Yum China (YUMC US / 9987 HK)
Performance to improve in 2H22

- We expect revenue growth and margins to gain support from less stringent social distancing measures and better macroeconomic condition in 2H22 but partly offset by raw material and operating costs pressure
- We project FY22E revenue growth to be 8.9% YoY, supported by revenue growth of KFC and Pizza Hut at 9.7% YoY and 3.9% YoY; FY22E restaurant margin, OPM, and NPM (to shareholders of the Company) to reach 12.1%, 7.3%, and 4.8% in FY22E
- Maintain **BUY**; TP represents 44.57x/29.71x 22E/23E P/E, or 3.34x/3.05x 22E/23E P/B

Expect growth recovery in 2H22. The social distance measures in Apr and May inevitably led to 2Q22 net revenue decline of 13.2% YoY. However, we expect COVID-related measures to be less stringent and macroeconomic condition to be better in 2H22, which would support revenue growth recovery. As our projection in previous report factored in the impacts of COVID resurgence, we maintain FY22E revenue growth at 8.9% YoY (9.7% YoY for KFC and 3.9% YoY for Pizza Hut), and total store number to reach ~12.9k by end-FY22E (~9.0k for KFC and ~2.7k for Pizza Hut). FY21-24E revenue CAGR is expected to be 9.9% (10.6% for KFC and 9.3% for Pizza Hut). Based on our current projections, 2H22 total revenue growth is expected to be 22.5% YoY (18.5% YoY for KFC and 16.1% YoY for Pizza Hut).

Net margin to improve in 2H22. The Group's streamlining of operation and restructuring of product portfolio in 2Q22 helped stabilize margins. 2Q22 restaurant margin, OPM, and NPM (to shareholders of the Company) reached 12.1%, 4.0%, and 3.9%, respectively. We expect persistent raw material costs and staff costs pressure would lead to lower restaurant margin in 2H22. However, we lower forecasts for certain franchise related expenses based on the first two quarters' performance, resulting in improving operating and net margins in 2H22. We project restaurant margin, OPM, and NPM (to shareholders of the Company) to reach 12.1%, 7.3%, and 4.8% in FY22E and 14.6%, 9.4%, and 6.7% in FY24E. Based on our current projections, in 2H22, restaurant margin, OPM, and NPM (to shareholders of the Company) would reach 11.2%, 8.4%, and 5.5%.

Maintain BUY; TP at US$ 53.9/HK$ 423.3. Maintain **BUY** on the Group's resilience and agility in 2Q22. TP is raised due to upward adjustment of margin and profit level projections after FY22E. Current TP represents 44.57x/29.71x 22E/23E P/E, or 3.34x/3.05x 22E/23E P/B.

Risk factors: 1) Macroeconomic risk; 2) Pandemic risk; 3) Regulatory/policy risk; 4) Operational risk; 5) Inflation risk; 6) Concentration risk; 7) Seasonality risk; 8) Non-GAAP financial metrics; 9) Fluctuations in EPS growth.

Results and Valuation

FY ended Dec 31	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (US$ mn)	8,263	9,853	10,732	11,914	13,068
Chg (%,YoY)	(5.8)	19.2	8.9	11.0	9.7
Net profit (US$ mn)(1)	784	990	511	766	872
Chg (%,YoY)	10.0	26.3	(48.4)	50.0	13.8
EPS (US$)	2.01	2.34	1.21	1.81	2.06
Chg (%,YoY)	6.3	16.4	(48.4)	50.0	13.8
BVPS (US$)	15.91	16.72	16.09	17.62	19.21
Chg (%,YoY)	95.0	5.1	(3.8)	9.5	9.0
P/E (x) – US	23.52	20.20	39.16	26.11	22.94
P/E (x) – HK	23.93	20.56	39.85	26.57	23.34
P/B (x)– US	2.97	2.83	2.94	2.68	2.46
P/B (x) – HK	3.02	2.88	2.99	2.73	2.50
ROAA (%)	9.1	8.5	4.0	5.7	6.1
ROAE (%)	16.9	14.9	7.4	10.7	11.2
DPS (US$)	0.24	0.48	0.48	0.48	0.48
Yield (%) - US	0.5	1.0	1.0	1.0	1.0
Yield (%) - HK	0.5	1.0	1.0	1.0	1.0

