

Yum China (YUMC US)

A good start in FY21E despite a few headwinds

Maintain BUY on YUMC, as we are impressed by robust dine-in sales growth GP margin and Pizza hut's momentum, despite mini covid-19 outbreaks and weak sales in transportation hubs in 1Q21. Hence we are increasingly optimistic for FY21E. We raised our TP to US\$ 76.85, based on 33x FY22E P/E (unchanged). YUMC's valuation is attractive at 27x FY22E P/E, vs HDL's 38x and JMJ's 50x.

- **A strong beat in 1Q21 net profit.** YUMC's 1Q21 net profit grew by 272% YoY to US\$ 230mn, 24%/ 27% above BBG/ CMBI est., backed by 46% YoY sales growth, which also beat BBG/ CMBI est. by 15%/ 18%. We attributed this beat to: 1) meaningful dine-in sales growth (53%/109% YoY for KFC/ Pizza hut), 2) robust GP margin at 72.5% (vs CMBI est. of 71.6%), 3) rigid admin cost control and 4) impressive Pizza Hut with 38% SSSG and restaurant margin of 15.3% in 1Q21 (higher than 14.3% in 1Q19). We are truly impressed by strong sales growth as it was achieved under various drags, such as: 1) mini COVID-19 outbreaks in Jan 2021, 2) weak sales in transportation hubs (fell by ~40% vs 2020 and ~70% in 2019) and 3) weak demand in lower tier cities as many workers stayed put during CNY.
- **We are cautiously optimistic for 2Q21E and onwards.** Following the rather encouraging 1Q21, where SSS for KFC/ Pizza Hut already recovered to 94%/ 95%, vs 1Q19. we are reasonably positive for 2Q21E, thanks to: 1) improved domestic travel volume and consumer sentiment during Qing Ming festival (hopefully same for upcoming labour day holidays), 2) low base in 2Q20 and 3) Pizza Hut's overwhelming growth momentum, driven by store remodelling (over 50% were revamped since 2018), menu upgrade (renewed 40% of items in 1Q21) and strengthened digital and delivery experience.
- **But management highlighted more headwinds on margins.** Decline in poultry price might have fueled GP margin expansion in 1Q21 and continue to be favorable for 2Q21E, thanks to the lock-ups. However, there could be more pressure in 2H21E due to: 1) rebounding input prices, 2) phasing out of plastic items and 3) wage inflations and more hiring, etc..
- **Store expansion plan maintained despite acceleration in 1Q21.** Number of stores for KFC/ Pizza Hut had a net increase by 207/ 27 to 7,373/ 2,382 in 1Q21, up 10.7%/ 4.9% YoY, which speeded up from 9.7%/ 3.2% in 4Q20, but the Company maintained its gross openings target of 1,000 in FY21E.
- **Maintain BUY and raised TP to US\$ 76.85,** based on 33x FY22E P/E (unchanged). We revised up FY21E/ 22E/ 23E NP forecast by 6%/ 5%/ 3%, to factor in: 1) faster dine-in growth, 2) better Pizza Hut growth and margins, 3) stronger operating leverage. YUMC is trading at 27x FY22E P/E, attractive vs HDL's 38x and JMJ's 50x, given a 16% EBIT CAGR in FY20-23E.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (USD mn)	8,776	8,263	9,931	11,202	12,399
YoY growth (%)	4.3	(5.8)	20.2	12.8	10.7
Net income (USD mn)	713	784	861	1,025	1,180
Diluted EPS (USD)	1.81	1.89	1.97	2.33	2.66
YoY growth (%)	1.8	4.5	4.0	18.3	14.4
Consensus EPS (USD)	n/a	n/a	1.97	2.30	2.60
P/E (x)	34.9	33.5	32.2	27.2	23.8
P/B (x)	7.5	4.4	3.9	3.5	3.1
Yield (%)	0.8	0.4	0.8	0.9	1.1
ROE (%)	23.2	17.0	13.4	14.1	14.4
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price **US\$76.85**
 (Previous TP **US\$66.59**)
 Up/Downside **+21.2%**
 Current Price **US\$63.42**

