

Yum! Brands, Inc.(YUM)

\$88.05 (As of 05/26/20)

Price Target (6-12 Months): **\$92.00**

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: B

Momentum: C

Summary

Yum Brands' shares have underperformed the industry in the past year. The company reported first-quarter 2020 results, wherein earnings met the Zacks Consensus Estimate while revenues beat the same. However, the bottom line declined 22%, while the top line rose 0.7% on a year-over-year basis. However, the company has been witnessing declining revenues at its Pizza Hut division. This along with decline in net new unit growth and low system sales has been affecting comps. Notably, earnings estimates for 2020 have declined over the past 30 days, depicting analyst concern regarding the stock's growth potential. However, continued focus on digitization, delivery services and global expansion are likely to aid the company in the upcoming period.

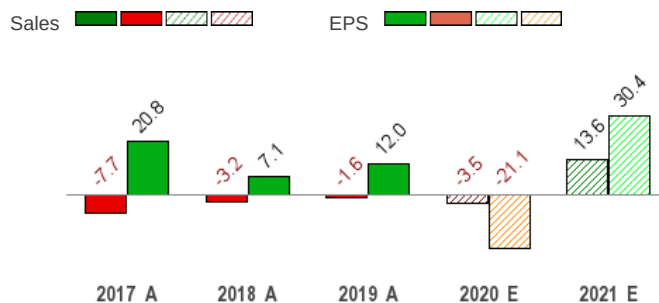
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$119.72 - \$54.95
20 Day Average Volume (sh)	2,271,813
Market Cap	\$26.5 B
YTD Price Change	-12.6%
Beta	0.95
Dividend / Div Yld	\$1.88 / 2.1%
Industry	Retail - Restaurants
Zacks Industry Rank	Top 50% (127 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	5.7%
EPS F1 Est- 4 week change	-4.0%
Expected Report Date	08/06/2020
Earnings ESP	-1.1%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,413 E	1,456 E	1,503 E	1,807 E	6,137 E
2020	1,263 A	1,151 E	1,352 E	1,683 E	5,403 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	\$0.78 E	\$0.91 E	\$0.95 E	\$1.11 E	\$3.65 E
2020	\$0.64 A	\$0.46 E	\$0.70 E	\$0.92 E	\$2.80 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.

P/E TTM	26.1
P/E F1	31.5
PEG F1	2.6
P/S TTM	4.7

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/26/2020. The reports text is as of 05/27/2020.

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.

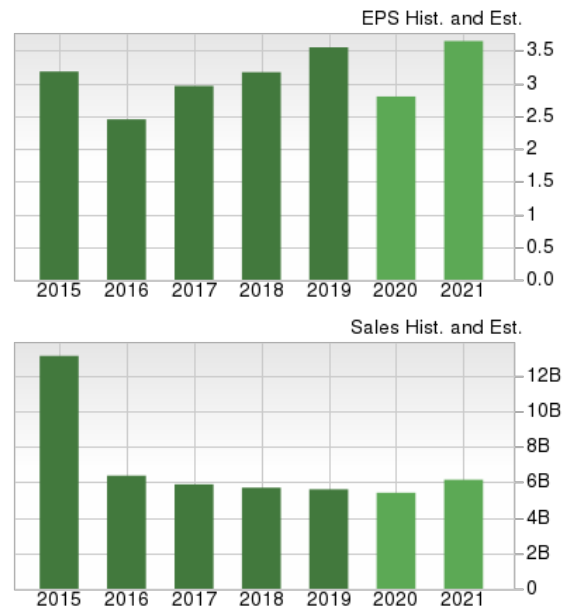
The Company's KFC, Pizza Hut and Taco Bell brands are global leaders of the chicken, pizza and Mexican-style food categories, respectively. On Mar 18, 2020, the company acquired Habit Burger Grill - a fast-casual restaurant concept specializing in made-to-order chargrilled burgers, sandwiches and more.

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 worked toward making its delivery services swifter and the results have been positive so far.

- ▲ **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 around the globe, YUM! Brands believes it can roughly triple its current global footprint over the long term. During the first quarter of 2020, the company opened 515 gross new restaurants and 65 restaurants on a net new basis. The company opened on an average of more than nine restaurants per day. 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.

