US EQUITY RESEARCH

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Yum! Brands Inc

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Stable growth with eyes on digitalisation

Company Overview

YUM! Brands, Inc. operates over 60,000 restaurants across 155 countries and territories under the concepts of KFC, Taco Bell, Pizza Hut and The Habit Burger Grill. Today, >98% of the Company's restaurants are owned and operated by its franchisees. Specifically, KFC offers fried and non-fried chicken products. Taco Bell specializes in Mexican-style food products. Pizza Hut specializes in the sale of ready-to-eat pizza products. The Habit Burger Grill specializes in chargrilled burgers and sandwiches made-to-order over an open flame and topped with fresh ingredients.

Investment Overview

Long-term growth driver riding on product innovation and digitalisation. Over the years, Yum! Brands emphasizes on its Recipe for Growth to become more focused, franchised and efficient, as well as its Recipe for Good that concentrates on three priority pillars including People, Food and Planet. Through such focuses, Yum! Brands aims to deliver 5% global unit growth, 7% global system sales growth and core operating profit growth of at least 8% under its long-term growth target. Digital sales also exceeded USD9bn, now accounting for >50% of sales, with ambition to reach 100% digital sales. The Company also introduced Byte by Yum!, an AI-driven product, which aim to enable optimisation across mobile app, web ordering, point of sales, kitchen, deliveries, menu management, inventory and labour management.

An asset-light model with multi-branding. Over 98% of Yum! Brands' restaurants are operated under a franchised model. Today, China remains the largest contributor, with its KFC brand accounting for the majority of store openings, followed by Taco Bell and Pizza Hut. Worldwide system sales rose 8% y/y in 4Q24 (excluding foreign currency translations), lifted by KFC (+6%), Taco Bell (+14%), and Pizza Hut (+3%), while full-year system sales rose 4% y/y, lifted by KFC (+3%), Taco Bell (+8%), and Pizza Hut (-1%). By store expansion, the Company remains focused via KFC (+7%), followed by Taco bell (+2%), and Pizza Hut (+2%), with global expansion by 4%.

EBITDA forecasted growth to be softer. Yum! Brands' encountered 5-year CAGR topline growth of 6% in 2020-24, slightly ahead of peers, while EBITDA 5-year CAGR growth reached 5.7% over the same period. While Yum! Brands' topline expansion is expected to be ahead of peers, EBITDA growth is forecasted to lag behind peers.

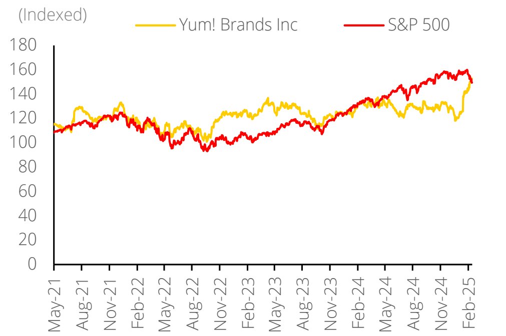
HOLD on Yum! Brands with TP of USD152 per share. Our TP is based on 1-year forward PE at 25.2x (previously 24.3x), with TP at USD152, HOLD. Despite meeting its unit growth target, the Company could remain under pressure

Key Financial Data

Bloomberg Ticker	YUM US
Sector	Consumer Discretionary
Share Price (USD)	159.26
DBS Rating	HOLD
12-mth Target Price (USD)	152.00
Market Cap (USDb)	44.4
Volume (m shares)	2.0
Free float (%)	99.8
Dividend yield (%)	1.7
Net Debt to Equity (%)	-
Fwd. P/E (x)	26.6
P/Book (x)	-
ROE (%)	-

Closing Price as of 6 Mar 2025
Source: Bloomberg, DBS

Indexed Share Price vs Composite Index Performance



Source: Bloomberg

Risks

Dependency on franchise operations. Over 98% of Yum! Brands is derived from franchise fees and royalties. Any disruptions and concerns with franchisors would result in weaker revenue.

Competition. Global market competition remains highly intense, with rising contenders possibly scaling to reach fast food players scale faster than expected.

Keeping pace with technological innovation. Improving production efficiency will be a key initiative through delivery contribution and digitalisation. Lagging behind competition could lead to weaker turnarounds, and result in negative impact on margins.

Financial Summary (USD MN)

FY Dec	FY2021A	FY2022A	FY2023A	FY2024F	FY2025F
Sales	6,584	6,842	7,076	7,650	8,207
% y/y	*16.5*	*3.9*	*3.4*	*8.1*	*7.3*
Gross Profit	4,859	5,097	5,302	5,510	5,857
% y/y	*17.2*	*4.9*	*4.0*	*3.9*	*6.3*
EBITDA	2,314	2,295	2,510	2,726	2,897
% y/y	*20.7*	*(0.7)*	*9.4*	*8.8*	*6.3*
Net Profit (Loss)	1,349	1,308	1,475	1,601	1,759
% y/y	*21.2*	*(3.2)*	*12.2*	*8.5*	*9.9*
FCF	1,476	1,148	1,318	1,599	1,736
% y/y	*28.9*	*(22.2)*	*14.8*	*20.3*	*8.9*
CAPEX	230.0	279.0	285.0	280.3	302.4
% y/y	*43.8*	*21.3*	*2.2*	*(1.7)*	*11.5*
EBITDA Margin (%)	35.1	33.5	35.5	35.6	35.3
Net Margin (%)	20.5	19.1	20.8	20.9	21.4
ROA (%)	22.8	22.2	24.4	24.6	25.4
ROE (%)	16.6	15.2	17.6	20.9	24.0
Tax Rate (%)	21.4	20.8	20.6	22.0	21.4

Source: Visible Alpha

Valuation Metrics

FY Dec	FY2021A	FY2022A	FY2023A	FY2024F	FY2025F
P/E	31.1	28.4	25.3	23.8	21.4
P/B	nm	nm	nm	nm	nm
Dividend Yield	1.4	1.8	1.9	2.0	2.1
EV/EBITDA (x)	22.0	20.6	18.9	17.7	16.7
FCF Yield %	3.5	3.1	3.5	4.2	4.6

Source: Visible Alpha

Credit & Cashflow Metrics

FY Dec	FY2021A	FY2022A	FY2023A	FY2024F	FY2025F
Debt / Equity	134.3	133.5	142.5	149.8	153.8
Net Debt / Equity	(1.3)	(1.3)	(1.4)	(1.4)	(1.4)
Debt / Assets	188.5	202.7	179.7	165.1	159.8
Net Debt / Assets	1.8	2.0	1.7	1.5	1.5
EBITDA / Int Exp	nm	nm	nm	nm	nm
Debt / EBITDA	0.0	0.0	0.0	0.0	0.0
ST Debt / Total Debt (%)	4.9	5.2	4.5	4.1	3.9
[Cash + CFO] / ST Debt	32.2	4.5	39.9	71.1	79.3
Receivables Days	33.0	34.6	38.0	34.9	33.4
Days Payable	74.0	66.7	60.3	63.6	62.5
Inventory Days	-	-	-	0.0	0.0

Source: Visible Alpha

Target Price & Ratings History

#	Date of Report	Closing Price	12-m Target Price	Rating
1	22 Jan'25	125.70	132.70	HOLD
2	04 Mar'25	156.93	152.00	HOLD

Source: DBS

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Mavis HUI

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**Share price appreciation + dividends*

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