China Catering Sector

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Stock Data

Mkt Cap (US\$ mn)	26,636
Avg 3 mths t/o (US\$ mn)	127.97
52w High/Low (US\$)	64.64/43.50
Total Issued Shares (mn)	420.0

Source: Bloomberg

Shareholding Structure

Primavera Capital	5.7%
BlackRock	6.5%
Invesco	9.7%
Management	0.2%
Free Float	77.8%

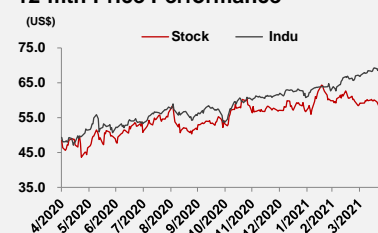
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	6.7%	4.4%
3-mth	11.2%	0.6%
6-mth	21.4%	-4.8%
12-mth	38.2%	-1.5%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

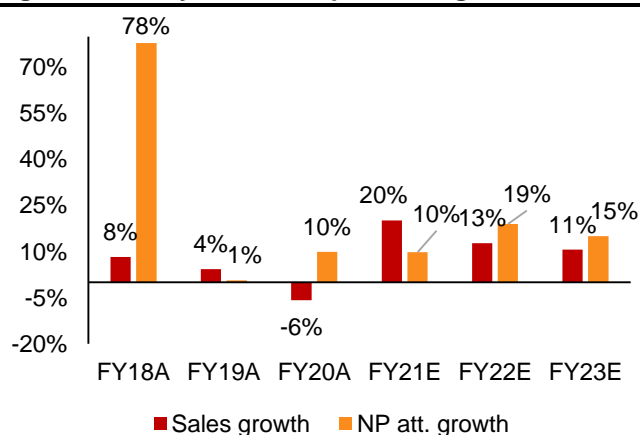
Auditor: KPMG

Related Reports

1. China Catering Sector (OUTPERFORM) - Leaders to benefit even more during recovery – 12 Mar 2021
2. Yum China (YUMC US, BUY) - Digital, delivery, Pizza Hut reform driven growth – 7 Dec 2020

