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Yum: Chinese Consumer Saving But Bullish On Region

By Paul Ziobro

NEW YORK -(Dow Jones)- [Yum Brands Inc.](#) (YUM) is seeing Chinese consumers cut back more on extras like drinks as they try to save money, though the fast-food operator remains bullish on its future in the region seen as crucial to its growth.

The consumer propensity to save hasn't changed much since the worldwide economic slowdown first hit last November. Yum is responding by adding more lower-priced snacking products and expanding its breakfast menu at KFC.

Still, China's economy is faring better than most in the world, and Yum, which has KFC, Pizza Hut and other brands in the country, is pushing ahead with plans to grow there with 475 new units this year.

"There is no question in our minds that the foundation of our China growth model remains rock solid," Yum Chairman and Chief Executive David Novak said.

Tuesday, Yum posted second-quarter earnings ahead of Wall Street estimates, primarily due to a favorable tax rate. Sales were weaker worldwide amid the global economic slump, with same-store sales in mainland China down 4% in the second quarter, its first decline in three years. The decline was expected due to the division posting strong growth a year earlier, but still was weaker than analysts had expected.

Same-store sales in Yum's China division did turn positive in May, though still less than what the company had hoped for, as the company remained cautious on sales in the country.

"It sounds like the Chinese economy is not as robust as they initially anticipated," Telsey Advisory Group analyst Tom Forte said.

In other international markets, Yum is trying to lift sales by adding stores that sell dessert drinks called Krushers, while also expanding breakfast at KFC stores outside the U.S., where there is much less competition in the morning.

KFC got a big boost in the U.S. from the launch of its new grilled chicken line, which swung same-store sales into positive territory for the brand, but a promotion to drive dinner sales with a \$9.99 grilled chicken bucket did not get a similar lift. Yum plans to focus on individual rather than family meals at KFC.

Taco Bell remained strong on a heavy value focus, while Pizza Hut remained a laggard among Yum's U.S. brands due to a higher ticket and greater exposure to dinner sales where consumers are cutting back most.

The difficult environment is expected to continue, as Yum lowered its full- year sales guidance in all of its segments. It maintained its full-year guidance for 10% earnings growth, with weaker sales projections being offset by better margins from commodity deflation and cost cutting.

"Overall, this will be a year where profits are up and sales are sluggish," Novak said.

Yum shares fell \$1.48, or 4.1%, in recent trading to \$34.56.