

First Read

Yum China

Q125 restaurant profit in-line with consensus; SSSG turning even for KFC and Pizza Hut [Erratum]

Q: How did the results compare vs expectations?

A: YUM China (YUMC) reported Q125 rev. / net profit of US\$2,981mn / US\$292mn (0% / +1.7% YoY), system sales up 2% YoY excl. FX vs 4% YoY in Q124, slightly missing UBSe / consensus by LSD. Per mgmt, the lower system sales growth was largely due to: 1) fewer business days in Q125, given 2025 is not a leap year; 2) increased small stores with lower unit rev.; and 3) temporary store closure during CNY. However, restaurant profit was in-line with consensus and NPM was in-line with UBSe and consensus, owing to improved G&A ratios, in our view. The company returned a total of US\$262mn to shareholders through US\$172mn in share repurchase and US\$90mn in dividends.

Q: What were the most noteworthy areas in the results?

A: **KFC:** Q125 system sales grew by 3% YoY and same-store sales reached 100% of 2024's level, net adding 295 stores. KFC's ticket average (TA) saw -4% YoY, driven by a higher product share of smaller orders. KCOFFEE Cafe reached 1,000 stores in Q125 and should further drive growth by: 1) by leveraging popular SKUs such as sparkling coffee; and 2) penetrating into more white spaces, in our view. **Pizza Hut (PH):** PH saw system sales growing by 2% YoY and same-store sales reaching 100% of 2024 level, net adding 45 stores. PH's TA was 14% lower mainly due to its better value-for-money. Mgmt also noted that PH WoW's penetration into lower-tiered cities likely accelerates given only half capex required vs PH brand. **Cost of sales** were 0.9ppts lower due to favourable commodity prices and Project Red Eye. **Cost of labour:** while non-rider costs were largely stable, rider costs were higher due to an increase in delivery mix in Q125.

Q: Has the company's outlook/guidance changed?

A: The company hosted an earnings call on 30 April 2025. **YUMC reconfirmed guidance on:** 1) MSD system sales growth and slight operating margin expansion; 2) targeting 1,600-1,800 net new stores in 2025, with KCOFFEE cafes to reach 1,500 by 2025 year-end; 3) franchise mix of net new stores to gradually increase to 40-50% for KFC and 20-30% for PH; 4) returning US\$3bn to shareholders through 2025-2026. **YUMC also plans to:** 1) further broaden its TAM, supported by a widening menu choices and penetrating into untapped market space with KCOFFEE Cafe, KFC Small Town Mini, and PH WoW; 2) improve operational efficiency through automaton, centralisation and optimisation. **Erratum:** We amended company guidance on "MSD SSSG" to "MSD system sales growth".

Equities

China

Restaurants

12-month rating

Buy

12m price target

US\$57.26

Price (30 Apr 2025)

US\$43.31
RIC: YUMC.N **BBG:** YUMC US

Trading data and key metrics

52-wk range	US\$53.69-29.24
Market cap.	US\$16.5b
Shares o/s	381m (ORD)
Free float	96%
Avg. daily volume ('000)	738
Avg. daily value (m)	US\$35.5
Common s/h equity (12/25E)	US\$5.31b
P/BV (12/25E)	2.9x
Net debt to EBITDA (12/25E)	0.5x

EPS (UBS, diluted) (US\$)

	UBS	Cons.
12/25E	2.64	2.57
12/26E	3.03	2.92
12/27E	3.43	3.31

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Highlights (US\$m)	12/22	12/23	12/24	12/25E	12/26E	12/27E	12/28E	12/29E
Revenues	9,569	10,978	11,303	12,021	13,039	14,227	15,392	16,613
EBIT (UBS)	633	1,121	1,162	1,357	1,498	1,664	1,831	2,008
Net earnings (UBS)	448	838	906	971	1,043	1,142	1,271	1,409
EPS (UBS, diluted) (US\$)	1.05	1.97	2.32	2.64	3.03	3.43	3.82	4.23
DPS (net) (US\$)	0.49	0.54	0.64	0.98	1.13	1.28	1.42	1.58
Net (debt) / cash	1,202	489	(148)	(943)	(1,444)	(770)	(28)	789
Profitability/valuation	12/22	12/23	12/24	12/25E	12/26E	12/27E	12/28E	12/29E
EBIT (UBS) margin %	6.6	10.2	10.3	11.3	11.5	11.7	11.9	12.1
ROIC (EBIT) %	11.0	18.8	18.6	21.1	22.3	24.1	25.9	27.5
EV/EBITDA (UBS core) x	15.2	14.5	9.1	8.5	7.7	7.1	6.5	6.0
P/E (UBS, diluted) x	44.6	28.3	16.9	16.4	14.3	12.6	11.3	10.2
Equity FCF (UBS) yield %	3.7	3.3	4.7	3.6	5.9	6.4	7.1	7.8
Dividend yield (net) %	1.0	1.0	1.6	2.3	2.6	2.9	3.3	3.6

Source: Company accounts, LSEG Eikon, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of US\$ 43.33 on 01-May-2025

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Valuation: Maintain Buy with a PT of US\$57.26

Our DCF-derived PT implies 12.5x/11.3x 2025E/26E EV/EBITDA.

