

Yum! Brands, Inc.(YUM)

\$93.93 (As of 08/19/20)

Price Target (6-12 Months): **\$99.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/25/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: D

Growth: C

Momentum: C

Summary

Yum! Brands' shares have underperformed the industry so far this year. The dismal performance can primarily attributed to the coronavirus pandemic. Due to the same, the company has also suspended its share repurchase program. It reported second-quarter 2020 results, wherein both earnings and revenues surpassed the Zacks Consensus Estimate. However, both the metrics declined year over year. Moreover, Yum! Brands has been witnessing declining revenues at its Pizza Hut division. However, continuous focus on digitization, delivery services and global expansion is likely to aid the company in the days ahead. Moreover, its partnership with online food delivery platform Grubhub is likely to bolster online sales and delivery from its restaurants. Notably, earnings estimates for 2020 have increased over the past 30 days.

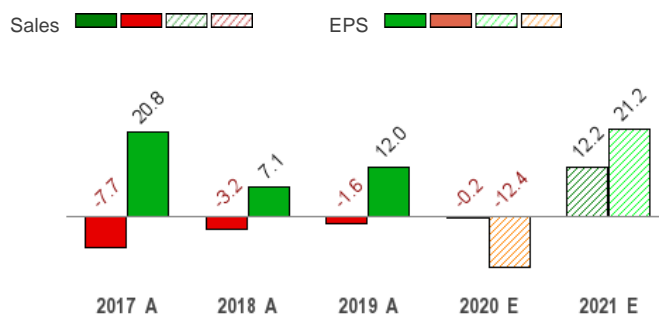
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$119.59 - \$54.95
20 Day Average Volume (sh)	1,595,121
Market Cap	\$28.3 B
YTD Price Change	-6.8%
Beta	0.95
Dividend / Div Yld	\$1.88 / 2.0%
Industry	Retail - Restaurants
Zacks Industry Rank	Top 48% (120 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	57.7%
Last Sales Surprise	2.6%
EPS F1 Est- 4 week change	11.1%
Expected Report Date	11/04/2020
Earnings ESP	0.0%
P/E TTM	28.8
P/E F1	30.2
PEG F1	2.5
P/S TTM	5.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,450 E	1,470 E	1,547 E	1,824 E	6,267 E
2020	1,263 A	1,198 A	1,433 E	1,727 E	5,584 E
2019	1,254 A	1,310 A	1,339 A	1,694 A	5,597 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.80 E	\$0.89 E	\$0.98 E	\$1.12 E	\$3.77 E
2020	\$0.64 A	\$0.82 A	\$0.78 E	\$0.96 E	\$3.11 E
2019	\$0.82 A	\$0.93 A	\$0.80 A	\$1.00 A	\$3.55 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/19/2020. The reports text is as of 08/20/2020.

Overview

Louisville, KY-based YUM! Brands Inc. – formerly Tricon Global Restaurants, Inc. – had spun off from PepsiCo in October 1997. YUM! Brands is the global leader in multi-branding and offers consumers more choice and convenience at one outlet. The company presently reports through four segments – KFC (44.8% of total revenues in first-quarter 2020), Pizza Hut (18.6%), Taco Bell (35.9%) and Habit Burger Grill (0.7%). Notably, Yum! Brands now owns, operates and franchises over 50,000 restaurants in more than 150 countries and territories. As of Mar 31, 2020, the company's 98% of units were operated by independent franchisees or licensees under the terms of franchise or license agreements.

