

Yum China (9987 HK)

Guidance was in-line but coffee will accelerate

Even though the long-term target of HSD-Double Digit operating profit growth was only in-line with our expectation, we remain positive on its mid-term growth, considering: 1) YUMC's superior leadership in digitalization (on store operation and supply chain management), 2) successful reform of Pizza Hut and speed up in expansion, and 3) solid expansion plan and partnership with LAVAZZA which helps YUMC tap into the huge coffee market in China. Maintain BUY and TP.

- Long-term guidance updated.** On the 2021 Investor Day, YUMC announced a new long-term guidance, consisting of HSD-Double Digit system sales/operating profit growth, vs last guidance of HSD system sales growth/ Double Digit operating profit growth back in 2019. It stays in line with our forecasts of 12% sales CAGR/ 15% operating profit CAGR during FY20-25E. YUMC also disclosed a capex plan of RMB 5-6.5bn in FY20-25E (vs RMB 2.2bn in FY15-20) and reiterated its long-term opening target of 20,000 stores.
- KFC to perform resiliently with rapid expansion.** KFC had shown superior resilience even during the COVID times, and we believe its sales CAGR will stay fast (~13% CAGR during FY20-25E), driven by: 1) more good food, as it will double down on beef burgers, coffee & tea products, as well as more regional items, 2) industry-leading digital and delivery experience, 3) faster store expansions and 4) further boost in store and supply chain efficiency.
- Pizza Hut will further improve its fundamentals and speed up expansion.** Reform of Pizza Hut was highly successful and we are convinced that rapid sales growth will continue (~12% CAGR during FY20-25E), thanks to: 1) product upgrades, in terms of variety and quality (more tasty pizza, steaks and more style desserts), 2) better price to quality (after previous ASP cut), 3) store revamps (50% were new or refurbished in past 3 years) and 4) acceleration in expansion, by opening more satellite stores which have a smaller size (lower capex) and better margin (low running costs but decent sales per store).
- Finally revealed the 1,000 stores target for LAVAZZA.** After years of experiments, YUMC finally took the step to scale up its coffee business. According to management, Coffii & JOY will target mostly young customers, while LAVAZZA will focus more on authentic coffee and Italian street food. LAVAZZA will have 1,000 stores by FY25E and Coffii & JOY will resume expansion in FY21E. If we assume RMB 4-5mn sales per store and 15-20% restaurant OP margin for LAVAZZA, it could contribute 3-5% of group's OP.
- Maintain BUY and maintain TP to HK\$ 532.66,** based on 30x FY22E P/E (unchanged). YUMC is trading at 24x FY22E P/E, not demanding vs HDL's 38x and JMJ's 37x, given a 15% EBIT CAGR in FY20-23E.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (USD mn)	8,776	8,263	9,873	11,233	12,412
YoY growth (%)	4.3	(5.8)	19.5	13.8	10.5
Net income (USD mn)	713	784	756	1,009	1,153
Diluted EPS (USD)	1.81	1.89	1.73	2.29	2.60
YoY growth (%)	1.8	4.5	(8.8)	32.8	13.6
Consensus EPS (USD)	n/a	n/a	1.94	2.31	2.67
P/E (x)	30.2	29.1	31.9	24.0	21.1
P/B (x)	6.5	3.8	3.5	3.1	2.8
Yield (%)	0.9	0.4	0.8	1.0	1.2
ROE (%)	22.5	13.0	11.2	13.3	13.5
Net gearing (%)		Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$532.66
(Previous TP)	HK\$532.66)
Up/Downside	+25.0%
Current Price	HK\$426.20

China Catering Sector

Walter Woo

(852) 3761 8776

walterwoo@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	179,381
Avg 3 mths t/o (HK\$ mn)	75.32
52w High/Low (HK\$)	544.0/385.6
Total Issued Shares (mn)	420.9

Source: Bloomberg

Shareholding Structure

Primavera Capital	5.7%
BlackRock	7.1%
Invesco	9.0%
Management	0.2%
Free Float	78.0%

