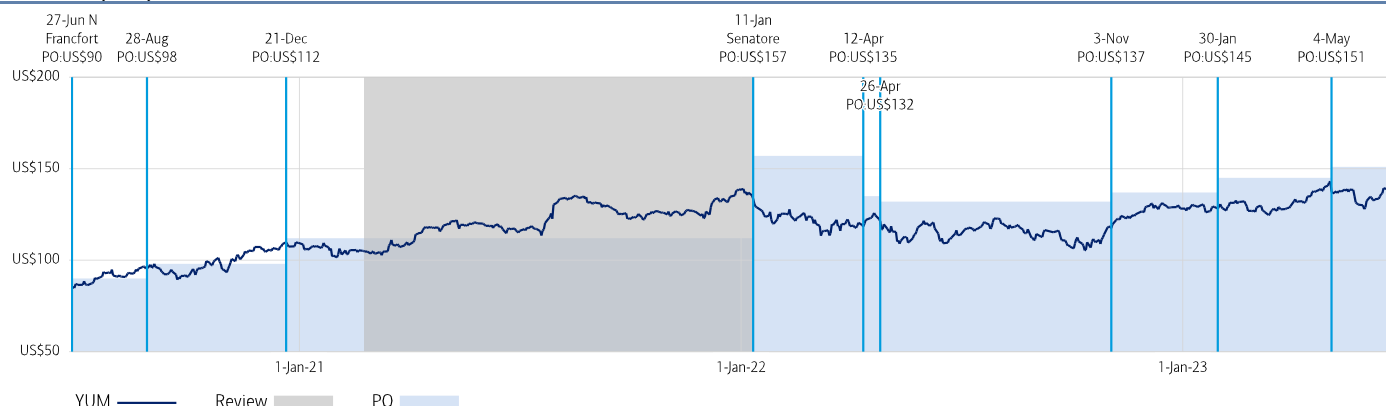
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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
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Hold	8	26.67%	Hold	4	50.00%
Sell	7	23.33%	Sell	6	85.71%

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Sell	830	23.54%	Sell	389	46.87%

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