



## Yum China (YUMC US / 9987HK)

### Reopening to support growth

- Reopening will bring more growth opportunities and provide a better operating environment for the Group; we expect 21% YoY revenue growth and 95% YoY net profit<sup>(1)</sup> growth in FY23E
- Margin improvement in sight as pandemic-related disruptions lessen and the Group continues to increase cost-efficiency; NPM (to shareholders of the Company) is expected to reach 7.4% in FY23E
- Maintain **BUY**; TP represents 35.33x/28.93x 23E/24E P/E, or 4.33x/3.83x 23E/24E P/B

**Reviving consumer market to support growth outlook.** Throughout FY22, the Group was subject to COVID-related disruptions and revenue declined 2.9% YoY. Revenue of KFC and Pizza hut increased 3.1% YoY and declined 7.1% YoY. Results in 4Q22 were impacted substantially by the lockdown measures. Nonetheless, store opening target was achieved and total store count went up by 1,159 to 12,947. By brand, the store counts of KFC and Pizza Hut reached 9,094 and 2,903. Now that most restrictive measures are removed and consumption activities in China are ramping up, we believe the Group could pursue more growth opportunities. To enhance penetration in the market, the Group plans to open 1.1k-1.3k net new stores in FY23E and we project the figure to be ~1.28k. With the Group's consistent store opening pace and consumption activities resuming, we project revenue to grow 21.1% YoY in FY23E and 12.1% YoY in FY24E. Revenue of KFC/ Pizza Hut would expand 19.9%/12.7% YoY in FY23E or 12.1%/11.9% YoY in FY24E. Overall revenue CAGR in FY22-25E would be 14.8%.

**Stabilizing external environment to compliment efforts to enhance margins.** Restaurant margin was 14.1% in FY22 vs. 13.7% in FY21, but the adjusted OPM (excluding impact from non-cash items resulted from consolidation of JVs) was 6.6% in FY22 vs. 7.6% in FY21. We attribute the mixed margin performance to pandemic-induced interruptions. While operating condition stabilizes, the Group is expected to rebase its cost structure and take measures to enhance productivity and optimize product offers to support margin improvement. We project restaurant margin, OPM, and NPM (to shareholders of the Company) to reach 15.8%, 11.2%, and 7.4% in FY23E and rise to 17.2%, 12.9%, and 8.4% in FY25E. Margins for KFC and Pizza Hut are also poised to increase. For details, please refer to the key financial and operating ratios on P5.

**Maintain BUY; TP at US\$ 72.3/HK\$ 567.5.** Maintain **BUY** as we expect the Group to achieve better growth and margins in FY23E. Basic EPS would jump 94.9% /22.1% YoY in FY23E/24E. We raise our DCF-derived TP as we roll over the projection period to FY25 and raise net profit level forecast for FY24E. Current TP represents 35.33x/28.93x 23E/24E P/E, or 4.33x/3.83x 23E/24E P/B.

**Risk factors:** 1) Macroeconomic risk; 2) Regulatory/policy risk; 3) Operational risk; 4) Inflation risk; 5) Concentration risk; 6) Seasonality risk; 7) Non-GAAP financial metrics; 8) Fluctuations in EPS growth.

#### Results and Valuation

FY ended Dec 31	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (US\$ mn)	9,853	9,569	11,589	13,008	14,489
Chg (% YoY)	19.2	(2.9)	21.1	12.2	11.4
Net profit ( US\$ mn) <sup>(1)</sup>	990	442	861	1,052	1,218
Chg (% YoY)	26.3	(55.4)	94.9	22.1	15.8
EPS ( US\$)	2.34	1.05	2.05	2.50	2.89
Chg (% YoY)	16.4	(55.1)	94.8	22.1	15.8
BVPS (US\$)	16.72	15.40	16.68	18.87	21.26
Chg (% YoY)	5.1	(7.9)	8.3	13.1	12.7
P/E (x) – US	25.65	57.15	29.33	24.02	20.74
P/E (x) – HK	26.13	58.23	29.89	24.47	21.13
P/B (x)– US	3.59	3.90	3.60	3.18	2.82
P/B (x) – HK	3.66	3.97	3.67	3.24	2.88
ROAA (%)	8.5	3.8	7.2	8.0	8.5
ROAE (%)	14.9	6.5	12.8	14.1	14.4
DPS (US\$)	0.48	0.48	0.48	0.48	0.48
Yield (%) - US	0.8	0.8	0.8	0.8	0.8
Yield (%) - HK	0.8	0.8	0.8	0.8	0.8