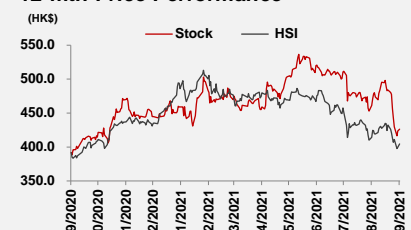
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-6.5%	-4.1%
3-mth	-18.5%	-4.8%
6-mth	-9.8%	7.5%
12-mth	9.2%	7.0%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: KPMG

Related Reports

- Yum China (9987 HK, BUY) – Another hit taken, but stay mid-term positive – 16 Sep 2021
- Yum China (9987 HK, BUY) – Robust Pizza Hut and accelerated expansion – 30 Jul 2021
- Yum China (9987 HK, BUY) - A good start in FY21E despite a few headwinds – 29 Apr 2021

Focus Charts

Figure 1: Long term guidance for Yum China Group

Long term target announced in	2021	2019
System sales growth	HSD to Double Digit	HSD
Operating profit growth	HSD to Double Digit	Double Digit
Restaurant margin	-	17%
EPS growth	HSD to Double Digit	-

Source: Company data, CMBIS estimates

Figure 2: Long term store guidance for Coffee



Make Coffee a Meaningful Part of Yum China!

Aiming to open 1,000 Lavazza stores by 2025

Resuming store expansion of COFFii & JOY

Source: Company data, CMBIS estimates

Figure 3: KFC's key growth drivers

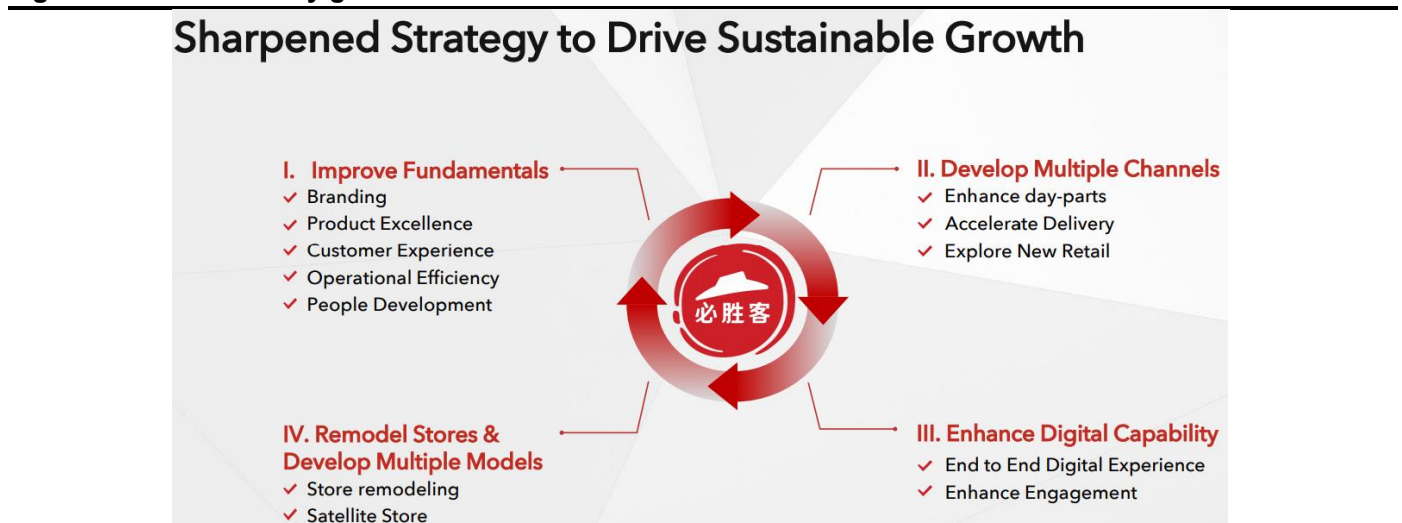


KFC's Key Growth Pillars

- Good Food
- Seamless Experience
- Store Expansion
- Operating Efficiency

Source: Company data, CMBIS estimates

Figure 4: Pizza Hut's key growth drivers



Sharpened Strategy to Drive Sustainable Growth

I. Improve Fundamentals

- ✓ Branding
- ✓ Product Excellence
- ✓ Customer Experience
- ✓ Operational Efficiency
- ✓ People Development