Source(s): The Group, ABCI Securities estimates

Company Report
Aug 3, 2022

Rating (US): BUY
Rating (HK): BUY
TP (US): US$ 53.9
TP (HK): HK$ 423.3

Analyst : Paul Pan
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Price (US/HK)	US$ 47.27/HK$ 377.6
Est. price return (US/HK)	14.1%/12.1%
Est. dividend yield (US/HK)	1%/1%
Est. total return (US/HK)	15.1%/13.1%
Previous Rating & TP (US/HK)	BUY; US$ 46.5/HK$ 364.9
Previous Report Date	May 25, 2022

Source(s): Bloomberg, ABCI Securities estimate

Key Data

52Wk H/L (US$) (US shr)	63.45/33.55
52Wk H/L (HK$) (HK shr)	500/281
Total issued shares (mn)	423
Issued US shr (mn)	381
Issued HK shr(mn)	42
US-shr market cap (US$ mn)	18,014
H-shr market cap (HK$ mn)	15,825
3-mth avg daily turnover (US$ mn) (US shr)	131.90
3-mth avg daily turnover (HK$ mn) (HK shr)	102.70
Major shareholder(s) (%):	
Invesco	9.75

Source(s): Bloomberg, ABCI Securities

Price performance – US (%)

	Absolute	Relative*
1-mth	(6.6)	(14.3)
3-mth	13.1	13.9
6-mth	(2.5)	6.9

*Relative to S&P 500 Index
Source(s): Bloomberg, ABCI Securities

Price performance – HK (%)

	Absolute	Relative*
1-mth	(2.2)	5.4
3-mth	15.1	19.5
6-mth	3.4	21.3

*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 Aug 1, 2022

Exhibit 1: Changes in assumptions and valuations

As of Dec 31	Current report FY22E	Current report FY23E	Previous report FY22E	Previous report FY23E	Rationale
Assumptions					
D/E (%)	0	0	0	0	N/A
D/A (%)	0	0	0	0	
Tax rate (%)	30.3	30.1	26.5	26.5	Adjusted based on 2Q22 rate
Valuations					
TP (US$)	53.9		46.5		Higher TP mainly due to upward adjustments in profit forecast after FY22E
TP (HK$)	423.3		364.9		
P/E (x)	44.57	29.71	35.88	25.94	
P/B (x)	3.34	3.05	2.79	2.56	

Note: Previous report was published on May 25, 2022
Source(s): ABCI Securities estimates

Exhibit 2: Changes in major forecasts

As of Dec 31	Current report FY22E	Current report FY23E	Current report FY24E	Previous report FY22E	Previous report FY23E	Previous report FY24E	Change (%) FY22E	Change (%) FY23E	Change (%) FY24E
Net revenue (US$ mn)	10,732	11,914	13,068	10,732	11,914	13,068	0.0	0.0	0.0
Net profit (to shareholders of the Company) (US$ mn)	511	766	872	547	756	861	(6.6)	1.3	1.2
EPS (US$)	1.21	1.81	2.06	1.29	1.79	2.04	(6.6)	1.3	1.2