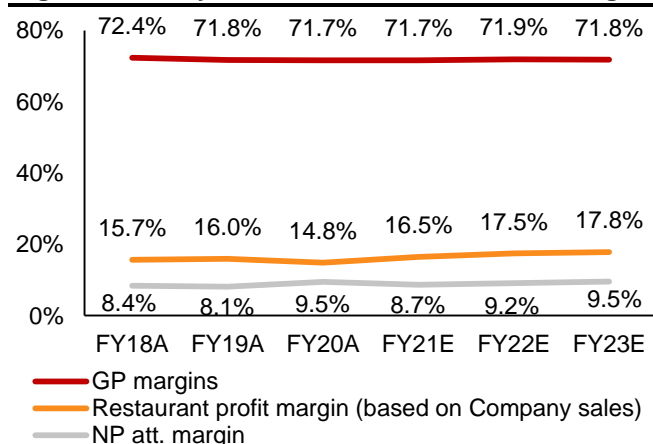
Focus Charts

Figure 1: Yearly sales/ net profit att. growth



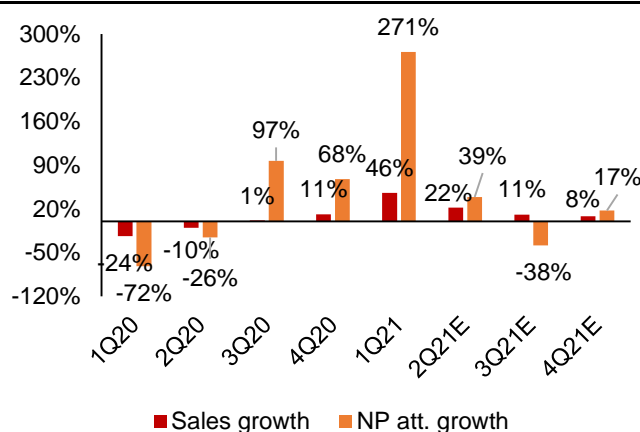
Source: Company data, CMBIS estimates

Figure 2: Yearly GP/ restaurant OP/ NP att. margin



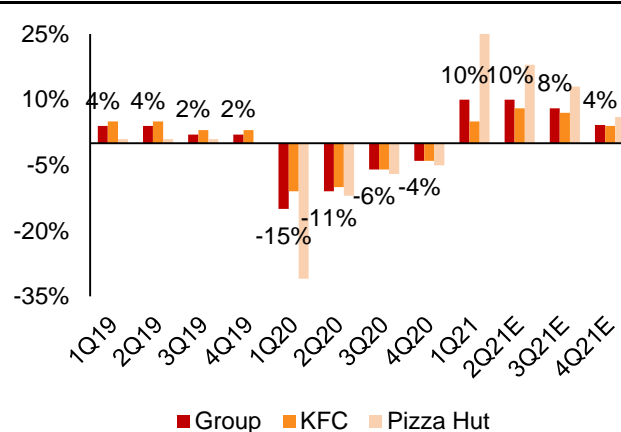
Source: Company data, CMBIS estimates

Figure 3: Quarterly sales/ net profit att. growth



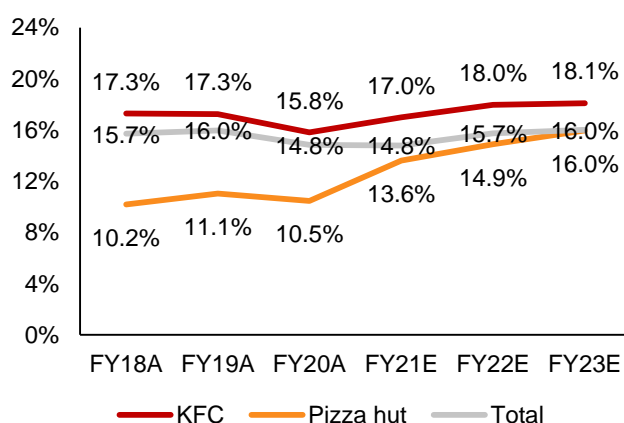
Source: Company data, CMBIS estimates

Figure 4: KFC/ Pizza Hut/ Group's SSSG



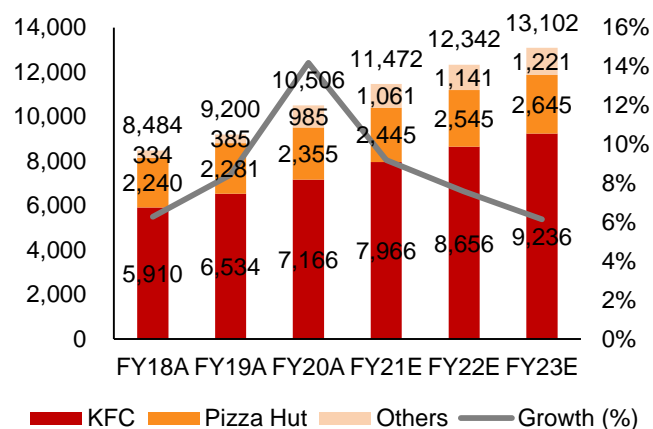
Source: Company data, CMBIS estimates

Figure 5: KFC/ Pizza Hut/ Group's restaurant OP margin



Source: Company data, CMBIS estimates

Figure 6: KFC/ Pizza Hut/ Group's number of restaurants



Source: Company data, CMBIS estimates

Earnings revision

Figure 7: Earnings revision

US\$ mn	New			Old			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	9,931	11,202	12,399	9,626	10,864	12,028	3.2%	3.1%	3.1%
Gross profit	7,117	8,058	8,907	6,903	7,828	8,677	3.1%	2.9%	2.6%
Operating Profit	1,046	1,309	1,495	976	1,241	1,445	7.1%	5.5%	3.5%
Net profit	861	1,025	1,180	809	975	1,141	6.4%	5.1%	3.4%
EPS (US\$ cents)	1.968	2.329	2.665	1.850	2.215	2.578	6.4%	5.1%	3.4%
Gross margin	71.7%	71.9%	71.8%	71.7%	72.1%	72.1%	0ppt	-0.1ppt	-0.3ppt
Operating Margin	10.5%	11.7%	12.1%	10.1%	11.4%	12.0%	0.4ppt	0.3ppt	0ppt
Net profit att. margin	8.7%	9.2%	9.5%	8.4%	9.0%	9.5%	0.3ppt	0.2ppt	0ppt