II. Develop Multiple Channels

- ✓ Enhance day-parts
- ✓ Accelerate Delivery
- ✓ Explore New Retail

III. Enhance Digital Capability

- ✓ End to End Digital Experience
- ✓ Enhance Engagement

IV. Remodel Stores & Develop Multiple Models

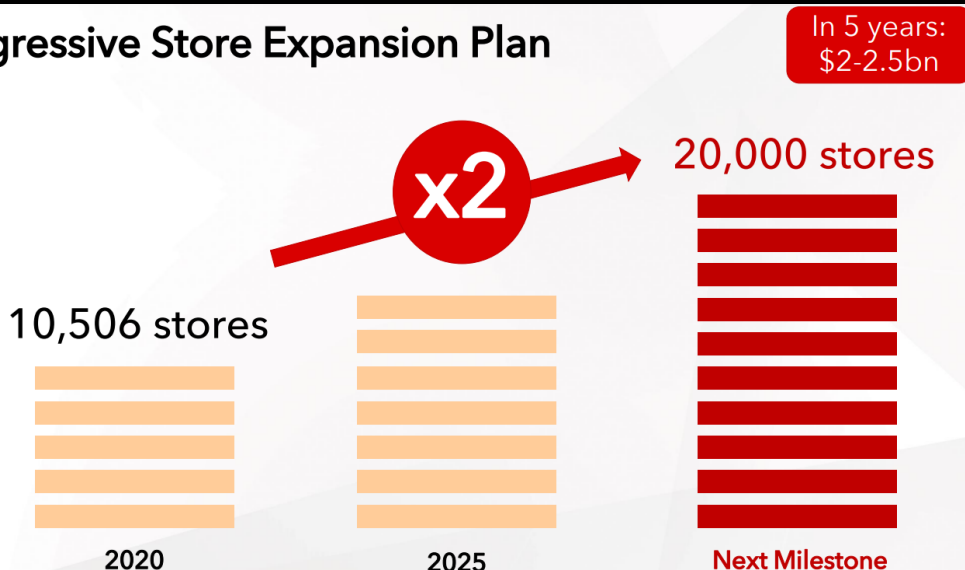
- ✓ Store remodeling
- ✓ Satellite Store

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Source: Company data, CMBIS estimates

Figure 5: Yum China’s long term store target

Aggressive Store Expansion Plan



Source: Company data, CMBIS estimates

Figure 6: LAVAZZA’s store format

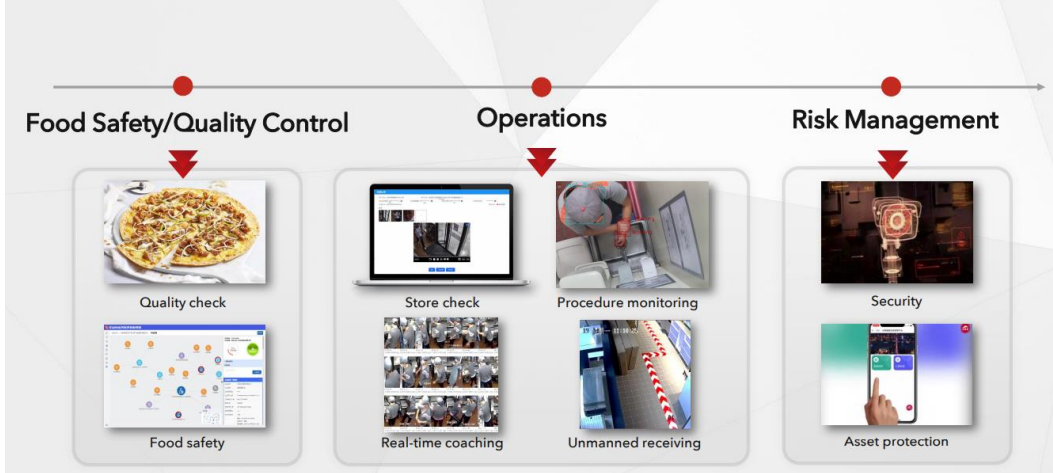
Accelerate Expansion With Multiple Store Formats

