

## Yum China (YUMC US / 9987HK) Upbeat 1Q21 results support outlook

- Network expansion and improved product categories to support growth; 315 new stores opened in 1Q21, equivalent to 3.0% of total stores as of end-FY20
- Revenue grew 45.8% YoY in 1Q21; KFC/Pizza Hut revenue was up 44.4%/67.0% YoY
- Restaurant margin, OPM and NPM (to shareholders of the Company) increased to 18.7%, 14.7%, and 9.0% in 1Q21 vs. 10.7%, 6.3%, and 3.5% in 1Q20
- Expect FY20-23E revenue CAGR of 14.8% our forecasts stay unchanged
- Maintain **BUY**; current TP represents 32.87x/26.46x 21E/22E P/E, or 4.29x/3.66x 21E/22E P/B

**1Q21 net revenue grew by 45.8% YoY.** In 1Q21, net revenue of KFC and Pizza Hut increased by 44.4% YoY and 67.0% YoY. System sales growth reached 34% YoY; system sales growth of KFC and Pizza Hut were 24% YoY and 57% YoY; meanwhile, overall SSSG reached 10% YoY. The strong rebound can be attributed to the low-base effect in 1Q20 amid the COVID-19 outbreak, improving economy, and network expansion. A total of 315 new stores opened in 1Q21, equivalent to 3.0% of total stores by end-FY20. We expect FY20-23E revenue CAGR to be 14.8%, supported by 17.1%/6.9% CAGRs for KFC/Pizza Hut; FY21 revenue to grow by 19.3% YoY and revenue of KFC/Pizza Hut to grow by 22.7% YoY/6.8% YoY. In FY20-23E, number of total stores would increase by 7.1% CAGR; that of KFC and Pizza Hut would increase by 9.2% and 3.0% CAGR. By end-FY23E, total number of stores would reach ~12,900 and that of KFC and Pizza Hut would reach ~9,300 and ~2,600.

**Margins improved, but potential rise in costs exists.** Restaurant margin was 18.7% in 1Q21 vs 10.7% in 1Q20. Restaurant margins of KFC and Pizza Hut were 19.9% and 15.3% in 1Q21 vs. 13.6% and 0.3% in 1Q20. OPM was 14.7% (1Q20: 6.3%). OPM of KFC and Pizza Hut were 18.3% and 11.1% in 1Q21 vs. 12.6% and -8.7% in 1Q20. NPM (to shareholders of the Company) increased to 9.0% in 1Q21. We believe potential rise in labor and raw material costs may pressure margin in the short term. We expect restaurant margin, OPM, and NPM (to shareholders of the Company) would reach 15.0%, 11.2% and 8.8% in FY21E and further increase to 16.2%, 12.1% and 9.7% in FY23E.

**Maintain BUY, TP at US\$ 73.1/HK\$ 567.0.** Maintain DCF-derived TP without any change in forecasts. Current TP represents 32.87x/26.46x 21E/22E P/E, or 4.29x/3.66x 21E/22E P/B.

**Risk factors:** 1) Macroeconomic risk; 2) Regulatory risk; 3) Operational risk; 4) Increase in raw material/operating costs and margin decline; 5) Concentration risk; 6) Seasonality risk; 7) Non-GAAP financial metrics.

### Results and Valuation

FY ended Dec 31	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (US\$ mn)	8,776	8,263	9,859	11,091	12,500
Chg (% YoY)	4.3	(5.8)	19.3	12.5	12.7
Net profit (US\$ mn) <sup>(1)</sup>	713	784	868	1,078	1,210
Chg (% YoY)	0.7	10.0	10.7	24.2	12.3
EPS (US\$)	1.89	2.01	2.07	2.57	2.89
Chg (% YoY)	2.7	6.3	3.0	24.2	12.3
BVPS (US\$)	8.16	15.91	15.88	18.57	20.75
Chg (% YoY)	9.1	95.0	(0.2)	17.0	11.7
P/E (x) – US	32.79	30.83	29.93	24.09	21.46
P/E (x) – HK	33.06	31.09	30.18	24.30	21.64
P/B (x) – US	7.59	3.89	3.90	3.34	2.99
P/B (x) – HK	7.66	3.93	3.94	3.36	3.01
ROAE (%)	12.9	9.1	7.9	8.8	8.7
ROAA (%)	24.0	16.9	13.5	14.9	14.7
DPS (US\$)	0.48	0.24	0.48	0.48	0.48
Yield (%) - US	0.8	0.4	0.8	0.8	0.8
Yield (%) - HK	0.8	0.4	0.8	0.8	0.8