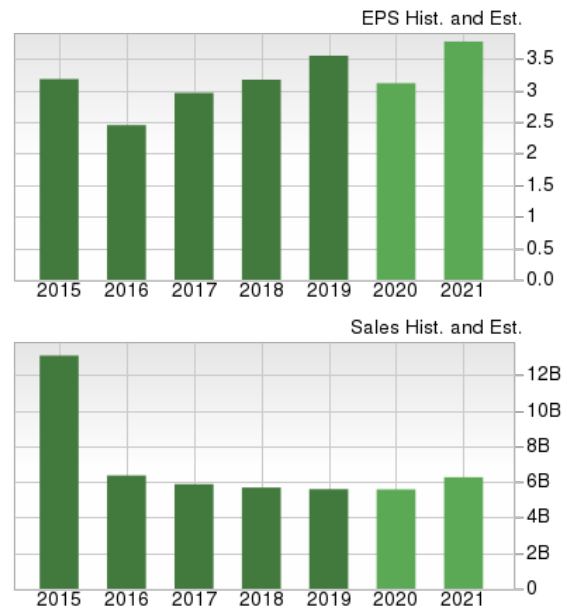
The Company's KFC, Pizza Hut and Taco Bell brands are global leaders of the chicken, pizza and Mexican-style food categories, respectively. On Mar 18, 2020, the company acquired Habit Burger Grill - a fast-casual restaurant concept specializing in made-to-order chargrilled burgers, sandwiches and more.

The company exercises store-level franchise and master franchise programs to grow its businesses. Nearly 30% of its franchised units operate under master franchise programs. The remaining franchised units operate under store-level franchise agreement.

On Oct 31, 2016, Yum! Brands' completed the spin-off of the China business into an independent, publicly-traded company. Yum China Holdings began trading as an independent company, effective Nov 1, 2016, on the New York Stock Exchange (NYSE), under the ticker symbol "YUMC".

In February 2018, Yum! Brands announced a partnership with online food delivery platform Grubhub, to enhance online sales and delivery from its restaurants. As part of the deal, Yum! Brands will acquire \$200 million of Grubhub stock. The proceeds are used by Grubhub to speed up the expansion of its delivery capacity.

Yum! Brands was 98% franchised by the end of 2018. The company will have the provision to triple its unit count in the long term, with strong growth from emerging markets.



Reasons To Buy:

- ▲ **Strong Digital & Delivery Services to Enhance Guest Experience:** The digital wave has hit the U.S. fast-casual restaurant sector. More and more restaurants are deploying technology to enhance guest experience. Yum! Brands is also not far behind in the race as the company is continuing the transformation process toward a single point-of-sale system in the United States. Further, it updated its mobile app and Hut Rewards. It also has more than 12 million active users in the loyalty program.

Yum! Brands' partnership with online food delivery platform Grubhub will enhance online sales and delivery from its restaurants. Additionally, the company implemented various digital features in mobile and online platforms across all brand segments to enhance guest experience. The company has also been working toward making its delivery services faster and the results have been positive so far. At the end of second-quarter 2020, the company had more than 34,000 restaurants offering delivery globally, up 13% year over year. The company's digital sales mix has increased to more than 30% of system sales.

- ▲ **Refranchising Strategy Safeguards Earnings:** Yum! Brands has adopted a de-risking strategy by reducing its ownership of restaurants through refranchising. In fact, the China division's spin-off has largely made Yum! Brands a more asset-light company, as many company-owned restaurants have been in the Chinese market. We note that refranchising a large portion of the system reduces the company's capital requirements and facilitates earnings per share growth and ROE expansion. Alongside, free cash flow will continue to grow, facilitating reinvestments to increase brand recognition and shareholder return. Remarkably, this shift to refranchising has substantially benefited the company's operating margin over the years. Thus, Yum! Brands expects to become a "pure play" franchisor with more stable earnings, higher profit margins, lower capital requirements and stronger cash flow conversion. Moreover, since a major portion of its business is refranchised, Yum! Brands will be less affected by food inflation than most of its peers.

- ▲ **Increased Efficiency & Unit Growth:** Yum! Brands' aims to revamp financial profile. This, in turn, will improve efficiency of its organization and cost structure globally. It believes that a "slimmer Yum Brands" would lead to efficiency gains.

Considering its existing footprint of 50,000 restaurants worldwide, YUM! Brands believes it can roughly triple its current global presence over the long term. During the first and second quarter of 2020, the company opened 515 and 328 gross new restaurants, respectively. During the second quarter, the company opened restaurants in China, Asia, the United States, Russia and Thailand. Moreover, master franchise agreements in Brazil (Taco Bell), Spain (Taco Bell), and Russia (Pizza Hut), and the international growth alliance with Telepizza to accelerate the development of Pizza Hut in key European markets as well as consolidate franchisees in Latin America and the Caribbean will drive growth.