Source(s): The Group, ABCI Securities estimates

## Company Report

Feb 9, 2023

Rating (US): BUY  
Rating (HK): BUY  
TP (US): US\$ 72.3  
TP (HK): HK\$ 567.5

Analyst : Paul Pan  
Tel: (852) 2147 8829  
paulpan@abci.com.hk

Price (US/HK)	US\$ 60.01/HK\$ 480
Est. price return (US/HK)	20.5%/18.2%
Est. dividend yield (US/HK)	0.8%/0.8%
Est. total return (US/HK)	21.3%/19.0%
Previous Rating &	BUY;
TP (US/HK)	US\$ 61.1/HK\$ 479.3
Previous Report Date	Nov 14, 2022

Source(s): Bloomberg, ABCI Securities estimate

#### Key Data

52Wk H/L (US\$) (US shr)	63.06/33.55
52Wk H/L (HK\$) (HK shr)	500/281
Total issued shares (mn)	418
Issued US shr (mn)	377
Issued HK shr(mn)	42
US-shr market cap (US\$ mn)	22,596
H-shr market cap (HK\$ mn)	20,117
3-mth avg daily turnover (US\$ mn) (US shr)	120.3
3-mth avg daily turnover (HK\$ mn) (HK shr)	213.3
Major shareholder(s) (%):	
Invesco	9.68

Source(s): Bloomberg, ABCI Securities

#### Price performance – US (%)

	Absolute	Relative*
1-mth	3.4	(2.3)
3-mth	19.3	11.7
6-mth	24.3	26.4

\*Relative to S&P 500 Index

Source(s): Bloomberg, ABCI Securities

#### Price performance – HK (%)

	Absolute	Relative*
1-mth	9.8	8.4
3-mth	22.7	(5.8)
6-mth	28.2	22.0

\*Relative to HSI

Source(s): Bloomberg, ABCI Securities

Note:

1) refers to net profit to shareholders of the Company ;

2) US\$/HK\$= 7.8500; 3) Market data as of Feb 8, 2023



### Exhibit 1: Changes in assumptions and valuations

Exhibit 1: Changes in assumptions and valuations					
As of Dec 31	Current report		Previous report		Rationale
	FY23E	FY24E	FY23E	FY24E	
<b>Assumptions</b>					
D/E (%)	0	0	0	0	N/A
D/A (%)	0	0	0	0	
Tax rate (%)	30.9	30.9	32.7	32.7	Adjusted based on FY22 company release
<b>Valuations</b>					
TP (US\$)	72.3		61.1		Higher TP mainly due to rollover of forecast period and higher revenue and profit forecast in FY24E
TP (HK\$)	567.5		479.3		
P/E (x)	35.33	28.93	29.60	24.63	
P/B (x)	4.33	3.83	3.54	3.22	

Note: Previous report was published on Nov 14, 2022

Source(s): ABCI Securities estimates

### Exhibit 2: Changes in major forecasts

As of Dec 31	Current report			Previous report			Change (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Net revenue (US\$ mn)	11,589	13,008	14,489	11,582	12,964	N/A	0.00	0.00	N/A
Net profit (to shareholders of the Company) (US\$ mn)	861	1,052	1,218	870	1,047	N/A	(0.01)	0.00	N/A
EPS (US\$)	2.05	2.50	2.89	2.06	2.48	N/A	(0.01)	0.01	N/A

Source(s): ABCI Securities estimates

**農銀國際**

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

Yum China Holdings, Inc. (YUMC US/9987 HK, BUY)

