

Yum Brands Inc

4Q QT: SSSG miss across brands; EPS miss as lower rev., higher tax offset margin

Maintain Rating: NEUTRAL | PO: 151.00 USD | Price: 127.27 USD

SSSG miss across brands

YUM's 4Q results (EPS of \$1.26 vs \$1.35 VA consensus, including \$0.10 tax headwind) are likely to be viewed with concern as momentum slowed sharply across all four brands. While reports from other global limited service companies had signaled difficulties in international markets - most notably China and the Middle East - YUM's challenges appear more broad based. The company posted SSSG that were meaningfully lower than consensus across KFC (2.0% vs 5.4% VA consensus), Pizza Hut (-2.0% vs 1.4% VA consensus) and Habit (-5.0% vs -0.6% VA consensus). Taco Bell's SSSG miss was more modest (3.0% vs 3.7% consensus) but the brand has historically been a source of outsized strength.

Margins offer partial offset

Margins offered a partial offset — as they have for other global limited service companies — with an EBITDA margin beat (33.2% vs 32.4% VA consensus) on better than expected margins in company restaurants (17.3% vs 17.0% VA consensus) and franchised units (96.9% vs 93.2% VA consensus). But given the comp and EPS miss, the better profitability is unlikely to fully assuage investor concerns.

Maintain Neutral rating and \$151 PO

YUM's P/E relative to the S&P is in line with its 5-year average (1.3x) but remains elevated vs its 10-year average (1.1x). We expect the broad-based SSSG miss and EPS miss to weigh on the stock. Given the stability of the portfolio, we see relatively limited room for EPS upside or further multiple expansion. We reiterate our Neutral rating and \$151 PO.

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Equity

Sara Senatore
Research Analyst
BofAS
+1 646 743 2110
sara.senatore@bofa.com

Katherine Griffin
Research Analyst
BofAS
+1 646 855 2849
katherine.griffin@bofa.com

Jessica Owusu Afari
Research Analyst
BofAS
+1 646 617 9040
jessica.owusu-afari@bofa.com

Stock Data

Price	127.27 USD
Price Objective	151.00 USD
Date Established	29-Jan-2024
Investment Opinion	B-2-7
52-Week Range	115.53 USD - 143.25 USD
Mkt Val (mn) / Shares Out (mn)	35,675 USD / 280.3
Free Float	99.9%
Average Daily Value (mn)	187.62 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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Glossary

SSSG: same-store sales growth, or comparable sales

G&A – general and administrative expense

RLM – restaurant level margins

VA consensus – Visible Alpha consensus

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Timestamp: 07 February 2024 08:12AM EST

