Yum China Holdings, Inc (9987 HK/YUMC US)

3Q26: SSSG Misses But Margin Beat; Store Expansion Target Raised

Highlights

- YUMC's 3Q26 SSSG fell 3% yoy, missing expectations, but adjusted operating profit rose 6% yoy, beating consensus by 3%, driven by margin expansion on streamlined operations and favourable commodity prices.
- For 4Q26, management targets sequential SSS improvement and continued growth in same-store transactions. OP margin is expected to remain roughly flat yoy (before considering a 0.5-0.6ppt benefit brought by PH acquisition). For 2027, it targets SSSG of 0-2% and diluted EPS to grow by double digits (including the mid-single-digit accretion from the PH acquisition), consistent with its previous 2026-28 three-year guidance.
- For store expansion, the 2026 net new store opening target has been raised from 1,900 to over 2,400, implying a year-end store count of more than 20,500, up from the previous target of 20,000.
- Maintain BUY and keep target price at HK$513.70.

3Q26/9M26 Results

Year to 31 Dec (US$m)	3Q26	3Q25	yoy chg (%)	yoy (exl, fx) chg (%)	9M26	9M25	yoy chg (%)	yoy (exl, fx) chg (%)
Total revenue	3,477	3,206	8.5	2.2	9,886	8,974	10.2	3.8
Adjusted operating profit	451	400	13.0	6.0	1,246	1,103	13.0	6.1
Adjusted operating margin (%)	13.0	12.5	0.5	0.4	12.6	12.3	0.3	0.3
Net profit	311	282	10.3	3.0	864	789	9.5	3.0
Net margin (%)	8.9	8.8	0.1	n.m.	8.7	8.8	(0.1)	n.m.

Source: Yum China, UOB Kay Hian

Analysis

- **3Q26 SSSG missed but margin beat; total store count target raised to over 20,500 by 2026.** Yum China Holdings, Inc (YUMC) reported its 3Q26 results. Total system sales grew 3% yoy, with same-store sales growth (SSSG) declining 3%, missing market expectation of a slight decline, with both KFC and Pizza Hut (PH) posting 3% SSS declines. Total revenue was US$3.5b, up 2% yoy (excluding forex, same below), largely in line with Visible Alpha's consensus. Adjusted operating profit was US$451m, up 6% yoy and beating VA consensus by 3%, driven by operating margin (OP) expansion of 0.5ppt yoy to 13.0%, better than the previous guidance of a roughly flat level. Restaurant margin was 17.8%, up 0.5ppt yoy, better than the previous guidance of a stable to slightly positive level, primarily due to streamlined operations and favourable commodity prices, more than offsetting the impact of value-for-money offerings, sales deleveraging and increased rider cost from a higher delivery mix. Adjusted net income was US$311m, up 3% yoy. Diluted EPS increased 12% yoy (excluding forex) to US$0.91, or 8% excluding forex and mark-to-market equity investments.

Key Financials

Year to 31 Dec (US$m)	2024	2025	2026F	2027F	2028F
Net turnover	11,303	11,797	12,781	13,575	14,470
EBITDA	1,638	1,738	1,944	2,132	2,304
Operating profit	1,162	1,290	1,446	1,582	1,701
Net profit (rep./act.)	911	929	1,023	1,133	1,236
Net profit (adj.)	911	929	1,023	1,133	1,236
EPS (US$ cent)	233.6	250.4	275.9	305.5	333.2
PE (x)	20.7	19.3	17.5	15.8	14.5
P/B (x)	3.2	3.2	2.8	2.5	2.2
EV/EBITDA (x)	11.2	10.6	9.1	7.9	6.9
Dividend yield (%)	1.3	2.0	2.5	2.8	3.0
Net margin (%)	8.1	7.9	8.0	8.3	8.5
Net debt/(cash) to equity (%)	(8.1)	(6.8)	0.2	(11.7)	(22.6)
ROE (%)	15.0	16.7	17.9	17.6	17.1
Consensus net profit	-	-	1,022.5	1,131.8	1,228.0
UOBKH/Consensus (x)	-	-	1.00	1.00	1.01

Source: Yum China, Bloomberg, UOB Kay Hian

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BUY (Maintained)

Share Price	HK$378.80
Target Price	HK$513.70
Upside	+35.6%

Stock Data

Sector	Consumer Discretionary
Bloomberg ticker	9987 HK
Shares issued (m)	337.7
Market cap (HK$m)	127,929.2
Market cap (US$m)	16,306.1
3-mth avg daily t'over (US$m)	33.2

Price Performance (%)

52-week high/low				HK$451.20/HK$310.60
1mth	3mth	6mth	1yr	YTD
19.3	(1.6)	(0.6)	13.2	2.8

Major Shareholders (%)

Fred Hu	3.24
Joey Wat	0.33

Balance Sheet Metrics

FY26 NAV/Share (US$)	17.22
FY26 Net Debt/Share (US$)	0.03

Price Chart



Source: Bloomberg

Company Description

Yum China Holdings, Inc is the largest restaurant company in China in terms of system sales. Its growing restaurant network consists of flagship brands KFC and Pizza Hut, as well as emerging brands such as Lavazza, Huang Ji Huang, Little Sheep and Taco Bell.