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 the first quarter 2020. Due to the crisis, the company and its franchisees experienced significant store closures and instances of reduced store-level operations, including reduced operating hours and dining-room closures. Moreover, due to the social-distancing protocols, restaurant traffic has been significantly impacted. As a result, worldwide same-store sales declined 7% during the first quarter. As of May 5, 2020, approximately 9,500 restaurants were closed due to the outbreak. The company has also suspended its share repurchase program.
- ▼ **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-quarter 2020, Pizza Hut same-store sales declined 11%. Same-store sales were flat in the prior year quarter. 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 its 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 Mar 31, 2020, the company's long-term debt stood at \$11.1 billion, compared with \$10.1 billion at December-end. As a result, the company's debt-to-capitalization was 351.1% compared with the industry's 125.5%. Moreover, the company ended first-quarter 2020 with cash and cash equivalent of \$1.2 billion, which may not be enough to manage the high debt level.
- ▼ **High Costs:** An 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 first-quarter 2020, the company's restaurant expenses amounted to \$298 million compared with \$272 million reported 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. Decline in net new unit growth and low system sales have been affecting comps as well.

Last Earnings Report

YUM! Brands Q1 Earnings Meet Estimates, Decline Y/Y

YUM! Brands reported mixed first-quarter 2020 results, wherein earnings were on par with the Zacks Consensus Estimate, while revenues beat the same.

Earnings & Revenues

The company's adjusted earnings of 64 cents met the Zacks Consensus Estimate. In the prior-year quarter, the company had reported adjusted earnings of 82 cents.

YUM! Brands' total revenues of \$1,263 million rose 0.7% year over year and surpassed the consensus estimate of \$1,193 million. The upside can be attributed to increased sales as well as franchise and property revenues, and franchise contributions for advertising and other services.

Worldwide system sales — excluding foreign currency translation — declined 3% year over year, with KFC and Pizza Hut falling 2% and 9%, respectively. However, this was partially offset by 4% growth at Taco Bell.

The company also opened 65 net new units and acquired 276 Habit Burger Grill units, indicating net unit growth of 4%.

Divisional Performance

For the first quarter of 2020, revenues from KFC totaled \$566 million. Notably, it remained on par with the prior-year levels. Comps at this division declined 8% against the year-ago quarter's growth of 5%.

This segment's operating margin fell 200 basis points (bps) year over year to 39.7% primarily due to lower same-store sales and high bad debt expenses, partially offset by net new unit growth.

In the quarter under review, KFC Division opened 333 gross new restaurants.

At Pizza Hut, revenues amounted to \$235 million, down 3.3% on a year-over-year basis. Comps were down 11% in the reported quarter. Notably, comps were flat in first-quarter 2019.

The segment's operating margin was down 740 bps year over year to 32.7% owing to lower comps and higher bad debt expenses.

Pizza Hut Division opened 127 gross new restaurants in the first quarter.

Taco Bell's revenues were \$453 million, up 1.8% from the year-ago quarter. Comps rose 1% in the reported quarter compared with the year-ago quarter's growth of 4%. Its operating margin was up 70 bps year over year to 31.7%. It was primarily driven by lower general and administrative expenses in the quarter.

Taco Bell recorded 55 gross new restaurants openings during the quarter.

Other Financial Details

Cash and cash equivalents as of Mar 31, 2020, totaled \$1,154 million compared with \$605 million on Dec 31, 2019. Long-term debt at the end of the reported quarter was \$11,059 million compared with \$10,131 million at 2019-end.

Due to the coronavirus pandemic, the company has suspended its share repurchase programs.

Quarter Ending 03/2020

Report Date	Apr 29, 2020
Sales Surprise	5.74%
EPS Surprise	0.00%
Quarterly EPS	0.64
Annual EPS (TTM)	3.37

Recent News

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 12.6% year-to-date and 11.8% in the trailing 12-month period. Stocks in the Zacks sub-industry are down by 8.8%, while the Zacks Retail-Wholesale sector are up by 5.8% in the year-to-date period. Over the past year, the Zacks sub-industry is down by 3.9%, but sector is up by 18.9%.

The S&P 500 index is down 7% in the year-to-date period, but up 6.6% in the past year.

The stock is currently trading at 28.04X forward 12-month earnings, which compares to 33.58X for the Zacks sub-industry, 31.04X for the Zacks sector and 21.76X for the S&P 500 index.