Source(s): ABCI Securities estimates

Financial statements

Consolidated income statement

FY ended Dec 31 (US$ mn, except per share data)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	**8,263**	**9,853**	**10,732**	**11,914**	**13,068**
- Company sales	7,396	8,961	9,700	10,760	12,000
- Others	867	892	1,032	1,153	1,068
Company restaurant expenses	(6,298)	(7,734)	(8,528)	(9,282)	(10,242)
Restaurant profit	**1,098**	**1,227**	**1,172**	**1,479**	**1,758**
General and administrative expenses	(479)	(564)	(595)	(667)	(690)
Franchise expenses	(65)	(64)	(62)	(87)	(102)
Expenses for transactions with franchisees and unconsolidated affiliates	(633)	(649)	(764)	(779)	(838)
Other operating costs and expenses	(57)	(65)	(55)	(64)	(56)
Closures and impairment expenses, net	(55)	(34)	(39)	(40)	(42)
Other income, net	285	643	16	42	36
Operating profit	**961**	**1,386**	**705**	**1,037**	**1,134**
Others	147	6	62	101	162
Pretax profit	**1,108**	**1,392**	**767**	**1,139**	**1,296**
Tax	(295)	(369)	(232)	(343)	(391)
Net profit	**813**	**1,023**	**533**	**796**	**906**
- Owners	784	990	511	766	872
- MI	29	33	22	30	34
Cash Dividend	**94**	**203**	**203**	**203**	**203**
EPS (US$)					
- Basic	2.01	2.34	1.21	1.81	2.06
- Diluted	1.95	2.28	1.17	1.76	2.00
Cash DPS (US$)	**0.24**	**0.48**	**0.48**	**0.48**	**0.48**

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)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue					
- KFC	5,821	7,003	7,684	8,550	9,477
- Pizza Hut	1,730	2,109	2,190	2,413	2,755
Company sales					
- KFC	5,633	6,816	7,469	8,297	9,179
- Pizza Hut	1,721	2,092	2,171	2,387	2,719
Restaurant profit					
- KFC	920	1,013	930	1,189	1,348
- Pizza Hut	181	224	234	270	358
Operating profit					
- KFC	801	827	536	761	855
- Pizza Hut	62	111	98	118	181
Number of stores (units, as of end of FY)					
- Total	10,506	11,788	12,856	13,981	15,127
- KFC	7,166	8,168	9,018	9,843	10,654
- Pizza Hut	2,355	2,590	2,723	2,936	3,181

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)	FY20A	FY21A	FY22E	FY23E	FY24E
Cash and cash equivalents	1,158	1,136	803	1,741	3,245
Accounts receivable	99	67	143	92	153
Inventories	398	432	543	595	658
Others	3,281	3,081	2,865	2,448	1,959
Current assets	**4,936**	**4,716**	**4,354**	**4,875**	**6,015**
PP&E	1,765	2,251	2,343	2,461	2,450
Operating lease right-of-use assets	2,164	2,612	2,796	2,838	2,874
Intangible assets & goodwill	1,078	2,414	2,461	2,465	2,460
Others	932	1,230	1,587	1,674	1,711
Non-current assets	**5,939**	**8,507**	**9,187**	**9,438**	**9,495**
Total assets	**10,875**	**13,223**	**13,540**	**14,312**	**15,510**
Accounts payable and other current liabilities	1,995	2,332	2,761	2,780	3,290
Income taxes payable	72	51	40	94	62
Current liabilities	**2,067**	**2,383**	**2,801**	**2,874**	**3,353**
Non-current operating lease liabilities	1,915	2,286	2,718	2,675	2,664
Non-current finance lease obligations	28	40	31	33	35
Others	394	592	399	462	484
Non-current liabilities	**2,337**	**2,918**	**3,148**	**3,169**	**3,183**
Shareholders' capital	6,206	7,056	6,805	7,453	8,124
MI	253	852	772	802	836
Total equity	**6,459**	**7,908**	**7,577**	**8,255**	**8,960**
Redeemable non-controlling interest	**12**	**14**	**14**	**14**	**14**
Total liabilities and equity	**10,875**	**13,223**	**13,540**	**14,312**	**15,510**