- In 3Q26, YUMC opened 692 net new stores, of which 44% were opened by franchisees, bringing the total store count to 19,989 (vs its previously guided target of over 20,000 by 2026).
- **Expects sequential SSS improvement in 4Q26 and 0-2% SSSG in 2027; 2026 store opening target raised.** Management noted that October's SSS performance was broadly in line with expectations, and November's SSS performance is supported by a more broad-based school autumn break. For 4Q26, the company targets a sequential improvement in SSS and continued growth in same-store transactions. OP margin could remain roughly flat yoy, before considering the impact of the PH deal, with rider-cost pressure to moderate. In addition, the PH brand acquisition is expected to contribute a further 0.5-0.6ppt to both restaurant and OP margins. On store expansion, management has raised its net new store opening target from 1,900 to over 2,400, implying a year-end store count of more than 20,500, up from the previous target of 20,000.
  Looking ahead to 2027, management targets SSSG of 0-2% and diluted EPS to grow by double digits (including the mid-single-digit accretion from the PH acquisition), consistent with its previous 2026-28 three-year guidance. Delivery sales mix is likely to remain broadly stable at around 54%, which should help ease rider cost pressure.
- **KFC: K Pro opening target raised again.** In 3Q26, KFC's system sales grew 3% yoy (vs 7% in 2Q26), with SSS down 3%. Same-store transactions rose 3%, mainly due to incremental smaller orders from new customer segments and occasions such as K Coffee and K Pro, but ticket average declined 5%. Operating profit increased 4% yoy, with OP margin at 16.3%, up 0.3ppt yoy. Restaurant margin was 18.6%, up 0.1ppt yoy. KFC opened 518 net new stores in 3Q26, of which 52% were opened by franchisees, bringing the total store count to 14,307 as of end-3Q26. For the new modules, K Coffee reached over 4,000 locations, and is on track to exceed 5,000 by end-27. K Pro reached over 700 locations, and management has further raised the year-end target to 850 (vs around 800 previously), with a target of 1,500 by end-27.
- **PH: Targets restaurant margin to reach around 17.0% by end-28 on licence fee savings; expects Burger Bar to generate Rmb1b in sales.** In 3Q26, PH's system sales increased 1% yoy (vs 6% in 2Q26), with SSS down 3%. Same-store transactions grew 5% yoy, while being offset by an 8% decline in ticket average, moving closer to the target range of Rmb60-70, consistent with PH's mass-market strategy. Operating profit expanded 21% yoy, with OP margin at 11.0%, up 2.0ppt yoy, supported by savings from PH licence fees. Restaurant margin was 15.3%, up 1.9ppt yoy.
  PH opened 191 net new stores, of which 48% were opened by franchisees, bringing the total store count to 4,740 as of end-3Q26. PH's Burger Bar reached over 300 locations across 50 cities, and is targeted to reach 500 by end-26 and 1,000 by end-27. It is forecast to generate Rmb1b in sales this year, 5-6% of PH sales. Looking ahead, following the acquisition of PH ownership, management expects PH's restaurant margin to reach around 17.0% or slightly higher by 2028 (vs 14.5% before the brand acquisition), and has raised PH net new openings from 600 to 800 annually over 2027-28.

Earnings Revision/Risk

- **We raise our 2026 earnings forecast by 2%, keep 2027 unchanged.** We raise our 2026/27 revenue forecasts both by 2%. We lift our 2026/27 effective tax rate forecasts both by 0.2ppt. Thus, our 2026 earnings forecast is raised by 2% while our 2027 earnings forecast remains unchanged.

Valuation/Recommendation

- **Maintain BUY with an unchanged target price of HK$513.70.** We roll over our DCF valuation to 2027 and lift our 2026 capital expenditure forecast by 2%, leaving our target price unchanged at HK$513.70. Our target price implies 23.2x 2026F PE and 20.7x 2027F PE. The stock currently trades at 17.5x 2026F PE and 15.8x 2027F PE.