Over the past five years, the stock has traded as high as 29.27X and as low as 14.1X, with a 5-year median of 23.77X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$92 price target reflects 29.29X 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	28.04	33.58	31.04	21.76
	5-Year High	29.27	33.58	31.04	21.76
	5-Year Low	14.1	20.49	19.07	15.23
	5-Year Median	23.77	23.09	23.24	17.49
P/S F12M	Current	4.65	3.6	1.06	3.37
	5-Year High	6.62	3.93	1.12	3.44
	5-Year Low	1.65	2.81	0.81	2.53
	5-Year Median	4.73	3.31	0.94	3.01
P/CF	Current	21.57	19.91	15.32	15.31
	5-Year High	77.54	20.59	15.46	22.72
	5-Year Low	12.75	8.61	10.84	11.69
	5-Year Median	24.88	16.84	12.97	16.36

As of 05/26/2020

Industry Analysis Zacks Industry Rank: Top 50% (127 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Cracker Barrel Old Country Store, Inc. (CBRL)	Neutral	3
Dominos Pizza Inc (DPZ)	Neutral	2
JAKKS Pacific, Inc. (JAKK)	Neutral	3
McDonalds Corporation (MCD)	Neutral	3
Papa Johns International, Inc. (PZZA)	Neutral	2
Red Robin Gourmet Burgers, Inc. (RRGB)	Neutral	3
The Wendys Company (WEN)	Neutral	3
Yum China Holdings Inc. (YUMC)	Neutral	2

Industry Comparison Industry: Retail - Restaurants				Industry Peers		
	YUM	X Industry	S&P 500	DPZ	MCD	YUMC
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	2	3	2
VGM Score	C	-	-	B	D	C
Market Cap	26.50 B	261.23 M	21.18 B	14.09 B	137.44 B	16.97 B
# of Analysts	9	6	14	12	16	6
Dividend Yield	2.14%	0.00%	2.03%	0.87%	2.70%	1.06%
Value Score	D	-	-	C	D	C
Cash/Price	0.04	0.11	0.06	0.03	0.04	0.09
EV/EBITDA	18.47	10.80	12.37	25.72	16.97	10.80
PEG Ratio	2.60	4.49	2.88	2.64	4.58	4.42
Price/Book (P/B)	NA	1.66	2.90	NA	NA	5.37
Price/Cash Flow (P/CF)	21.81	7.69	11.55	31.62	18.28	14.65
P/E (F1)	31.87	38.02	21.24	32.95	33.62	41.88
Price/Sales (P/S)	4.73	0.57	2.24	3.85	6.60	2.06
Earnings Yield	3.18%	0.54%	4.57%	3.03%	2.98%	2.40%
Debt/Equity	-1.34	1.09	0.76	-1.26	-5.44	0.01
Cash Flow (\$/share)	4.04	1.81	6.96	11.39	10.11	3.08
Growth Score	B	-	-	A	D	F
Hist. EPS Growth (3-5 yrs)	0.51%	6.19%	10.87%	31.51%	12.05%	5.56%
Proj. EPS Growth (F1/F0)	-21.16%	-91.16%	-10.31%	14.23%	-29.87%	-42.73%
Curr. Cash Flow Growth	3.60%	4.82%	5.46%	9.16%	-0.99%	10.09%
Hist. Cash Flow Growth (3-5 yrs)	-6.71%	6.26%	8.55%	17.68%	1.88%	25.34%
Current Ratio	1.33	0.77	1.29	1.76	1.89	1.38
Debt/Capital	NA%	68.47%	44.54%	NA	NA	0.79%
Net Margin	19.89%	3.60%	10.59%	11.75%	27.86%	6.72%
Return on Equity	-12.97%	2.29%	16.29%	-13.60%	-70.25%	17.46%
Sales/Assets	1.07	1.04	0.55	2.86	0.44	1.22
Proj. Sales Growth (F1/F0)	-3.47%	-9.92%	-2.34%	7.31%	-16.87%	-7.80%
Momentum Score	C	-	-	B	C	A
Daily Price Chg	0.92%	1.37%	2.82%	-3.21%	0.23%	3.35%
1 Week Price Chg	2.77%	6.10%	4.99%	-1.05%	6.10%	-7.47%
4 Week Price Chg	-0.25%	2.97%	3.55%	1.17%	-0.59%	-1.76%
12 Week Price Chg	-3.57%	-26.55%	-4.95%	6.09%	-7.35%	0.71%
52 Week Price Chg	-11.77%	-38.91%	-3.04%	28.29%	-6.02%	16.51%
20 Day Average Volume	2,271,813	389,904	2,429,758	1,254,753	3,880,969	2,727,404
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-3.97%	-3.24%	-2.27%	0.91%	-7.07%	39.83%
(F1) EPS Est 12 week change	-28.23%	-94.41%	-16.39%	0.59%	-35.61%	36.00%
(Q1) EPS Est Mthly Chg	14.68%	0.10%	-4.03%	0.19%	-12.37%	104.76%

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	B
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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