

December 4, 2009

Yum Sees 10% EPS Growth In 2010, Calls Year 'Challenging'

By Paul Ziobro

NEW YORK -(Dow Jones)- Yum Brands Inc. (YUM) plans grow per-share earnings at least 10% in 2010 in what the global fast-food chain expects to be another challenging year.

The current quarter offers no relief from the global consumer slump, as Yum sees weak fourth-quarter sales in its key mainland China market and in the U.S., its largest division. Shares fell 2.4% to \$34.28 in recent trading.

The operator of KFC, Pizza Hut, Taco Bell and other restaurants expects same-store sales to fall 8% domestically and 3% in the China region in the current period. Barclays Capital analyst Jeffrey Bernstein said the trends represent a slowdown in both markets.

In other international markets, the company projected a 1% decline in same-store sales for the fourth quarter.

Yum also said it sees "continued substantial international unit development" of 1,400 units in its China and Yum Restaurants International businesses next year. Profits, excluding currency exchange, are expected to grow 15% in mainland China, 10% in its international business and 5% in the U.S.

Yum released the projections ahead of next week's analyst meeting in New York, where the company will be pressed on how it plans to overcome a weak environment for growing sales. Yum expect "modest" same-store sales growth for 2010.

"Our biggest challenge continues to be driving same-store-sales growth in the difficult consumer environment," said Yum Chairman and Chief Executive David Novak. "All indications are that 2010 will be another challenging year and we have built our plans accordingly."

In the U.S., Taco Bell is facing heightened competition as fast-food chain's like Burger King Holdings Inc. (BKC) and McDonald's Corp. (MCD) focus on dollar-menu items. Sales at Pizza Hut and KFC, meanwhile, are struggling due to a high exposure to the dinner business.

China remains the key driver of Yum's stock, however. While China's economy has staged a rebound, Telsey Advisory Group analyst Tom Forte said its been primarily driven by spending on infrastructure and durable goods.

"We're waiting for that to trickle down to restaurant sales," he said.

Yum expects to see up to a \$50 million benefit from currency translation in 2010, compared to an impact of \$45 million in 2009.

-By Paul Ziobro, Dow Jones Newswires; 212-416-2194; paul.ziobro@dowjones.com
(Nathan Becker contributed to this article.)