FLAGSHIP	NORMAL	SMALL
150-250 sqm High street, prime location	100-150 sqm Shopping mall	70-100 sqm Community and office

Source: Company data, CMBIS estimates

Figure 7: Digitalization thru automation, on quality control, operation and risk management

All-in-one Remote System a Core Element in Store Management



Source: Company data, CMBIS estimates

Figure 8: Digitalization thru automation, on quality control, operation and risk management

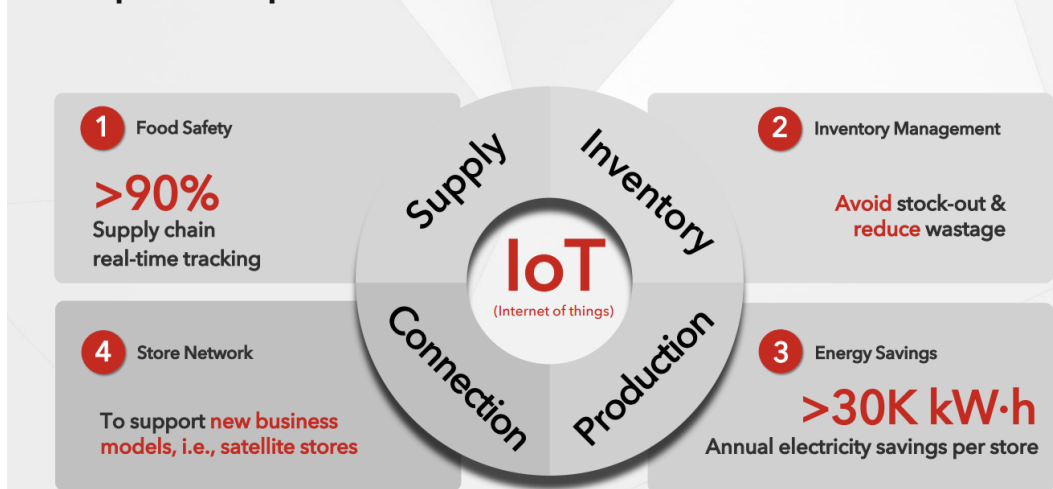
AI Enhances Forecasting and Labor Scheduling



Source: Company data, CMBIS estimates

Figure 9: Digitalization thru IoT, on food safety, inventory management, energy savings and store openings