Source: Company data, CMBIS estimates

Figure 8: CMBIS estimates vs consensus

US\$ mn	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	9,931	11,202	12,399	9,938	10,972	12,044	-0.1%	2.1%	2.9%
Gross profit	7,117	8,058	8,907	7,143	7,886	8,657	-0.4%	2.2%	2.9%
Operating Profit	1,046	1,309	1,495	1,097	1,293	1,493	-4.6%	1.3%	0.2%
Net profit	861	1,025	1,180	839	978	1,113	2.6%	4.8%	6.0%
EPS (US\$ cents)	1.968	2.329	2.665	1.968	2.297	2.598	0.0%	1.4%	2.6%
Gross Margin	71.7%	71.9%	71.8%	71.9%	71.9%	71.9%	-0.2ppt	0.1ppt	0ppt
Operating Margin	10.5%	11.7%	12.1%	11.0%	11.8%	12.4%	-0.5ppt	-0.1ppt	-0.3ppt
Net Margin	8.7%	9.2%	9.5%	8.4%	8.9%	9.2%	0.2ppt	0.2ppt	0.3ppt

Source: Company data, CMBIS estimates

Assumptions

Figure 9: CMBIS' assumptions

Major assumptions	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E
Sales by segment (RMB mn)						
KFC - eat in sales	4,882	4,911	4,137	4,972	5,465	5,840
KFC - delivery sales	808	1,129	1,617	1,959	2,409	2,915
PH - eat in sales	1,611	1,527	1,146	1,428	1,513	1,597
PH- delivery sales	500	527	642	735	838	939
Others	614	682	721	836	976	1,108
Total	8,415	8,776	8,263	9,931	11,202	12,399
Sales by segment growth (%)						
KFC - eat in sales	9.2%	0.6%	-15.8%	20.2%	9.9%	6.9%
KFC - delivery sales	35.8%	39.7%	43.2%	21.1%	23.0%	21.0%
PH - eat in sales	-3.5%	-5.2%	-25.0%	24.6%	6.0%	5.5%
PH- delivery sales	18.1%	5.4%	21.7%	14.5%	14.0%	12.0%
Others	0.7%	11.1%	5.8%	15.9%	16.7%	13.5%
Total	8.3%	4.3%	-5.8%	20.2%	12.8%	10.7%
Sales network by brand						
KFC	5,910	6,534	7,166	7,966	8,656	9,236
Pizza Hut	2,240	2,281	2,355	2,445	2,545	2,645
Others	334	385	985	1,061	1,141	1,221
Total	8,484	9,200	10,506	11,472	12,342	13,102
Restaurant profit margin by brand						
KFC	17.3%	17.3%	15.8%	17.0%	18.0%	18.1%
Pizza hut	10.2%	11.1%	10.5%	13.6%	14.9%	16.0%
Others	0.0%	-0.4%	-0.4%	-0.2%	-0.2%	-0.2%
Total	15.7%	16.0%	14.8%	14.8%	15.7%	16.0%
Costs breakdown						
Food and paper/ sales	27.6%	28.2%	28.3%	28.3%	28.1%	28.2%
Payroll and employee benefits/ sales	20.4%	20.6%	20.9%	20.8%	20.3%	20.2%
Rental and other operating expenses/ sales	28.4%	27.0%	26.9%	26.0%	25.8%	25.6%
G & A expenses/ sales	5.4%	5.5%	5.8%	5.5%	5.3%	5.2%
Franchisees expenses/ sales	7.1%	7.3%	7.7%	7.6%	7.7%	7.7%
Effective tax rate	22.5%	25.9%	26.6%	26.0%	25.5%	25.0%
NP att. margin	8.4%	8.1%	9.5%	8.7%	9.2%	9.5%
NP att. growth (%)	77.9%	0.7%	10.0%	9.9%	19.0%	15.1%