- ▲ **Taco Bells Comps Trends Positive:** Taco Bells that witnessed 8% decline in same store sales is now witnessing positive trend. At the end of second-quarter, more than 97% of the company's Taco Bells units were open. Due to closure of dining rooms, company and franchise partners doubled its operations as Taco Bell served an additional 4.8 million cars through our drive-thrus.
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Yum! Brands' strategic transformation plan to drive growth, efforts to boost the domestic business through various digital initiatives and refranchising efforts bode well.

Reasons To Sell:

- ▼ **Coronavirus Impact:** The coronavirus pandemic affected the company's operations in second-quarter 2020. Due to the crisis, the company and its franchisees experienced store closures and instances of reduced store-level operations, including lesser operating hours and dining-room closures. Moreover, restaurant traffic has been significantly impacted due to the social-distancing protocols. As a result, worldwide same-store sales declined 15% during the second quarter.
- ▼ **Dismal Performance at Pizza Hut:** Despite effective innovation across products, marketing and promotions, Pizza Hut sales trend has been choppy in the recent quarter. In first and second-quarter 2020, Pizza Hut same-store sales declined 11% and 9%, respectively. Notably, comps were up 2% in second-quarter 2019. YUM! Brands is focusing on transforming its Pizza Hut business to a modern delivery asset base in the United States. It is also restructuring and upgrading franchisee base. The company believes that the choppy sales trend will continue through 2020.
- ▼ **High Debt a Concern:** A strong balance sheet will help a company tide over the ongoing crisis. At the end of Jun 30, 2020, the company's long-term debt stood at \$11.3 billion, compared with \$11.1 billion at Mar 31, 2020. As a result, the company's debt-to-capitalization was 326.6% compared with the industry's 125.5%. Moreover, the company ended second-quarter 2020 with cash and cash equivalent of \$1.2 billion, which may not be enough to manage the high debt level.
- ▼ **High Costs:** Increase in the cost of employee wages, benefits and insurance, and other operating costs such as rent and energy costs led to significant pressure on the company's margins. A competitive retail environment also put pressure on the restaurants' costs. The company is also susceptible to profit margin pressure owing to relentless expansion. In second-quarter 2020, the company's restaurant expenses amounted to \$898 million compared with \$839 million in the year-ago quarter.
- ▼ **Industry Susceptible to Consumer Discretionary Spending:** Yum Brands operates in the retail restaurant space that is highly dependent on consumer discretionary spending. Consumers' propensity to spend largely depends on the overall macroeconomic scenario. Although higher disposable income and increased wages are favoring the industry right now, it can change with the slightest disruption in the economy. The company, therefore, is highly vulnerable to the inconsistent nature of consumer discretionary spending. If it does not make pragmatic use of advanced technologies to innovate across value chains, it has high chances of fading out like many other restaurant retailers.

Yum! Brands have been facing declining revenues at its Pizza Hut division. The coronavirus pandemic continues to hurt the company.

Last Earnings Report

YUM! Brands Q2 Earnings & Revenues Surpass Estimates

YUM! Brands reported strong second-quarter 2020 results, wherein both earnings and revenues surpassed the respective Zacks Consensus Estimate. However, both the metrics declined year over year.

Results in the quarter were impacted by the coronavirus pandemic. However, strong digital sales, and the company capabilities to adjust operations, menu options and marketing across the globe helped it amid the challenging scenario.

The company's adjusted earnings of 82 cents beat the Zacks Consensus Estimate of 52 cents. In the prior-year quarter, the company had reported adjusted earnings of 93 cents.

YUM! Brands' total revenues of \$1,198 million surpassed the consensus estimate of \$1,168 million. However, the top line declined 9% year over year. The downside can be attributed to decreased sales of franchise and property revenues, and franchise contributions for advertising and other services.

Worldwide system sales — excluding foreign currency translation — declined 12% year over year, with KFC, Pizza Hut and Taco Bell falling 18%, 10% and 6%, respectively.