China Consumer Sector

Feb 9, 2023

## Financial statements

### Consolidated income statement

FY ended Dec 31 (US\$ mn, except per share data)	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Revenue</b>	<b>9,853</b>	<b>9,569</b>	<b>11,589</b>	<b>13,008</b>	<b>14,489</b>
- Company sales	8,961	9,110	10,769	12,071	13,446
- Others	892	459	820	936	1,044
Company restaurant expenses	(7,734)	(7,829)	(9,063)	(10,041)	(11,129)
<b>Restaurant profit</b>	<b>1,227</b>	<b>1,281</b>	<b>1,705</b>	<b>2,031</b>	<b>2,316</b>
General and administrative expenses	(564)	(594)	(640)	(742)	(827)
Franchise expenses	(64)	(34)	(48)	(64)	(89)
Expenses for transactions with franchisees and unconsolidated affiliates	(649)	(279)	(526)	(573)	(569)
Other operating costs and expenses	(65)	(78)	(54)	(64)	(70)
Closures and impairment expenses, net	(34)	(32)	(36)	(40)	(43)
Other income, net	643	(94)	(18)	(17)	(22)
<b>Operating profit</b>	<b>1,386</b>	<b>629</b>	<b>1,203</b>	<b>1,467</b>	<b>1,741</b>
Others	6	58	101	125	103
<b>Pretax profit</b>	<b>1,392</b>	<b>687</b>	<b>1,304</b>	<b>1,592</b>	<b>1,844</b>
Tax	(369)	(207)	(402)	(491)	(569)
<b>Net profit</b>	<b>1,023</b>	<b>478</b>	<b>901</b>	<b>1,101</b>	<b>1,275</b>
- Owners	990	442	861	1,052	1,218
- MI	33	36	40	49	57
<b>Cash Dividend</b>	<b>203</b>	<b>202</b>	<b>202</b>	<b>202</b>	<b>202</b>
<b>EPS (US\$)</b>					
- Basic	2.34	1.05	2.05	2.50	2.89
- Diluted	2.28	1.04	2.03	2.48	2.87
<b>Cash DPS (US\$)</b>	<b>0.48</b>	<b>0.48</b>	<b>0.48</b>	<b>0.48</b>	<b>0.48</b>

Note: Items may not sum up due to rounding

Source(s): The Group, ABCI Securities estimates

### Key operating figures

FY ended Dec 31 (US\$ mn, except store figures)	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Revenue</b>					
- KFC	7,003	7,219	8,654	9,700	10,850
- Pizza Hut	2,109	1,960	2,208	2,471	2,713
<b>Company sales</b>					
- KFC	6,816	7,120	8,519	9,542	10,653
- Pizza Hut	2,092	1,939	2,178	2,433	2,667
<b>Restaurant profit</b>					
- KFC	1,013	1,121	1,458	1,724	1,949
- Pizza Hut	224	178	228	276	312
<b>Operating profit</b>					
- KFC	827	787	1,000	1,198	1,351
- Pizza Hut	111	70	91	115	130
<b>Number of stores ( units, as of end of FY)</b>					
- Total	11,788	12,947	14,230	15,445	16,789
- KFC	8,168	9,094	9,945	10,930	11,978
- Pizza Hut	2,590	2,903	3,141	3,287	3,486