Source: Company data, CMBIS estimates

Valuation

Figure 10: Peers valuation table

			12m TP	Price	Up/ Down-	Mkt. Cap	Year	P/E (x)		P/B (x)		ROE (%)	3yrs PEG (x)	Yield (%)
Company	Ticker	Rating	(LC)	(LC)	side	(HK\$mn)	End	FY1E	FY2E	FY1E	FY2E	FY1E	FY1E	FY1E
Leading Greater China Catering														
Yum China	YUMC US	BUY	76.85	63.42	21%	204,347	Dec-20	32.2	27.2	3.9	3.5	17.0	2.7	0.8
Jiumaojiu	9922 HK	BUY	40.07	32.00	25%	46,509	Dec-20	76.5	49.6	10.3	8.6	7.9	0.7	0.2
Haidilao	6862 HK	BUY	78.40	52.00	51%	275,600	Dec-20	54.4	38.0	16.3	11.7	3.0	0.3	0.5
Cafe De Coral	341 HK	BUY	20.69	16.82	23%	9,852	Mar-20	26.7	23.8	3.4	3.2	3.0	0.3	2.5
Xiabuxiabu	520 HK	NR	n/a	12.24	n/a	13,285	Dec-20	21.1	17.2	3.9	3.3	0.1	0.0	1.5
Yihai	1579 HK	NR	108.52	75.60	44%	79,146	Dec-20	54.2	41.9	14.7	11.3	30.0	1.8	0.5
Gourmet Master	2723 TT	NR	n/a	186.50	n/a	9,337	Dec-20	25.2	21.2	2.7	2.5	9.7	1.3	2.5
Avg.								41.5	31.3	7.9	6.3	10.1	1.0	1.2
Med.								32.0	27.1	3.9	3.5	7.9	0.7	0.8
Other Greater China Catering														
Fairwood	52 HK	NR	n/a	17.82	n/a	2,308	Mar-20	n/a	15.2	3.3	2.9	9.3	n/a	2.3
Tai Hing	6811 HK	NR	n/a	2.22	n/a	2,224	Dec-20	12.7	10.8	2.0	1.8	11.6	0.4	5.2
Hop Hing	47 HK	NR	n/a	0.05	n/a	514	Dec-20	n/a	n/a	n/a	n/a	(17.5)	n/a	n/a
Ajisen China	538 HK	NR	n/a	1.35	n/a	1,474	Dec-20	n/a	n/a	n/a	n/a	(2.4)	n/a	n/a
Avg.								12.7	13.0	2.6	2.4	0.3	0.4	3.7
Med.								12.7	13.0	2.6	2.4	3.5	0.4	3.7
Greater China Catering														
Avg.								37.9	27.2	6.7	5.4	6.5	0.9	1.8
Med.								29.4	23.8	3.9	3.3	7.9	0.5	1.5
International Catering														
Yum! Brands	YUM US	NR	n/a	117.19	n/a	271,653	Dec-20	29.3	25.8	n/a	n/a	n/a	1.6	1.7
Mcdonald'S	MCD US	NR	n/a	234.18	n/a	1,356,430	Dec-20	27.8	25.3	n/a	n/a	n/a	1.6	2.2
Starbucks Corp	SBUX US	NR	n/a	112.42	n/a	1,028,375	Sep-20	38.9	31.6	n/a	n/a	n/a	0.5	1.7
Rest' Brands	QSR US	NR	n/a	67.29	n/a	241,477	Dec-20	25.6	22.3	11.4	12.1	20.9	0.9	3.1
Chipotle	CMG US	NR	n/a	1474.0	n/a	322,231	Dec-20	60.6	45.9	17.3	14.5	21.6	1.3	0.0
Darden	DRI US	NR	n/a	144.38	n/a	146,659	May-20	36.5	20.5	6.9	6.4	(8.9)	(0.1)	1.2
Domino'S Pizza	DPZ US	NR	n/a	404.34	n/a	121,797	Jan-21	31.4	27.3	n/a	n/a	n/a	3.1	0.9
Wendy'S Co	WEN US	NR	n/a	22.15	n/a	38,175	Jan-21	32.2	27.4	8.6	9.9	22.1	1.5	1.7
Shake Shack	SHAK US	NR	n/a	111.92	n/a	36,466	Dec-20	1695.7	200.6	11.8	11.1	(11.9)	(8.8)	n/a
Wingstop Inc	WING US	NR	n/a	150.95	n/a	34,848	Dec-20	117.6	87.4	n/a	n/a	n/a	3.0	0.4
Jollibee Foods	JFC PM	NR	n/a	175.80	n/a	31,188	Dec-20	46.7	30.7	3.4	3.0	(25.0)	(0.2)	0.8
Avg.								194.8	49.5	9.9	9.5	3.1	0.4	1.4
Med.								36.5	27.4	10.0	10.5	6.0	1.3	1.4
H-shares Consumer Staples														
UPC	220 HK	NR	n/a	9.68	n/a	41,811	Dec-20	20.1	18.3	2.5	2.4	11.8	1.8	4.9
Tingyi	322 HK	NR	n/a	14.00	n/a	78,750	Dec-20	16.7	15.3	3.1	3.0	20.0	2.4	5.9
Want Want*	151 HK	NR	n/a	5.63	n/a	67,933	Mar-20	13.9	13.4	3.6	3.5	28.8	1.4	6.2
China Mengniu*	2319 HK	NR	n/a	42.40	n/a	167,403	Dec-20	26.7	22.3	3.7	3.3	11.4	0.9	1.0
Vitasoy	345 HK	NR	n/a	30.30	n/a	32,336	Mar-20	46.9	43.9	9.2	8.3	19.7	3.0	1.3
Budweiser	1876 HK	NR	n/a	24.35	n/a	322,477	Dec-20	42.4	34.5	3.7	3.4	5.0	1.1	0.9
Tsingtao*	168 HK	NR	n/a	73.70	n/a	127,223	Dec-20	30.5	26.4	3.7	3.4	13.0	1.6	1.4
CR Beer	291 HK	NR	n/a	64.25	n/a	208,438	Dec-20	49.6	38.3	7.4	6.6	10.2	1.2	0.8
Dali Foods	3799 HK	NR	n/a	4.59	n/a	62,856	Dec-20	13.1	12.0	2.7	2.4	22.8	1.5	4.3
Avg.								28.9	24.9	4.4	4.0	15.9	1.6	3.0
Med.								26.7	22.3	3.7	3.4	13.0	1.5	1.4