IoT Improves Operational Excellence



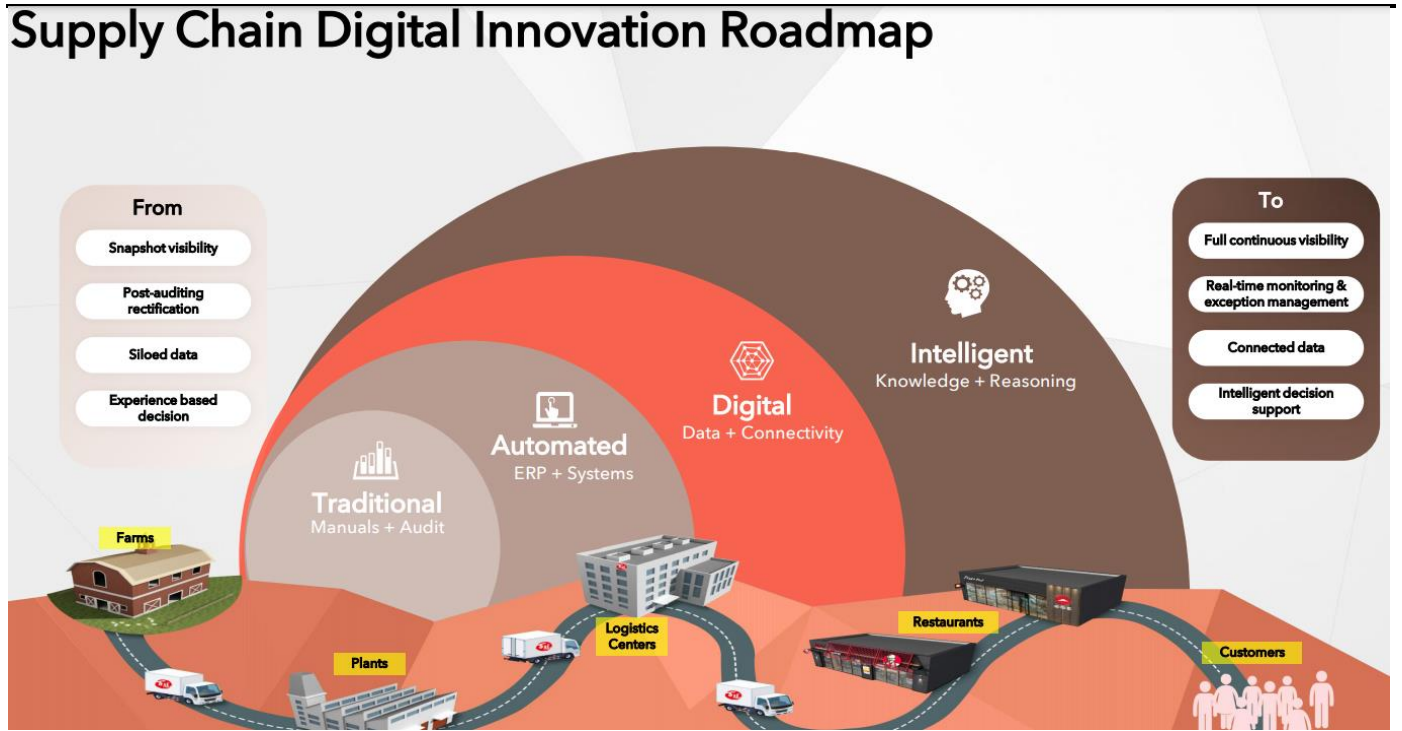
Source: Company data, CMBIS estimates

Figure 10: Digitalization thru Intelligent store, on food preparation



Source: Company data, CMBIS estimates

Figure 11: Digitalization and Innovation of the supply chain



Source: Company data, CMBIS estimates

Assumptions

Figure 12: 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	4,897	5,421	5,768
KFC - delivery sales	808	1,129	1,617	2,069	2,545	3,080
PH - eat in sales	1,611	1,527	1,146	1,388	1,536	1,658
PH- delivery sales	500	527	642	750	855	958
Others	614	682	721	769	876	947
Total	8,415	8,776	8,263	9,873	11,233	12,412
Sales by segment growth (%)						
KFC - eat in sales	9.2%	0.6%	-15.8%	18.4%	10.7%	6.4%
KFC - delivery sales	35.8%	39.7%	43.2%	28.0%	23.0%	21.0%
PH - eat in sales	-3.5%	-5.2%	-25.0%	21.2%	10.7%	8.0%
PH- delivery sales	18.1%	5.4%	21.7%	16.9%	14.0%	12.0%
Others	0.7%	11.1%	5.8%	6.6%	13.9%	8.2%
Total	8.3%	4.3%	-5.8%	19.5%	13.8%	10.5%
Sales network by brand						
KFC	5,910	6,534	7,166	8,071	8,761	9,341
Pizza Hut	2,240	2,281	2,355	2,545	2,685	2,825
Others	334	385	985	1,111	1,191	1,271
Total	8,484	9,200	10,506	11,727	12,637	13,437
Restaurant profit margin by brand						
KFC	17.3%	17.3%	15.8%	16.2%	17.1%	17.1%
Pizza hut	10.2%	11.1%	10.5%	13.6%	15.2%	16.3%
Others	0.0%	-0.4%	-0.4%	-0.2%	-0.2%	-0.2%
Total	15.7%	16.0%	14.8%	14.4%	15.4%	15.6%
Costs breakdown						
Food and paper/ sales	27.6%	28.2%	28.3%	28.2%	28.3%	28.5%
Payroll and employee benefits/ sales	20.4%	20.6%	20.9%	21.9%	21.3%	21.2%
Rental and other operating expenses/ sales	28.4%	27.0%	26.9%	26.4%	26.3%	26.4%
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%	6.4%	6.2%	5.9%
Effective tax rate	22.5%	25.9%	26.6%	26.0%	25.5%	25.0%
NP att. margin	8.4%	8.1%	9.5%	7.7%	9.0%	9.3%
NP att. growth (%)	77.9%	0.7%	10.0%	-3.6%	33.5%	14.3%

