



YUM Raises Guidance

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There is absolutely nothing new that I was able to ascertain from yesterday's press release and today's conference call from **Yum! Brands** (YUM) other than obtaining the revised guidance. The conference call was generally one long commercial for the company and a carbon copy of several of its conference calls.

The bottom line is that China is on fire, the international division (YRI) is growing at a steady pace, and the U.S. remains weak. Management continues its mantra of 10% annual growth, which, as we know, will come from its operations in the rest of the world.

While the stock is trading lower in today's weak market, I do not see any compelling reason to buy it now. Even with a generous 18 times 2008 earnings on the company's revised guidance, the stock can still slide another 10% before I would get interested in the name.

Last evening, Yum! Brands reported fourth-quarter 2007 EPS of 44 cents on revenue of \$3.26 billion. For full year 2007, the company earned \$1.68 on revenue of \$10.42 billion. Included in the full-year results was a lower-than-expected effective tax rate of 23.7% and benefits from currency conversion to the extent of 6 cents.

The company also provided revised guidance for 2008, raising its full-year EPS estimate to \$1.85 from the prior guidance of \$1.82. This guidance represents a 10% year-over-year growth rate, which is typically its target growth rate. Over and above the \$1.85 estimate will be 6 cents for non-recurring items. The 2008 effective tax rate is expected to be between 28% and 30%.

Fourth-quarter same-store sales:

- YRI was up 5%;
- China was up 17%; and
- U.S. was up 1%.

Rising commodity costs continue to impact the U.S. business, which, despite the 1% rise in same-store sales, resulted in a 1% decline in operating profits.

The company continues its re-franchising effort in the U.S. At the end of the year, Yum! Brands owned 22% of the units in the system. The company is planning to reduce this ownership to 10% by the end of 2010.

YUM Preview: McDonald's Minus a Bit?

Yum! Brands (YUM) is expected to report fourth-quarter and full-year 2007 results after the market closes today. The company will follow up with its public conference call on the follow morning, as is its custom.

For the quarter, Yum! Brands is expected to earn 42 cents per share on net revenue of \$3.14 billion. In the year-ago quarter, the company earned 42 cents per share on net revenue of \$3.02 billion. For the full year, the company is expected to earn \$1.66 per share vs. \$1.46 per share in the prior year.

To understand what is going on, all that one has to do is look at **McDonald's** (MCD) and then subtract a bit. McDonald's had a super quarter, but its domestic same-store sales were flat in January after rising for the prior two months. Yum! has experienced weakness in the U.S. over the past year, and I would suggest that it will have an even more sluggish domestic quarter than McDonald's.

Yum! Brands will see all of its growth coming from its international and China units. Expect to see management guide those segments of the company higher in 2008 to offset weakness in its domestic units.

The ever-escalating commodity costs are bound to continue to weigh on the company's margins. This is particularly the case for cheese and chicken prices, both of which are huge inputs for Yum!'s major brands KFC and Pizza Hut.

Coming out of this call, I think that we can derive a more conclusive strategy for the stock, but until then, I would stay on the sidelines

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At the time of publication, Rothbort was long McDonald's, although positions can change at any time.

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Scott Rothbort has over 20 years of experience in the financial services industry. In 2002, Rothbort founded LakeView Asset Management, LLC, a registered investment advisor based in Millburn, N.J., which offers customized individually managed separate accounts, including proprietary long/short strategies to its high net worth clientele.

Immediately prior to that, Rothbort worked at Merrill Lynch for 10 years, where he was instrumental in building the global equity derivative business and managed the global equity swap business from its inception. Rothbort previously held international assignments in Tokyo, Hong Kong and London while working for Morgan Stanley and County NatWest Securities.

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For more information about Scott Rothbort and LakeView Asset Management, LLC, visit the company's Web site at www.lakeviewasset.com. Scott appreciates your feedback; [click here](#) to send him an email.

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