Source: Bloomberg, Company data, CMBIS estimates, *cover by another analyst - Albert Yip

Financial Summary

Income statement

YE 31 Dec (USD mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	8,776	8,263	9,931	11,202	12,399
Company sales	7,925	7,396	8,930	10,077	11,155
Franchise fees and income	148	148	175	191	209
Fran. & uncol. affiliates sales	654	647	769	871	968
Other revenues	49	72	56	62	67
Cost of goods sold	(2,479)	(2,342)	(2,813)	(3,144)	(3,492)
Gross profit	6,297	5,921	7,117	8,058	8,907
Other net income	60	285	70	78	87
Operating expenses	(5,456)	(5,245)	(6,141)	(6,827)	(7,499)
Staff costs	(1,807)	(1,730)	(2,065)	(2,278)	(2,499)
Admin	(560)	(591)	(655)	(706)	(769)
Property rent & related	(877)	(814)	(964)	(1,088)	(1,205)
D & A	(428)	(404)	(440)	(475)	(513)
Other operating expenses	(1,784)	(1,706)	(2,017)	(2,280)	(2,514)
EBIT	901	961	1,046	1,309	1,495
Finance costs, net	39	43	81	95	110
JV & associates	-	-	-	-	-
Exceptional	63	104	79	22	25
Pre-tax profit	1,003	1,108	1,207	1,426	1,630
Income tax	(260)	(295)	(314)	(364)	(407)
Less: Minority interests	30	29	32	37	43
Net profit	713	784	861	1,025	1,180