Source(s): The Group, ABCI Securities estimates

## Company Report May 7, 2021

Rating (US): BUY  
Rating (HK): BUY  
TP (US): US\$ 73.1  
TP (HK): HK\$ 567.0

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

Price (US/HK)	US\$ 61.97/HK\$ 485.4
Est. price return (US/HK)	18.01%/17.02%
Est. dividend yield (US/HK)	0.77%/0.77%
Est. total return (US/HK)	18.79%/17.79%
Previous Rating&	BUY;
TP (US/HK)	US\$ 73.1/HK\$ 567.0
Previous Report Date	Apr 16, 2021

Source(s): Bloomberg, ABCI Securities estimate

### Key Data

52Wk H/L (US\$) (US shr)	64.64/43.5
52Wk H/L (HK\$) (HK shr)	506/385.6
Total issued shares (mn)	419
Issued US shr (mn)	377
Issued HK shr(mn)	42
US-shr market cap (US\$ mn)	23,375
H-shr market cap (HK\$ mn)	20,343
3-mth avg daily turnover (US\$ mn) (US shr)	127.90
3-mth avg daily turnover (HK\$ mn) (HK shr)	111.95
Major shareholder(s) (%):	
Invesco	9.98

Source(s): Bloomberg, ABCI Securities

### Price performance – US (%)

	Absolute	Relative*
1-mth	3.51	1.12
3-mth	8.20	0.59
6-mth	8.77	(10.86)

\*Relative to S&P 500 Index

Source(s): Bloomberg, ABCI Securities

### Price performance – HK (%)

	Absolute	Relative*
1-mth	5.20	6.06
3-mth	12.85	14.57
6-mth	13.07	1.00

\*Relative to HSI

Source(s): Bloomberg, ABCI Securities

Note:

- 1) refers to net profit to shareholders of the Company ;
- 2) US\$/HK\$= 7.7673; 3) Market data as of May 6, 2021



**Exhibit 1: Changes in assumptions and valuations**

As of Dec 31	Current report		Previous report		Rationale
	FY21E	FY22E	FY21E	FY22E	
<b>Assumptions</b>					
D/E (%)	0	0	0	0	N/A
D/A (%)	0	0	0	0	N/A
Tax rate (%)	26.5	26.5	26.5	26.5	N/A
<b>Valuations</b>					
TP (US\$)	73.1		73.1		
TP (HK\$)	567.0		567.0		
P/E (x)	32.87	26.46	32.87	26.46	N/A
P/B (x)	4.29	3.66	4.29	3.66	

Note: Previous report was published on Apr 16, 2021

Source(s): ABCI Securities estimates

**Exhibit 2: Changes in major forecasts**

As of Dec 31	Current report			Previous report			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Net revenue (US\$ mn)	9,859	11,091	12,500	9,859	11,091	12,500	0.0	0.0	0.0
Net profit (to shareholders of the Company) (US\$ mn)	868	1,078	1,210	868	1,078	1,210	0.0	0.0	0.0
EPS (US\$)	2.07	2.57	2.89	2.07	2.57	2.89	0.0	0.0	0.0