Note: Items may not sum up due to rounding

Source(s): The Group, ABCI Securities estimates



### Consolidated balance sheet

FY ended Dec 31 (US\$ mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Cash and cash equivalents	1,136	1,130	1,787	2,526	3,429
Accounts receivable	67	64	141	152	213
Inventories	432	417	558	524	749
Others	3,081	2,329	2,171	2,418	2,273
<b>Current assets</b>	<b>4,716</b>	<b>3,940</b>	<b>4,657</b>	<b>5,619</b>	<b>6,664</b>
PP&E	2,251	2,118	2,320	2,412	2,537
Operating lease right-of-use assets	2,612	2,219	2,305	2,462	2,555
Intangible assets & goodwill	2,414	2,147	2,194	2,218	2,217
Others	1,230	1,402	1,624	1,701	1,721
<b>Non-current assets</b>	<b>8,507</b>	<b>7,886</b>	<b>8,442</b>	<b>8,793</b>	<b>9,030</b>
<b>Total assets</b>	<b>13,223</b>	<b>11,826</b>	<b>13,099</b>	<b>14,412</b>	<b>15,695</b>
Accounts payable and other current liabilities	2,332	2,098	2,606	2,703	2,884
Income taxes payable	51	68	115	143	141
<b>Current liabilities</b>	<b>2,383</b>	<b>2,166</b>	<b>2,721</b>	<b>2,846</b>	<b>3,025</b>
Non-current operating lease liabilities	2,286	1,906	2,088	2,264	2,316
Non-current finance lease obligations	40	42	37	40	39
Others	592	552	513	552	539
<b>Non-current liabilities</b>	<b>2,918</b>	<b>2,500</b>	<b>2,637</b>	<b>2,856</b>	<b>2,894</b>
Shareholders' capital	7,056	6,482	7,023	7,944	8,952
MI	852	666	706	755	811
<b>Total equity</b>	<b>7,908</b>	<b>7,148</b>	<b>7,729</b>	<b>8,699</b>	<b>9,763</b>
<b>Redeemable non-controlling interest</b>	<b>14</b>	<b>12</b>	<b>12</b>	<b>12</b>	<b>12</b>
<b>Total liabilities and equity</b>	<b>13,223</b>	<b>11,826</b>	<b>13,099</b>	<b>14,412</b>	<b>15,695</b>

Note: Items may not sum up due to rounding

Source(s): The Group, ABCI Securities estimates

### Consolidated cash flow statement

FY ended Dec 31 (US\$ mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Net profit	1,023	478	901	1,101	1,275
Depreciation and amortization	516	602	647	738	916
Change in working capital	25	203	448	(175)	39
Others	(433)	130	61	149	100
<b>Cash flow from operating activities</b>	<b>1,131</b>	<b>1,413</b>	<b>2,058</b>	<b>1,813</b>	<b>2,330</b>
Capital spending	(689)	(679)	(734)	(995)	(915)
Others	(166)	157	22	10	12
<b>Cash flow from investing activities</b>	<b>(855)</b>	<b>(522)</b>	<b>(712)</b>	<b>(984)</b>	<b>(903)</b>
Cash dividend	(203)	(202)	(202)	(202)	(202)
Others	(110)	(642)	(457)	151	(284)
<b>Cash flow from financing activities</b>	<b>(313)</b>	<b>(844)</b>	<b>(660)</b>	<b>(51)</b>	<b>(486)</b>
Effect of foreign exchange rate changes	15	(53)	(29)	(39)	(37)
<b>Net change in cash, cash equivalent, and restricted cash</b>	<b>(22)</b>	<b>(6)</b>	<b>657</b>	<b>739</b>	<b>903</b>
<b>Cash, cash equivalent, and restricted cash - end</b>	<b>1,136</b>	<b>1,130</b>	<b>1,787</b>	<b>2,526</b>	<b>3,429</b>

