

Yum China (YUMC US / 9987HK)

4Q20 net revenue grew 11% YoY

- 4Q20 revenue was up 11% YoY, while net revenue of KFC/Pizza Hut grew 14.9%/ 2.6% YoY; impacted by COVID-19 outbreak, FY20 net revenue declined by 6% YoY; the figures in KFC and Pizza Hut were down 3.6% /15.8% YoY
- Restaurant margin was 15.1% in 4Q20 vs. 12.4% in 4Q19. 4Q20 restaurant margins of KFC/ Pizza Hut rose to 16.8%/10.4% from 14.5%/ 6.7% in 4Q19; overall, COVID-19 outbreak weighed on FY20 margins
- Expect FY20-23E revenue CAGR at 14.8%
- Maintain **BUY**; current TP represents 32.87x/26.46x 21E/22E P/E, or 4.29x/3.66x 21E/22E P/B

Growth momentum continued to recover. 4Q20 net revenue grew 11% YoY vs. 1.3% YoY in 3Q20 or 6.0% YoY in 4Q19. 4Q20 net revenue of KFC/Pizza Hut was up 14.9%/2.6% YoY. FY20 net revenue was down by 6% YoY mainly due to COVID-19-related disruptions in 1H20; FY20 net revenue of KFC/Pizza Hut was down 3.6% YoY /15.8% YoY. The no. of stores grew by 1,165 (12.7% YoY) in FY20, driving up the total no. to 10,506 as of end-FY20.

4Q20 margins further improved. Restaurant margin was 15.1% in 4Q20 vs. 12.4% in 4Q19. Restaurant margins of KFC/Pizza Hut improved from 14.5%/6.7% in 4Q19 to 16.8%/10.4% in 4Q20. The COVID-19 outbreak negatively impacted the full-year margins. FY20 restaurant margin was 14.9% vs. 16.0% in FY19. Restaurant margins of KFC /Pizza Hut declined by 1.5ppt /0.6ppt to 16.3%/10.5%. However, FY20 OPM and NPM (to shareholders of the Company) were 11.6% and 9.5% vs. 11.4% and 8.1%, which can be attributed to government's support measures, rental relief, and higher labor productivity.

Maintain BUY, TP at US\$ 73.1/HK\$ 567.0. Regional COVID-19 outbreaks in China may slow down economic activities in 1Q21, but we expect the Group could manage skillfully with the experience in 2020. We expect FY20-23E revenue CAGR to be 14.8%, supported by 17.1%/6.9% CAGRs for KFC /Pizza Hut. Restaurant margin, OPM, and NPM (to shareholders of the Company) would increase from 14.9%, 11.6%, and 9.5% in FY20 to 16.2%, 12.1% and 9.7% in FY23E. Maintain **BUY**. We revise up TP since we roll over our forecast period by a year in the DCF model. 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) Cost risk; 5) Concentration risk; 6) Seasonality risk; 7) Non-GAAP financial metrics; 8) EPS dilution.

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) ⁽¹⁾	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	30.37	28.55	27.72	22.31	19.88
P/E (x) – HK	30.44	28.62	27.78	22.37	19.92
P/B (x)– US	7.03	3.61	3.61	3.09	2.77
P/B (x) – HK	7.05	3.62	3.62	3.10	2.77
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

Feb 8, 2021

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

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Price (US/HK)	US\$ 57.39/HK\$ 446.0
Est. price return (US/HK)	27.43%/27.12%
Est. dividend yield (US/HK)	0.84%/0.83%
Est. total return (US/HK)	28.27%/27.95%
Previous Rating&	BUY;
TP (US/HK)	US\$ 71.8/HK\$ 556.8
Previous Report Date	Nov 20, 2020

Source(s): Bloomberg, ABCI Securities estimate

Key Data

52Wk H/L (US\$) (US shr)	61.18/38.33
52Wk H/L (HK\$) (HK shr)	482.4/385.6
Total issued shares (mn)	419
Issued US shr (mn)	377
Issued HK shr(mn)	42
US-shr market cap (US\$ mn)	21,647
HK-shr market cap (HK\$ mn)	18,650
3-mth avg daily turnover (US\$ mn) (US shr)	115.66
Avg daily turnover since IPO (HK\$ mn) (HK shr)	98.32
Major shareholder(s) (%):	
Invesco	9.87

Source(s): Bloomberg, ABCI Securities

Price performance – US (%)

	Absolute	Relative*
1-mth	(4.14)	(5.84)
3-mth	0.53	(10.65)
6-mth	7.79	(9.11)