Source: Company data, CMBIS estimates

Valuation

Figure 13: Peers valuation table

Company	Ticker	Rating	12m TP (LC)	Price (LC)	Up/Down-side	Mkt. Cap (HK\$mn)	Year End	P/E (x)		P/B (x)		ROE (%)	3yrs PEG (x)	Yield (%)	
								FY1E	FY2E	FY1E	FY2E	FY1E	FY1E	FY1E	
Leading Greater China Catering															
Yum China	9987 HK	BUY	532.66	426.20	25%	179,381	Dec-20	31.9	24.0	3.5	3.1	17.0	2.8	0.8	
Jiumaojiu	9922 HK	BUY	30.47	23.15	32%	33,646	Dec-20	59.3	36.8	8.0	6.7	14.3	0.5	0.4	
Haidilao	6862 HK	BUY	34.06	30.55	11%	166,772	Dec-20	84.8	37.8	11.2	8.6	14.3	0.5	0.3	
Nayuki	2150 HK	BUY	17.10	13.40	28%	22,983	Dec-20	182.2	60.1	6.2	5.7	n/a	n/a	n/a	
Helens	9869 HK	NR	n/a	23.40	n/a	29,173	Dec-20	107.8	37.3	60.7	25.2	56.2	n/a	n/a	
Cafe De Coral	341 HK	BUY	19.05	14.20	34%	8,317	Mar-21	23.1	18.2	2.6	2.4	12.6	1.8	2.5	
Xiabuxiabu	520 HK	NR	n/a	7.73	n/a	8,391	Dec-20	30.0	14.7	2.8	2.4	9.6	0.0	1.1	
Yihai	1579 HK	BUY	108.52	41.30	163%	43,237	Dec-20	37.9	31.1	8.6	7.0	26.9	2.3	0.7	
Gourmet Master	2723 TT	NR	n/a	139.00	n/a	7,019	Dec-20	19.5	18.4	2.1	2.0	13.2	1.1	2.9	
								Avg.	64.0	30.9	11.7	7.0	20.5	1.3	1.3
								Med.	37.9	31.1	6.2	5.7	14.3	1.1	0.8
Other Greater China Catering															
Tai Hing	6811 HK	NR	n/a	1.65	n/a	1,656	Dec-20	9.4	8.0	1.5	1.4	14.3	0.3	7.0	
Ajisen China	538 HK	NR	n/a	1.41	n/a	1,539	Dec-20	n/a	n/a	n/a	n/a	2.6	n/a	n/a	
								Avg.	9.4	8.0	1.5	1.4	9.0	0.3	7.0
								Med.	9.4	8.0	1.5	1.4	8.4	0.3	7.0
Greater China Catering															
								Avg.	58.6	28.6	10.7	6.4	16.7	1.2	2.0
								Med.	34.9	27.5	4.8	4.4	14.3	0.8	0.9
International Catering															
Yum! Brands	YUM US	NR	n/a	125.55	n/a	288,982	Dec-20	27.7	25.3	n/a	n/a	n/a	1.2	1.5	
Mcdonald'S	MCD US	NR	n/a	243.13	n/a	1,413,589	Dec-20	26.9	24.7	n/a	n/a	n/a	1.4	2.1	