Note: Items may not sum up due to rounding

Source(s): The Group, ABCI Securities estimates



### Key operating and financial ratios

FY ended Dec 31	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Growth (YoY %)</b>					
Net revenue	19.2	(2.9)	21.1	12.2	11.4
- KFC	20.3	3.1	19.9	12.1	11.8
- Pizza Hut	21.9	(7.1)	12.7	11.9	9.8
Restaurant profit	11.7	4.4	33.1	19.1	14.1
- KFC	10.1	10.7	30.1	18.3	13.0
- Pizza Hut	23.8	(20.5)	28.0	21.3	13.0
Operating profit	44.2	(54.6)	91.3	21.9	18.7
- KFC	3.2	(4.8)	27.1	19.8	12.7
- Pizza Hut	79.0	(36.9)	30.5	26.0	12.9
Net profit (to shareholders of the Company)	26.3	(55.4)	94.9	22.1	15.8
Non-GAAP operating profit	4.6	(17.4)	90.1	21.9	18.7
Non-GAAP net profit	(14.6)	(15.0)	93.1	22.1	15.8
<b>Profitability ratios (%)</b>					
Restaurant margin	13.7	14.1	15.8	16.8	17.2
- KFC	14.9	15.7	17.1	18.1	18.3
- Pizza Hut	10.7	9.2	10.5	11.4	11.7
OPM	15.5	6.9	11.2	12.2	12.9
- KFC	12.1	11.0	11.7	12.6	12.7
- Pizza Hut	5.3	3.6	4.2	4.7	4.9
NPM (to shareholders of the Company)	10.0	4.6	7.4	8.1	8.4
Non-GAAP OPM	7.8	6.6	10.4	11.3	12.0
Non-GAAP NPM	5.3	4.7	7.4	8.1	8.4
<b>Return ratios (%)</b>					
ROAA	8.5	3.8	7.2	8.0	8.5
ROAE	14.9	6.5	12.8	14.1	14.4
<b>Liquidity ratio (x)</b>					
Current ratio	2.0	1.8	1.7	2.0	2.2
Quick ratio	1.8	1.6	1.5	1.8	2.0
Cash ratio	0.5	0.5	0.7	0.9	1.1
<b>Working capital (days)</b>					
Receivable turnover	3.1	2.5	3.2	4.1	4.6
Inventory turnover	45.6	47.6	46.6	47.3	50.7
Payable turnover	54.2	61.5	59.8	61.7	65.6
CCC	(5.5)	(11.4)	(9.9)	(10.2)	(10.3)
<b>Leverage ratios (%)</b>					
Total debt to Equity	0.0	0.0	0.0	0.0	0.0
Total debt to Total assets	0.0	0.0	0.0	0.0	0.0
Net debt/(cash) to Equity	(14.4)	(15.8)	(23.1)	(29.0)	(35.1)
Net debt/(cash) to Total assets	(8.6)	(9.6)	(13.6)	(17.5)	(21.8)

Note: 1) Restaurant profit is defined as company sales less expenses incurred directly by company-owned restaurants in generating company sales; 2) Restaurant margin is defined as restaurant profit divided by company sales; 3) Company sales refers to revenues from Company-owned restaurants; 4) OPM is defined as operating profit divided by company sales; 5) Non-GAAP measures exclude the impact of share-based compensation expenses on operating costs and expenses; 6) Receivable turnover days equals the average of the beginning and ending balances of net accounts receivable for that FY divided by total revenues for that FY, and multiplied by the number of days; 7) Inventory turnover days equals the average of the beginning and ending balances of net inventory (including inventory procured by the Company, which is subsequently supplied to stores of unconsolidated affiliates and franchisees) for that FY divided by total cost of food and paper for Company-owned stores and stores of unconsolidated affiliates and franchisees for that FY, and multiplied by the number of days; 8) Payable turnover days equals the average of the beginning and ending balances of accounts payable related to inventory purchase and distribution for that FY divided by total cost of food and paper for Company-owned stores and stores of unconsolidated affiliates and franchisees for that FY and, multiplied by the number of day; 9) Items may not sum up due to rounding.

Source(s): The Group, ABCI Securities estimates

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Rating	Definition
Buy	Stock return $\geq$ Market return rate ( $\sim 9\%$ )
Hold	- Market return ( $\sim 9\%$ ) $\leq$ Stock return $<$ Market return rate ( $\sim 9\%$ )
Sell	Stock return $<$ - Market return ( $\sim 9\%$ )

Stock return rate: expected percentage change of share price plus gross dividend yield over the next 12 months

Market return rate: average market return rate since 2006 (HSI total return index 2006-22 CAGR at 8.4%)

Time horizon of share price target: 12-month

Stock rating, however, may vary from the stated framework due to factors including but not limited to: corporate governance, market capitalization, historical price volatility relative to corresponding benchmark index, average daily turnover of the stock relative to market capitalization of the stock, competitive advantages in corresponding industry, etc.

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**Office address:** ABCI Securities Company Limited, 13/F Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong.

**Tel:** (852) 2868 2183