Figure 1: Q125 results vs UBSe and consensus

Yum China Q125					
(US\$ m)	UBSe	Actual	Actual vs UBSe	VA consensus	Actual vs Consensus
Company					
Total Revenue	3,160	2,981	-5.7%	3,096	-3.7%
- KFC	2,326	2,208	-5.1%	2,334	-5.4%
- PH	616	584	-5.2%	619	-5.6%
Company Sales	2,956	2,801	-5.3%	2,910	-3.7%
Franchise + License Revenues	32	27	-15.4%	30	-10.7%
Units	16,845	16,642	-203	16,810	-168
Restaurant costs (% of company sales)					
Food and paper	31.7%	31.2%	-0.5ppt	32.0%	-0.8ppt
Payroll and employee benefit	25.3%	25.7%	0.4ppt	25.4%	0.3ppt
Occupancy and others	24.7%	24.6%	-0.2ppt	24.8%	-0.2ppt
Restaurant profit	539	520	-3.6%	520	0.0%
- KFC	455	437	-3.9%	444	-1.6%
- PH	86	84	-2.9%	79	6.6%
Restaurant margin	18.2%	18.6%	0.3ppt	17.9%	0.7ppt
- KFC	19.5%	19.8%	0.2ppt	19.4%	0.4ppt
- PH	14.0%	14.4%	0.3ppt	12.9%	1.4ppt
EBITDA	547	508	-7.1%	533	-4.6%
EBITDA margin	17.3%	17.0%	-0.3ppt	17.3%	-0.3ppt
EBIT	416	399	-4.1%	407	-2.1%
EBIT margin	13.2%	13.4%	0.2ppt	13.2%	0.2ppt
Net profit	299	292	-2.3%	296	-1.3%
NP margin	9.5%	9.8%	0.3ppt	9.6%	0.2ppt

Source: Company data, UBSe, Visible Alpha

Forecast returns

Forecast price appreciation	32.2%
Forecast dividend yield	2.3%
Forecast stock return	34.5%
Market return assumption	11.1%
Forecast excess return	23.4%

Company Description

Yum China (YUMC) was spun off from Yum! Brands, one of the world's largest quick-service restaurant (QSR) and full-service restaurant groups, and became its independent licensee in mainland China in November 2016. As of December 2023, YUMC operates 14,644 restaurants in more than 2,000 cities, mainly under the brands of KFC, the No.1 western QSR brand in China, and Pizza Hut, the No.1 pizza food-service group, according to Euromonitor. YUMC also owns the concepts of Lavazza, Taco Bell, Little Sheep and Huang Ji Huang. YUMC generated US\$10.98bn revenue in 2023, with KFC/Pizza Hut contributing 75%/20% of the total.

Valuation Method and Risk Statement

We base our price target on a DCF valuation.

We think key industry risks include: 1) deteriorating macroeconomic factors that could negatively impact consumer spending; 2) rising commodities and labour costs; and 3) food safety incidents.

Key downside risks of Yum China include: 1) changing consumer eating habits due to health concerns; 2) an inability to identify and secure appropriate sites for new restaurants; and 3) fiercer competition introduced by the rise of online food delivery aggregators and McDonald's.

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Yum China

Question	Response
1. Is the industry structure facing the firm likely to improve or deteriorate over the next six months? Rate on a scale of 1-5 (1 = getting worse, 3 = no change, 5 = getting better, N/A = no view)	3
2. Is the regulatory/government environment facing the firm likely to improve or deteriorate over the next six months? Rate on a scale of 1-5 (1 = getting tougher, 3 = no change, 5 = getting better, N/A = no view)	3
3. Over the last 3-6 months in broad terms have things been improving/no change/getting worse for this stock? Rate on a scale of 1-5 (1 = getting a lot worse, 3 = not much change, 5 = getting a lot better, N/A = no view)	3
4. Relative to the current CONSENSUS EPS forecast, is the next company EPS update likely to lead to: (1 = negative surprise vs consensus, 3 = in-line with consensus, 5 = positive surprise vs consensus expectations, N/A = no view)	N/A
5. What's driving the difference?	
6. Relative to YOUR current earnings forecast, is there relatively greater risk at the next earnings result of: (1 = downside skew risk to earnings, 3 = equal upside or downside risk to earnings, 5 = upside skew risk to earnings, N/A = no view)	
7. What's driving the difference?	
8. Is there an upcoming catalyst for the company over the next three months?	
9. Is there an actual or approximate date for the catalyst?	
10. Is the catalyst date an actual or approximate date?	
11. What is the catalyst?	