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)	FY20A	FY21A	FY22E	FY23E	FY24E
Net profit	813	1,023	533	796	906
Depreciation and amortization	450	516	608	683	766
Change in working capital	52	69	100	(107)	185
Others	(201)	(477)	53	125	89
Cash flow from operating activities	**1,114**	**1,131**	**1,294**	**1,496**	**1,945**
Capital spending	(419)	(689)	(825)	(1,030)	(1,113)
Others	(2,690)	(166)	168	572	454
Cash flow from investing activities	**(3,109)**	**(855)**	**(657)**	**(458)**	**(659)**
Share issuance - HK	2,195	0	0	0	0
Cash dividend	(95)	(203)	(203)	(203)	(203)
Others	(42)	(110)	(777)	144	500
Cash flow from financing activities	**2,058**	**(313)**	**(980)**	**(59)**	**297**
Effect of foreign exchange rate changes	40	15	9	(41)	(79)
Net change in cash, cash equivalent, and restricted cash	**103**	**(22)**	**(333)**	**938**	**1,505**
Cash, cash equivalent, and restricted cash - end	**1,158**	**1,136**	**803**	**1,741**	**3,245**

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	FY20A	FY21A	FY22E	FY23E	FY24E
Growth (YoY %)					
Net revenue	(5.8)	19.2	8.9	11.0	9.7
- KFC	(3.6)	20.3	9.7	11.3	10.8
- Pizza Hut	(15.8)	21.9	3.9	10.2	14.1
Restaurant profit	(13.3)	11.7	(4.5)	26.1	18.9
- KFC	(11.7)	10.1	(8.2)	27.8	13.4
- Pizza Hut	(20.3)	23.8	4.4	15.6	32.3
Operating profit	6.7	44.2	(49.1)	47.2	9.3
- KFC	(15.7)	3.2	(35.2)	42.0	12.4
- Pizza Hut	(45.6)	79.0	(11.4)	19.9	53.9
Net profit (to shareholders of the Company)	10.0	26.3	(48.4)	50.0	13.8
Non-GAAP operating profit	(19.7)	4.6	(28.6)	61.0	11.1
Non-GAAP net profit	(15.6)	(14.6)	0.7	50.7	11.8
Profitability ratios (%)					
Restaurant margin	14.9	13.7	12.1	13.7	14.6
- KFC	16.3	14.9	12.5	14.3	14.7
- Pizza Hut	10.5	10.7	10.8	11.3	13.2
OPM	13.0	15.5	7.3	9.6	9.4
- KFC	14.2	12.1	7.2	9.2	9.3
- Pizza Hut	3.6	5.3	4.5	4.9	6.7
NPM (to shareholders of the Company)	9.5	10.0	4.8	6.4	6.7
Non-GAAP OPM	8.9	7.8	5.1	7.4	7.5
Non-GAAP NPM	7.4	5.3	4.9	6.7	6.8
Return ratios (%)					
ROAA	9.1	8.5	4.0	5.7	6.1
ROAE	16.9	14.9	7.4	10.7	11.2
Liquidity ratio (x)					
Current ratio	2.4	2.0	1.6	1.7	1.8
Quick ratio	2.2	1.8	1.4	1.5	1.6
Cash ratio	0.6	0.5	0.3	0.6	1.0
Working capital (days)					
Receivable turnover	4.1	3.1	3.6	3.6	3.4
Inventory turnover	49.1	45.6	46.6	50.2	50.7
Payable turnover	42.8	47.9	47.6	46.9	48.7
CCC	10.4	0.8	2.6	6.9	5.3
Leverage ratios (%)					
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	(17.9)	(14.4)	(10.6)	(21.1)	(36.2)
Net debt/(cash) to Total assets	(10.6)	(8.6)	(5.9)	(12.2)	(20.9)

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 ≥ Market return rate (~10%)
Hold	- Market return (-~10%) ≤ Stock return < Market return rate (+~10%)
Sell	Stock return < - Market return (-~10%)

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 2008 (HSI total return index 2008-20 CAGR at 9.2%)

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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