Starbucks Corp	SBUX US	NR	n/a	113.07	n/a	1,037,956	Sep-20	35.0	30.3	n/a	n/a	n/a	0.5	1.7	
Rest' Brands	QSR US	NR	n/a	62.82	n/a	223,388	Dec-20	22.5	19.7	8.8	9.6	27.8	0.7	3.4	
Chipotle	CMG US	NR	n/a	1935.0	n/a	423,251	Dec-20	75.5	57.7	24.0	19.8	30.2	1.5	0.0	
Darden	DRI US	NR	n/a	150.32	n/a	152,514	May-21	20.2	18.0	6.5	5.9	24.5	0.9	2.9	
Domino'S Pizza	DPZ US	NR	n/a	495.52	n/a	142,177	Jan-21	36.2	31.4	n/a	n/a	n/a	2.9	0.8	
Wendy'S Co	WEN US	NR	n/a	21.84	n/a	37,881	Jan-21	26.7	23.9	8.5	9.7	35.2	1.0	2.0	
Shake Shack	SHAK US	NR	n/a	81.55	n/a	26,702	Dec-20	n/a	234.3	8.6	8.1	(5.2)	n/a	n/a	
Wingstop Inc	WING US	NR	n/a	184.05	n/a	42,622	Dec-20	122.3	95.5	n/a	n/a	n/a	2.8	0.3	
Jollibee Foods	JFC PM	NR	n/a	203.40	n/a	34,965	Dec-20	73.5	36.4	3.8	3.5	2.3	(0.4)	0.6	
								Avg.	46.6	54.3	10.0	9.4	19.1	1.3	1.5
								Med.	31.4	30.3	8.6	8.8	26.1	1.1	1.6
H-shares Consumer Staples															
UPC	220 HK	NR	n/a	7.36	n/a	31,790	Dec-20	18.2	15.6	1.9	1.9	10.6	2.3	5.4	
Tingyi	322 HK	NR	n/a	14.38	n/a	80,925	Dec-20	17.9	15.7	3.2	3.2	19.7	2.2	7.0	
Want Want	151 HK	NR	n/a	5.60	n/a	66,909	Mar-21	13.2	12.4	3.5	3.2	27.6	1.8	5.0	
China Mengniu	2319 HK	NR	n/a	50.10	n/a	197,850	Dec-20	31.0	25.7	4.4	3.9	16.4	1.0	0.8	
Vitasoy	345 HK	NR	n/a	19.70	n/a	21,079	Mar-21	43.6	33.1	5.7	5.3	16.3	4.4	1.5	
Budweiser	1876 HK	NR	n/a	19.20	n/a	254,273	Dec-20	34.3	28.3	2.9	2.7	8.3	1.0	1.2	
Tsingtao	168 HK	NR	n/a	58.80	n/a	106,066	Dec-20	24.1	21.1	3.0	2.8	13.1	1.2	1.6	
CR Beer	291 HK	NR	n/a	55.95	n/a	181,512	Dec-20	35.3	32.3	6.2	5.6	18.4	0.8	1.3	
Dali Foods	3799 HK	NR	n/a	4.32	n/a	59,159	Dec-20	12.3	11.3	2.6	2.3	22.8	1.3	4.2	
								Avg.	25.5	21.7	3.7	3.4	17.0	1.8	3.1
								Med.	24.1	21.1	3.2	3.2	16.4	1.3	1.6