Divisional Performance

YUM! Brands primarily reports results under three divisions — KFC, Pizza Hut and Taco Bell.

For second-quarter 2020, revenues from KFC totaled \$409 million, down 30% year over year. Comps at this division declined 21% against the year-ago quarter's growth of 6%.

This segment's operating margin fell 730 basis points (bps) year over year to 37.4% primarily due to lower same-store sales, high bad debt expenses and decline in company restaurant margins owing to the pandemic, partially offset by net new unit growth

In the quarter under review, KFC Division opened 234 gross new restaurants.

At Pizza Hut, revenues amounted to \$235 million, down 4% on a year-over-year basis. Comps declined 9% in the reported quarter. Notably, comps were up 2% in second-quarter 2019.

The segment's operating margin was down 190 bps year over year to 36.8% owing to lower comps, which was marginally overshadowed by U.S. franchise bad debt recoveries.

Pizza Hut Division opened 70 gross new restaurants in the second quarter.

Taco Bell's revenues were \$449 million, down 7% from the year-ago quarter. Comps decreased 8% in the reported quarter compared with the year-ago quarter's growth of 7%. Its operating margin was up 120 bps year over year to 34.4%. It was primarily driven by lower general and administrative, and franchise and property expenses in the reported quarter.

Taco Bell recorded 22 gross new restaurants openings during the quarter.

Other Financial Details

Cash and cash equivalents as of Jun 30, 2020, totaled \$1,243 million compared with \$605 million on Dec 31, 2019. Long-term debt at the end of the reported quarter was \$11,252 million compared with \$10,131 million at 2019-end.

Quarter Ending 06/2020

Report Date	Jul 30, 2020
Sales Surprise	2.61%
EPS Surprise	57.69%
Quarterly EPS	0.82
Annual EPS (TTM)	3.26

Recent News

Yum! Brands Provides Business Update Amid Coronavirus Pandemic – Jun 10, 2020

Yum! Brands announced an intra-quarter business update, including same-store sales, for the period ended May 31. Although the business has improved meaningfully in the recent weeks, the COVID-19 pandemic is still a major hurdle for the company as it continues to experience temporary restaurant closures in many markets across the world.

Yum! Brands Announces Measures to Combat Coronavirus Crisis – Mar 25, 2020

Yum! Brands is leaving no stone unturned to fight the coronavirus pandemic. The company has been taking several measures to combat the deadly virus. The company is also focusing on ensuring the safety of food items by minimizing contact at KFC, Pizza Hut, Taco Bell and The Habit Burger Grill.

Valuation

Yum! Brands shares are down 6.8% year-to-date and 19.9% in the trailing 12-month period. Stocks in the Zacks sub-industry are down by 0.4%, while the Zacks Retail-Wholesale sector are up by 30.8% in the year-to-date period. Over the past year, the Zacks sub-industry was down by 8.23%, while sector was up by 38.9%.

The S&P 500 index is up 4.7% in the year-to-date period and by 15.6% in the past year.

The stock is currently trading at 26.59X forward 12-month earnings, which compares to 31.57X for the Zacks sub-industry, 33.8X for the Zacks sector and 22.78X for the S&P 500 index.

Over the past five years, the stock has traded as high as 30.54X and as low as 14.1X, with a 5-year median of 23.89X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$99 price target reflects 28.04X forward 12-month earnings.

The table below shows summary valuation data for YUM

Valuation Multiples - YUM					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	26.59	31.57	33.8	22.78
	5-Year High	30.54	34.04	34.77	22.78
	5-Year Low	14.1	20.49	19.08	15.25
	5-Year Median	23.89	23.09	23.47	17.58
P/S F12M	Current	4.71	3.76	1.27	3.7
	5-Year High	6.62	3.93	1.27	3.7
	5-Year Low	1.65	2.81	0.82	2.53
	5-Year Median	4.76	3.32	0.97	3.05
P/CF	Current	23.71	31.9	14.89	15.77
	5-Year High	77.54	32.23	17.09	22.73
	5-Year Low	12.75	8.61	11.01	11.7
	5-Year Median	24.88	16.85	13.2	16.37