*Relative to S&P 500 Index

Source(s): Bloomberg, ABCI Securities

Price performance – HK (%)

	Absolute	Relative*
1-mth	(2.28)	(7.45)
3-mth	3.68	(10.47)
6-mth	N/A	N/A

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

Note:

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

2) US\$/HK\$= 7.7526;

3) Market data as of Feb 8, 2021

Exhibit 1: Changes in assumptions and valuations

As of Dec 31	Current report		Previous report		Rationale
	FY21E	FY22E	FY21E	FY22E	
Assumptions					
D/E (%)	0	0	0	0	N/A
D/A (%)	0	0	0	0	
Tax rate (%)	26.5	26.5	25.1	24.6	Adjusted based on FY20 rate
Net revenue growth (YoY %)	19.3	12.5	16.4	14.0	Adjusted based on FY20 results
Valuations					
TP (US\$)	73.1		71.8		Increase in TP due to the rollover of DCF forecast period and upward adjustment on growth forecast
TP (HK\$)	567.0		556.8		
P/E (x)	32.87	26.46	36.16	27.94	
P/B (x)	4.29	3.66	4.57	4.04	

Note: Previous report was published on Nov 20, 2020

Source(s): ABCI Securities estimates

Exhibit 2: Changes in major forecasts

As of Dec 31	Current report		Previous report		Change (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Net revenue (US\$ mn)	9,859	11,091	9,495	10,822	3.8	2.5
Net profit (to shareholders of the Company) (US\$ mn)	868	1,078	832	1076	4.3	0.2
EPS (US\$)	2.07	2.57	1.99	2.57	4.2	0.2

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
Revenue	8,776	8,263	9,859	11,091	12,500
- 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)
Restaurant profit	1,266	1,098	1,320	1,594	1,816
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
Operating profit	901	961	1,102	1,342	1,514
Others	102	147	116	173	192
Pretax profit	1,003	1,108	1,218	1,515	1,706
Tax	(260)	(295)	(323)	(402)	(452)
Net profit	743	813	895	1,113	1,254
- Owners	713	784	868	1,078	1,210
- MI	30	29	27	35	44
Cash Dividend	181	94	201	201	201
EPS (US\$)					
- Basic	1.89	2.01	2.07	2.57	2.89
- Diluted	1.84	1.95	2.02	2.51	2.81
Cash DPS (US\$)	0.48	0.24	0.48	0.48	0.48

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
Current assets	2,259	4,936	5,281	6,093	7,407
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
Non-current assets	4,691	5,939	6,622	7,351	8,051
Total assets	6,950	10,875	11,903	13,444	15,458
Accounts payable and other current liabilities	1,691	1,995	2,471	2,475	3,113
Income taxes payable	45	72	54	104	72
Current liabilities	1,736	2,067	2,525	2,579	3,185
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
Non-current liabilities	2,039	2,337	2,431	2,752	3,204
Shareholders' capital	3,077	6,206	6,655	7,785	8,698
MI	98	253	280	315	359
Total equity	3,175	6,459	6,935	8,100	9,057
Total liabilities and equity	6,950	10,875	11,903	13,444	15,458

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)
Cash flow from operating activities	1,185	1,114	2,238	1,942	2,939
Capital spending	(435)	(419)	(594)	(600)	(671)
Others	(475)	(2,690)	(67)	(64)	(61)
Cash flow from investing activities	(910)	(3,109)	(661)	(664)	(731)
Share issuance - HK	0	2,195	0	0	0
Cash dividend	(181)	(95)	(201)	(201)	(201)
Others	(299)	(42)	(1,065)	(583)	(744)
Cash flow from financing activities	(480)	2,058	(1,266)	(784)	(945)
Effect of foreign exchange rate changes	(6)	40	(25)	(13)	(53)
Net change in cash, cash equivalent, and restricted cash	(211)	103	286	482	1,209
cash, cash equivalent, and restricted cash - end	1,055	1,158	1,444	1,926	3,135

Source(s): The Group, ABCI Securities estimates

Key operating and financial ratios

FY ended Dec 31	FY19A	FY20A	FY21E	FY22E	FY23E
Growth (YoY %)					
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
Profitability ratios (%)					
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
Return ratios (%)					
ROAA	12.9	9.1	7.9	8.8	8.7
ROAE	24.0	16.9	13.5	14.9	14.7
Liquidity ratio (x)					
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
Working capital (days)					
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
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	(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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