

RATINGS AGENCIES NOT BIG ON FAST-FOOD GIANTS LATELY

Yum! Brands, a major net-lease tenant, which is the owner of Taco Bell, KFC, Pizza Hut and other chains, made some news late last year that gave investors pause.

First, Standard & Poor's lowered Yum!'s corporate credit ratings to "junk" status, dropping it from "BBB" to "BB." Soon after, Moody's gave Yum! a negative outlook and dropped its corporate rating from "Ba1" to "Ba3."

Both agencies took issue with Yum!'s plan to spin off its significant China business into a separate company and its intention to return \$6.2 billion to shareholders before the split, which is to take place next year. They made their ratings moves under the premise that both measures would over-leverage Yum!.

Yum!'s situation is unique as a com-

pany, but downgrades are also happening to some of its peers.

A month prior to the Yum! ratings changes, McDonald's credit rating was downgraded by S&P, to "BBB+" from "A-," making it only three positions above "junk." This was a reaction to McDonald's announcement that it was giving \$10 billion back to shareholders.

Earlier this month, Moody's downgraded Wendy's to "negative" from "stable." At issue, in part, was also an initiative to give shareholders dividends. Wendy's is reportedly recapitalizing its balance sheet, which would make its leverage five or six times its EBITDA.

So it would seem that the ratings agencies aren't big on these fast-food companies taking on debt and giving large sums back to shareholders,

though all three generate a lot of cash flow, given their size and popularity.

Does that mean these outfits aren't performing well fundamentally? Not necessarily.

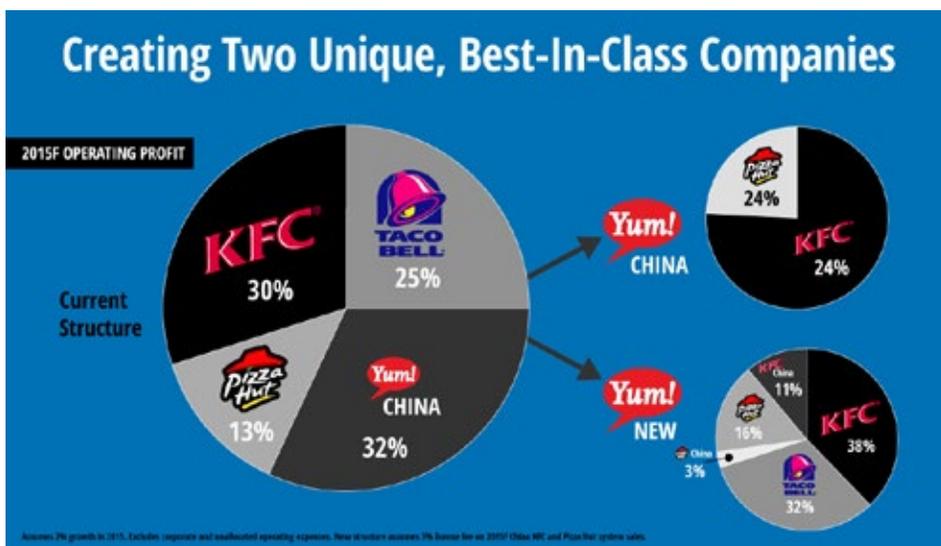
After a few rough quarters, McDonald's posted a 5.7-percent fourth-quarter same-store sales jump from the same year-ago period. One of the main drivers of its improvement was the sale of all-day breakfast at its locations.

Yum! reported increased fourth-quarter sales across all of its chains, while earnings were up 11 percent, and management forecasted profits to jump another 10 percent over 2016.

Wendy's also had a strong fourth quarter. Same-restaurant sales jumped 4.8 percent year over year. Executives there see these sale trends strengthening in the coming quarters.

In fact, it looks as though the fast-food sector is doing well across the board right now, with Burger King and Popeyes Louisiana Kitchen also turning in good financial results.

Sure, it's alarming when companies take on a lot of debt. But fast-food chains should not be dismissed as a result of these actions. Many consumers are still wary of the economy, and companies such as Yum! and McDonald's will still be the go-to for millions of Americans. •



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