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Buy	FSR is > 6% above the MRA.	52%	24%
Neutral	FSR is between -6% and 6% of the MRA.	40%	20%
Sell	FSR is > 6% below the MRA.	8%	22%
Short-Term Rating	Definition	Coverage ³	IB Services ⁴
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%

Source: UBS. Rating allocations are as of 31 March 2025.

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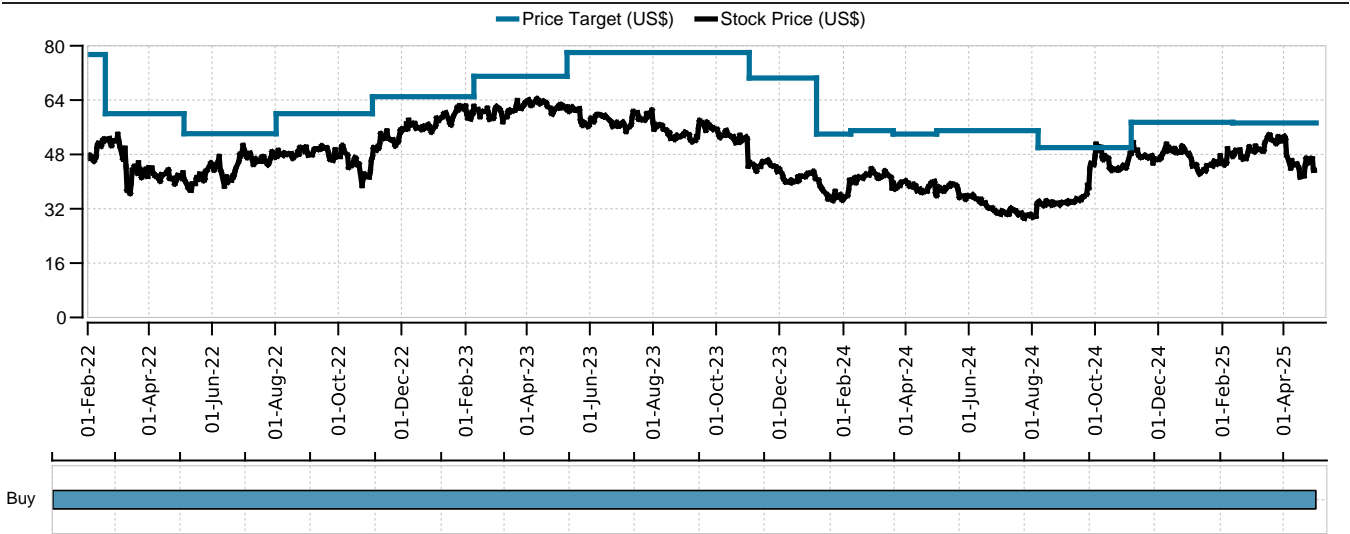
Company Name	Reuters	12-month rating	Price	Price date
Yum China ^{12,4,16,28,7}	YUMC.N	Buy	US\$43.33	01 May 2025

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Yum China (US\$)



Date	Stock Price (US\$)	Price Target (US\$)	Rating
2022-02-01	48.49	77.41	Buy
2022-02-17	51.93	60.00	Buy
2022-05-04	42.56	54.10	Buy
2022-08-01	47.27	60.00	Buy
2022-11-02	46.32	65.00	Buy
2023-02-08	60.01	71.00	Buy
2023-05-09	61.89	78.00	Buy
2023-11-01	44.56	70.50	Buy
2024-01-05	40.93	54.00	Buy
2024-02-07	40.39	55.00	Buy
2024-03-19	38.10	54.00	Buy
2024-04-30	36.51	55.00	Buy
2024-08-06	33.37	50.00	Buy
2024-11-04	48.30	57.45	Buy
2025-02-10	48.07	57.26	Buy

Source: UBS Global Research; LSEG Eikon as of 01-May-2025. All prices as of local market close. Ratings as of date shown.

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