As of 08/19/2020

Industry Analysis Zacks Industry Rank: Top 48% (120 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Papa Johns International, Inc. (PZZA)	Outperform	1
Cracker Barrel Old Country Store, Inc. (CBRL)	Neutral	4
Dominos Pizza Inc (DPZ)	Neutral	3
JAKKS Pacific, Inc. (JAKK)	Neutral	3
McDonalds Corporation (MCD)	Neutral	3
Red Robin Gourmet Burgers, Inc. (RRGB)	Neutral	3
The Wendys Company (WEN)	Neutral	3
Yum China Holdings Inc. (YUMC)	Neutral	3

Industry Comparison Industry: Retail - Restaurants

	YUM	X Industry	S&P 500	DPZ	MCD	YUMC
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	C	-	-	B	F	B
Market Cap	28.31 B	474.45 M	23.61 B	16.30 B	155.90 B	20.59 B
# of Analysts	9	6	14	12	16	6
Dividend Yield	2.00%	0.00%	1.65%	0.75%	2.39%	0.66%
Value Score	D	-	-	D	D	C
Cash/Price	0.04	0.13	0.07	0.03	0.02	0.08
EV/EBITDA	19.44	13.02	13.36	28.85	18.57	13.21
PEG Ratio	2.47	4.43	2.99	2.38	4.64	4.96
Price/Book (P/B)	NA	2.20	3.16	NA	NA	6.28
Price/Cash Flow (P/CF)	23.26	8.52	12.71	36.37	20.73	17.74
P/E (F1)	30.20	37.54	21.82	33.02	35.64	47.14
Price/Sales (P/S)	5.15	0.83	2.47	4.33	8.10	2.57
Earnings Yield	3.31%	0.86%	4.37%	3.03%	2.81%	2.12%
Debt/Equity	-1.39	1.28	0.76	-1.32	-4.98	0.01
Cash Flow (\$/share)	4.04	1.81	6.94	11.39	10.11	3.08
Growth Score	C	-	-	A	D	A
Hist. EPS Growth (3-5 yrs)	0.02%	3.03%	10.44%	31.80%	10.16%	1.84%
Proj. EPS Growth (F1/F0)	-12.27%	-66.06%	-5.97%	31.07%	-25.02%	-38.39%
Curr. Cash Flow Growth	3.60%	3.07%	5.22%	9.16%	-0.99%	10.09%
Hist. Cash Flow Growth (3-5 yrs)	-6.71%	5.23%	8.52%	17.68%	1.88%	25.34%
Current Ratio	1.63	1.04	1.33	2.02	0.91	1.34
Debt/Capital	NA%	74.56%	44.50%	NA	NA	1.09%
Net Margin	18.78%	-0.23%	10.13%	12.11%	24.78%	6.33%
Return on Equity	-12.42%	-10.35%	14.67%	-14.01%	-52.78%	16.35%
Sales/Assets	0.97	0.87	0.51	2.73	0.40	1.18
Proj. Sales Growth (F1/F0)	-0.22%	-6.05%	-1.54%	11.91%	-9.63%	-9.32%
Momentum Score	C	-	-	C	C	B
Daily Price Chg	-1.02%	-0.54%	-0.38%	0.68%	-0.39%	-2.06%
1 Week Price Chg	2.01%	2.54%	1.09%	2.54%	1.19%	2.17%
4 Week Price Chg	0.33%	5.43%	2.23%	6.45%	5.48%	2.38%
12 Week Price Chg	4.09%	6.24%	6.91%	10.77%	11.61%	21.09%
52 Week Price Chg	-19.88%	-25.48%	2.28%	78.92%	-5.07%	20.74%
20 Day Average Volume	1,595,121	304,160	1,899,976	518,307	2,976,963	1,518,764
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	11.13%	4.67%	1.70%	1.74%	0.71%	3.73%
(F1) EPS Est 12 week change	11.27%	18.39%	3.08%	14.74%	6.24%	7.59%
(Q1) EPS Est Mthly Chg	6.79%	11.40%	0.83%	1.91%	7.81%	-12.50%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	C
Momentum Score	C
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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