Exhibit 1: YUM reported 4Q SSSG below consensus expectations

YUM reported 4Q23 results vs BoFAE and Visible Alpha consensus

\$ in millions (except per share amounts)	Reported 4Q22	Reported 4Q23	y/y change	BoFAE 4Q23E	Consensus 4Q23	Variance (vs BoFAE) 4Q23
Global SSSG	6.0%	1.0%	-5.0 ppt	4.3%	4.1%	-3.3 ppt
SSSG by Segment						
KFC	5.0%	2.0%	-3.0 ppt	5.7%	5.4%	-3.7 ppt
Pizza Hut	2.4%	-2.0%	-4.4 ppt	2.1%	1.4%	-4.1 ppt
Taco Bell	11.0%	3.0%	-8.0 ppt	3.5%	3.7%	-0.5 ppt
Habit	-1.0%	-5.0%	-4.0 ppt	0.0%	-0.6%	-5.0 ppt
Total Revenue	\$2,019	\$2,036	0.8%	\$2,095	\$2,114	-3%
KFC	\$793	\$761	-4.0%	\$789	\$821	-4%
Pizza Hut	\$288	\$281	-2.4%	\$294	\$290	-4%
Taco Bell	\$766	\$819	6.9%	\$828	\$826	-1%
Habit	\$172	\$175	1.7%	\$185	\$177	-5%
Total Systemwide Units	55,725	58,709	5.4%	58,681	58,670	0%
KFC	27,698	29,900	8.0%	29,953	29,852	0%
Pizza Hut	19,460	19,866	2.1%	19,711	19,783	1%
Taco Bell	8,218	8,564	4.2%	8,639	8,615	-1%
Habit	349	379	8.6%	378	378	0%
Company operated margin	15.7%	17.3%	161 bps	16.1%	17.0%	118 bps
Franchise Margin	96.2%	96.9%	72 bps	96.2%	93.2%	63 bps
G&A (adj)	\$357	\$353	-1.1%	\$350	\$357.8	1%
G&A ratio	18%	17%	-34.4bps	17%	17%	63.9bps
Refranchising (gain) loss	-\$12	\$11.0	-191.7%	\$0.0	\$0.4	N/M
Net Interest Expense	\$137	\$132	-3.6%	\$125	\$129	5%
Tax rate	13%	0.2%	-1290 bps	22%	21.6%	-2178 bps
Adjusted tax rate	12%	26.0%	1383 bps	22%	22.0%	400 bps
GAAP Diluted EPS	\$1.29	\$1.62	25.3%	\$1.35	\$1.41	20%
Adjusted Diluted EPS	\$1.29	\$1.26	-2.5%	\$1.35	\$1.42	-7%
Adj. EBITDA (est)	\$608	\$676	11.3%	\$676	\$684.2	0%
Adj. EBITDA margin	30.1%	33.2%	311 bps	32.3%	32.4%	94 bps

Source: Company filings, BofA Global Research, Visible Alpha consensus

BofA GLOBAL RESEARCH

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 24.4x on 4Q24-3Q25 EPS. 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 slower recovery, ongoing competitive challenges in China, continued soft sales trends in the KFC and Pizza Hut brands.

Analyst Certification

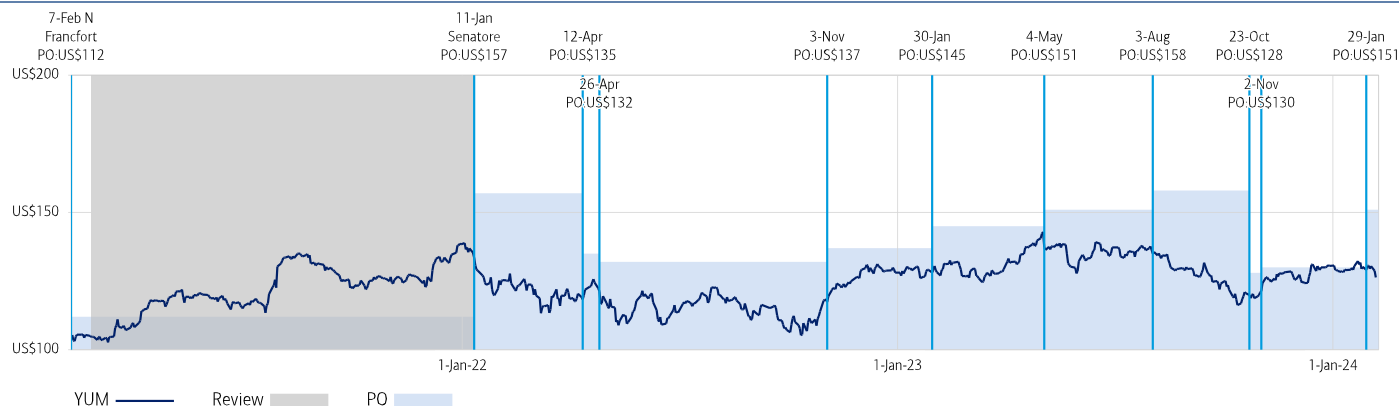
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Yum Brands Inc (YUM) Price Chart



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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%
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Sell	807	22.84%	Sell	383	47.46%

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