Source(s): ABCI Securities estimates

## Financial statements

### Consolidated income statement

FY ended Dec 31 (US\$ mn, except per share data)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>8,776</b>	<b>8,263</b>	<b>9,859</b>	<b>11,091</b>	<b>12,500</b>
- Company sales	7,925	7,396	8,816	9,929	11,216
- Others	851	867	1,043	1,162	1,284
Company restaurant expenses	(6,659)	(6,298)	(7,497)	(8,335)	(9,400)
<b>Restaurant profit</b>	<b>1,266</b>	<b>1,098</b>	<b>1,320</b>	<b>1,594</b>	<b>1,816</b>
General and administrative expenses	(487)	(479)	(547)	(612)	(685)
Franchise expenses	(71)	(65)	(78)	(92)	(109)
Expenses for transactions with franchisees and unconsolidated affiliates	(645)	(633)	(760)	(839)	(932)
Other operating costs and expenses	(37)	(57)	(49)	(53)	(61)
Closures and impairment expenses, net	(36)	(55)	(52)	(54)	(60)
Other income, net	60	285	225	236	261
<b>Operating profit</b>	<b>901</b>	<b>961</b>	<b>1,102</b>	<b>1,342</b>	<b>1,514</b>
Others	102	147	116	173	192
<b>Pretax profit</b>	<b>1,003</b>	<b>1,108</b>	<b>1,218</b>	<b>1,515</b>	<b>1,706</b>
Tax	(260)	(295)	(323)	(402)	(452)
<b>Net profit</b>	<b>743</b>	<b>813</b>	<b>895</b>	<b>1,113</b>	<b>1,254</b>
- Owners	713	784	868	1,078	1,210
- MI	30	29	27	35	44
<b>Cash Dividend</b>	<b>181</b>	<b>94</b>	<b>201</b>	<b>201</b>	<b>201</b>
<b>EPS (US\$)</b>					
- Basic	1.89	2.01	2.07	2.57	2.89
- Diluted	1.84	1.95	2.02	2.51	2.81
<b>Cash DPS (US\$)</b>	<b>0.48</b>	<b>0.24</b>	<b>0.48</b>	<b>0.48</b>	<b>0.48</b>

Source(s): The Group, ABCI Securities estimates

### Consolidated balance sheet

FY ended Dec 31 (US\$ mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Cash and cash equivalents	1,046	1,158	1,435	1,917	3,126
Accounts receivable	88	99	100	129	136
Inventories	380	398	404	524	550
Others	745	3,281	3,343	3,524	3,595
<b>Current assets</b>	<b>2,259</b>	<b>4,936</b>	<b>5,281</b>	<b>6,093</b>	<b>7,407</b>
PP&E	1,594	1,765	1,862	2,084	2,299
Operating lease right-of-use assets	1,985	2,164	2,416	2,761	3,165
Intangible assets & goodwill	348	1,078	1,093	1,153	1,172
Others	764	932	1,251	1,352	1,416
<b>Non-current assets</b>	<b>4,691</b>	<b>5,939</b>	<b>6,622</b>	<b>7,351</b>	<b>8,051</b>
<b>Total assets</b>	<b>6,950</b>	<b>10,875</b>	<b>11,903</b>	<b>13,444</b>	<b>15,458</b>
Accounts payable and other current liabilities	1,691	1,995	2,471	2,475	3,113
Income taxes payable	45	72	54	104	72
<b>Current liabilities</b>	<b>1,736</b>	<b>2,067</b>	<b>2,525</b>	<b>2,579</b>	<b>3,185</b>
Non-current operating lease liabilities	1,803	1,915	2,085	2,418	2,837
Non-current finance lease obligations	26	28	26	27	27
Others	210	394	320	308	341
<b>Non-current liabilities</b>	<b>2,039</b>	<b>2,337</b>	<b>2,431</b>	<b>2,752</b>	<b>3,204</b>
Shareholders' capital	3,077	6,206	6,655	7,785	8,698
MI	98	253	280	315	359
<b>Total equity</b>	<b>3,175</b>	<b>6,459</b>	<b>6,935</b>	<b>8,100</b>	<b>9,057</b>
<b>Total liabilities and equity</b>	<b>6,950</b>	<b>10,875</b>	<b>11,903</b>	<b>13,444</b>	<b>15,458</b>