Source: Bloomberg, Company data, CMBIS estimates,

Financial Summary

Income statement

YE 31 Dec (USD mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	8,776	8,263	9,873	11,233	12,412
Company sales	7,925	7,396	8,973	10,255	11,377
Franchise fees and income	148	148	163	178	194
Fran. & uncol. affiliates sales	654	647	666	728	774
Other revenues	49	72	72	72	67
Cost of goods sold	(2,479)	(2,342)	(2,782)	(3,179)	(3,538)
Gross profit	6,297	5,921	7,092	8,054	8,874
Other net income	60	285	10	79	87
Operating expenses	(5,456)	(5,245)	(6,137)	(6,835)	(7,488)
Staff costs	(1,807)	(1,730)	(2,165)	(2,392)	(2,627)
Admin	(560)	(591)	(652)	(708)	(770)
Property rent & related	(877)	(814)	(969)	(1,108)	(1,229)
D & A	(428)	(404)	(446)	(497)	(552)
Other operating expenses	(1,784)	(1,706)	(1,905)	(2,131)	(2,311)
EBIT	901	961	965	1,298	1,472
Finance costs, net	39	43	79	91	104
JV & associates	-	-	-	-	-
Exceptional	63	104	20	22	25
Pre-tax profit	1,003	1,108	1,064	1,411	1,601
Income tax	(260)	(295)	(277)	(360)	(400)
Less: Minority interests	30	29	32	42	48
Net profit	713	784	756	1,009	1,153

Cash flow summary

YE 31 Dec (USD mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income	901	961	965	1,298	1,472
D&A	419	386	435	487	550
Change in working capital	74	(7)	86	76	67
Income tax paid	16	(295)	(277)	(360)	(400)
Others	(225)	234	136	122	131
Net cash from operating	1,185	1,279	1,345	1,623	1,820
Capex & investments	(435)	(578)	(691)	(674)	(745)
Associated companies	-	-	-	-	-
Interest received	-	-	-	-	-
Others	(475)	-	-	-	-
Net cash from investing	(910)	(578)	(691)	(674)	(745)
Equity raised	(265)	2,220	-	-	-
Change of Debts	-	-	-	-	-
Dividend paid	(181)	(181)	(95)	(182)	(243)
Others	(34)	-	-	-	-
Net cash from financing	(480)	2,039	(95)	(182)	(243)
Net change in cash	(205)	2,740	559	767	832
Beginning cash balance	1,266	1,046	3,786	4,345	5,112
Exchange difference	(15)	-	-	-	-
Cash at the end of the year	1,046	3,786	4,345	5,112	5,944

Balance sheet

YE 31 Dec (USD mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	4,691	4,797	5,016	5,194	5,387
Fixed asset	1,594	1,775	2,031	2,219	2,414
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	5,596	6,453	7,365
Cash and cash equivalents	1,046	3,786	4,345	5,112	5,944
Inventories	380	321	381	435	485
Trade and other receivables	88	91	108	123	136
Prepayments	134	126	151	172	190
Others	611	611	611	611	611
Current liabilities	1,736	1,665	1,854	2,019	2,166
Borrowings	-	-	-	-	-
Trade payables	623	577	686	784	872
Accruals & other payables	437	411	492	559	618
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	6,719	7,589	8,547
Shareholders' equity	3,175	6,027	6,719	7,589	8,547

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
Company sales	90.3	89.5	90.9	91.3	91.7
Franchise fees and income	1.7	1.8	1.6	1.6	1.6
Fran. & uncol. affiliates sales	7.5	7.8	6.7	6.5	6.2
Other revenues	0.6	0.9	0.7	0.6	0.5
Total	100.0	100.0	100.0	100.0	100.0
P&L ratios (%)					
Gross margin	71.8	71.7	71.8	71.7	71.5
Operating margin	10.3	11.6	9.8	11.6	11.9
Pre-tax margin	11.4	13.4	10.8	12.6	12.9
Net margin	8.1	9.5	7.7	9.0	9.3
Effective tax rate	25.9	26.6	26.0	25.5	25.0
Balance sheet ratios					
Current ratio (x)	1.3	3.0	3.0	3.2	3.4
Quick ratio (x)	1.1	2.8	2.8	3.0	3.2
Cash ratio (x)	0.6	2.3	2.3	2.5	2.7
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	11.2	13.3	13.5
ROA	10.3	8.1	7.1	8.7	9.0
Per share					
EPS (USD)	1.81	1.89	1.73	2.29	2.60
DPS (USD)	0.48	0.23	0.43	0.57	0.65
BVPS (USD)	8.44	14.35	15.90	17.85	19.99

Source: Company data, CMBIS estimates

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CMB International Securities Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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