Cash flow summary

YE 31 Dec (USD mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income	901	961	1,046	1,309	1,495
D&A	419	386	428	465	511
Change in working capital	74	(7)	91	66	66
Income tax paid	16	(295)	(314)	(364)	(407)
Others	(225)	234	197	126	137
Net cash from operating	1,185	1,279	1,449	1,603	1,802
Capex & investments	(435)	(578)	(596)	(560)	(620)
Associated companies	-	-	-	-	-
Interest received	-	-	-	-	-
Others	(475)	-	-	-	-
Net cash from investing	(910)	(578)	(596)	(560)	(620)
Equity raised	(265)	2,220	-	-	-
Change of Debts	-	-	-	-	-
Dividend paid	(181)	(181)	(95)	(207)	(247)
Others	(34)	-	-	-	-
Net cash from financing	(480)	2,039	(95)	(207)	(247)
Net change in cash	(205)	2,740	758	836	935
Beginning cash balance	1,266	1,046	3,786	4,544	5,379
Exchange difference	(15)	-	-	-	-
Cash at the end of the year	1,046	3,786	4,544	5,379	6,314

Balance sheet

YE 31 Dec (USD mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	4,691	4,797	4,928	5,013	5,121
Fixed asset	1,594	1,775	1,943	2,038	2,147
Intangible assets & goodwill	94	75	64	54	52
Prepaid lease payments	-	-	-	-	-
Interest in asso. & JV	89	89	89	89	89
Others	2,914	2,858	2,832	2,833	2,833
Current assets	2,259	4,934	5,800	6,715	7,729
Cash and cash equivalents	1,046	3,786	4,544	5,379	6,314
Inventories	380	321	385	431	478
Trade and other receivables	88	91	109	123	136
Prepayments	134	126	152	171	189
Others	611	611	611	611	611
Current liabilities	1,736	1,665	1,864	2,009	2,154
Borrowings	-	-	-	-	-
Trade payables	623	577	694	775	861
Accruals & other payables	437	411	494	558	617
Tax payables	45	45	45	45	45
Others	631	631	631	631	631
Non-current liabilities	2,039	2,039	2,039	2,039	2,039
Borrowings	-	-	-	-	-
Deferred income	-	-	-	-	-
Deferred tax	136	136	136	136	136
Others	1,903	1,903	1,903	1,903	1,903
Minority Interest	-	-	-	-	-
Total net assets	3,175	6,027	6,825	7,680	8,656
Shareholders' equity	3,175	6,027	6,825	7,680	8,656

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
Company sales	90.3	89.5	89.9	90.0	90.0
Franchise fees and income	1.7	1.8	1.8	1.7	1.7
Fran. & uncol. affiliates sales	7.5	7.8	7.7	7.8	7.8
Other revenues	0.6	0.9	0.6	0.6	0.5
Total	100.0	100.0	100.0	100.0	100.0
P&L ratios (%)					
Gross margin	71.8	71.7	71.7	71.9	71.8
Operating margin	10.3	11.6	10.5	11.7	12.1
Pre-tax margin	11.4	13.4	12.2	12.7	13.1
Net margin	8.1	9.5	8.7	9.2	9.5
Effective tax rate	25.9	26.6	26.0	25.5	25.0
Balance sheet ratios					
Current ratio (x)	1.3	3.0	3.1	3.3	3.6
Quick ratio (x)	1.1	2.8	2.9	3.1	3.4
Cash ratio (x)	0.6	2.3	2.4	2.7	2.9
Inventory turnover days	51	50	50	50	50
Trade receivables days	3	4	4	4	4
Trade payables days	91	90	90	90	90
Total debt / total equity ratio (%)	0	0	0	0	0
Net debt / equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Returns (%)					
ROE	22.5	13.0	12.6	13.3	13.6
ROA	10.3	8.1	8.0	8.7	9.2
Per share					
EPS (USD)	1.81	1.89	1.97	2.33	2.66
DPS (USD)	0.48	0.23	0.49	0.58	0.67
BVPS (USD)	8.44	14.35	16.15	18.07	20.24

Source: Company data, CMBIS estimates

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