Source(s): The Group, ABCI Securities estimates

**Consolidated cash flow statement**

FY ended Dec 31 (US\$ mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net profit	743	813	895	1,113	1,254
Depreciation and amortization	767	818	921	1,015	1,129
Change in working capital	82	52	501	(230)	632
Others	(407)	(569)	(78)	44	(76)
<b>Cash flow from operating activities</b>	<b>1,185</b>	<b>1,114</b>	<b>2,238</b>	<b>1,942</b>	<b>2,939</b>
Capital spending	(435)	(419)	(594)	(600)	(671)
Others	(475)	(2,690)	(67)	(64)	(61)
<b>Cash flow from investing activities</b>	<b>(910)</b>	<b>(3,109)</b>	<b>(661)</b>	<b>(664)</b>	<b>(731)</b>
Share issuance - HK	0	2,195	0	0	0
Cash dividend	(181)	(95)	(201)	(201)	(201)
Others	(299)	(42)	(1,065)	(583)	(744)
<b>Cash flow from financing activities</b>	<b>(480)</b>	<b>2,058</b>	<b>(1,266)</b>	<b>(784)</b>	<b>(945)</b>
Effect of foreign exchange rate changes	(6)	40	(25)	(13)	(53)
<b>Net change in cash, cash equivalent, and restricted cash</b>	<b>(211)</b>	<b>103</b>	<b>286</b>	<b>482</b>	<b>1,209</b>
<b>Cash, cash equivalent, and restricted cash - end</b>	<b>1,055</b>	<b>1,158</b>	<b>1,444</b>	<b>1,926</b>	<b>3,135</b>

Source(s): The Group, ABCI Securities estimates

**Key operating and financial ratios**

FY ended Dec 31	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Growth (YoY %)</b>					
Net revenue	4.3	(5.8)	19.3	12.5	12.7
Restaurant profit	5.6	(13.3)	20.2	20.8	13.9
Operating profit	(4.3)	6.7	14.7	21.8	12.8
Net profit (to shareholders of the Company)	0.7	10.0	10.7	24.2	12.3
Non-GAAP operating profit	6.7	2.5	13.7	24.1	11.7
Non-GAAP net profit	20.3	17.7	0.2	29.9	12.7
<b>Profitability ratios (%)</b>					
Restaurant margin	16.0	14.9	15.0	16.1	16.2
OPM	11.4	11.6	11.2	12.1	12.1
NPM (to shareholders of the Company)	8.1	9.5	8.8	9.7	9.7
Non-GAAP OPM	10.4	11.3	10.8	11.9	11.8
Non-GAAP NPM	8.3	10.4	8.7	10.1	10.1
<b>Return ratios (%)</b>					
ROAA	12.9	9.1	7.9	8.8	8.7
ROAE	24.0	16.9	13.5	14.9	14.7
<b>Liquidity ratio (x)</b>					
Current ratio	1.3	2.4	2.1	2.4	2.3
Quick ratio	1.1	2.2	1.9	2.2	2.2
Cash ratio	0.6	0.6	0.6	0.7	1.0
<b>Working capital (days)</b>					
Receivable turnover	3.5	4.1	3.7	3.8	3.9
Inventory turnover	41.5	49.8	43.0	44.6	46.2
Payable turnover	45.8	44.6	45.6	45.4	45.1
CCC	(0.8)	9.3	1.1	3.0	4.9
<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	(32.9)	(17.9)	(20.7)	(23.7)	(34.5)
Net debt/(cash) to Total assets	(15.1)	(10.6)	(12.1)	(14.3)	(20.2)

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) Non-GAAP measures exclude the impact of share-based compensation expenses on operating costs and expenses; 5) 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; 6) 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; 7) 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

Source(s): The Group, ABCI Securities estimates

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Rating	Definition
Buy	Stock return $\geq$ Market return rate ( $\sim 10\%$ )
Hold	- Market return ( $\sim 10\%$ ) $\leq$ Stock return $<$ Market return rate ( $+ \sim 10\%$ )
Sell	Stock return $<$ - Market return ( $\sim 10\%$ )

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

**Tel:** (852) 2868 2183