Operational Performances

(%)	3Q26	2Q26	3Q25
Yum China			
System sales growth yoy	3	6	4
Same-store sales growth yoy	(3)	1	1
Same-store transactions yoy	3	5	4
KFC			
System sales growth yoy	3	7	5
Same-store sales growth yoy	(3)	1	2
Same-store transactions yoy	3	4	3
Average ticket yoy	(5)	(3)	(1)
Pizza Hut			
System sales growth yoy	1	6	4
Same-store sales growth yoy	(3)	1	1
Same-store transactions yoy	5	13	17
Average ticket yoy	(8)	(11)	(13)

Source: Yum China, UOB Kay Hian

Total Store Count

	3Q26	3Q25	qoq chg
Yum China	**19,989**	**19,297**	**692**
KFC	14,307	13,789	518
Pizza Hut	4,740	4,549	191
Others	942	959	(17)

Source: Yum China, UOB Kay Hian

Profit & Loss

Year to 31 Dec (US$m)	2025	2026F	2027F	2028F
Net turnover	**11,797.0**	**12,781.4**	**13,575.3**	**14,470.2**
EBITDA	1,738.0	1,944.4	2,132.3	2,304.2
Deprec. & amort.	448.0	498.8	550.5	603.0
EBIT	1,290.0	1,445.5	1,581.8	1,701.1
Associate contributions	0.0	0.0	0.0	0.0
Net interest income/(expense)	68.0	65.6	91.5	123.9
Pre-tax profit	**1,358.0**	**1,511.1**	**1,673.3**	**1,825.0**
Tax	(369.0)	(410.6)	(454.7)	(495.9)
Minorities	(75.0)	(77.0)	(85.3)	(93.0)
Net profit	**929.0**	**1,023.5**	**1,133.3**	**1,236.1**
Net profit (adj.)	929.0	1,023.5	1,133.3	1,236.1

Balance Sheet

Year to 31 Dec (US$m)	2025	2026F	2027F	2028F
Fixed assets	2,543.0	2,664.1	2,743.7	2,782.1
Other LT assets	5,883.0	7,083.0	7,083.0	7,083.0
Cash/ST investment	506.0	1,239.7	2,099.9	3,090.4
Other current assets	1,851.0	1,895.5	1,931.3	1,971.8
Total assets	**10,783.0**	**12,882.3**	**13,857.9**	**14,927.2**
ST debt	30.0	0.0	0.0	0.0
Other current liabilities	2,216.0	2,393.5	2,536.6	2,698.0
LT debt	1,874.0	1,823.0	1,823.0	1,823.0
Other LT liabilities	564.0	1,815.0	1,815.0	1,815.0
Shareholders' equity	5,379.0	6,053.8	6,800.9	7,615.9
Minority interest	720.0	797.0	882.3	975.4
Total liabilities & equity	**10,783.0**	**12,882.3**	**13,857.9**	**14,927.2**

Cash Flow

Year to 31 Dec (US$m)	2025	2026F	2027F	2028F
Operating	**1,466.0**	**1,732.3**	**1,876.3**	**2,053.1**
Pre-tax profit	1,358.0	1,511.1	1,673.3	1,825.0
Tax	(369.0)	(410.6)	(454.7)	(495.9)
Deprec. & amort.	448.0	498.8	550.5	603.0
Working capital changes	(511.0)	133.0	107.3	120.9
Non-cash items	401.0	0.0	0.0	0.0
Others	2.0	0.0	0.0	0.0
Investing	**(5.0)**	**(1,819.9)**	**(630.0)**	**(641.4)**
Capex (growth)	(626.0)	(619.9)	(630.0)	(641.4)
Others	2.0	0.0	0.0	0.0
Financing	**(1,689.0)**	**821.3**	**(386.1)**	**(421.1)**
Dividend payments	(428.0)	(425.7)	(471.4)	(514.2)
Issue of shares	0.0	1,200.0	0.0	0.0
Proceeds from borrowings	(100.0)	(30.0)	0.0	0.0
Loan repayment	0.0	0.0	0.0	0.0
Others/interest paid	(1,161.0)	77.0	85.3	93.0
Net cash inflow (outflow)	**(228.0)**	**733.7**	**860.2**	**990.5**
Beginning cash & cash equivalent	723.0	506.0	1,239.7	2,099.9
Changes due to forex impact	11.0	0.0	0.0	0.0
Ending cash & cash equivalent	**506.0**	**1,239.7**	**2,099.9**	**3,090.4**

Key Metric

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	14.7	15.2	15.7	15.9
Pre-tax margin	11.5	11.8	12.3	12.6
Net margin	7.9	8.0	8.3	8.5
ROA	8.5	8.6	8.5	8.6
ROE	16.7	17.9	17.6	17.1
Growth				
Turnover	4.4	8.3	6.2	6.6
EBITDA	6.1	11.9	9.7	8.1
Pre-tax profit	2.0	11.3	10.7	9.1
Net profit	2.0	10.2	10.7	9.1
Net profit (adj.)	2.0	10.2	10.7	9.1
EPS	7.2	10.2	10.7	9.1
Leverage				
Debt to total capital	23.8	21.0	19.2	17.5
Debt to equity	35.4	30.1	26.8	23.9
Net debt/(cash) to equity	(6.8)	0.2	(11.7)	(22.6)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.

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