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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Yum China 2020 First Quarter Earnings Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded. I'd now like to hand the conference over to your first speaker today, to Ms. Debbie Ding. Thank you. Please go ahead.

Debbie Ding ***Yum China Holdings, Inc. - Senior IR Manager***

Thank you, operator. Hello, everyone, and thank you for joining Yum China's First Quarter 2020 Earnings Conference Call. Joining us on today's call are our CEO, Ms. Joey Wat; and our CFO, Mr. Andy Yeung.

Before we get started, I'd like to remind you that our earnings call and investor presentation contains forward-looking statements, which are subject to future events and uncertainties. Our actual results may differ materially from these forward-looking statements. All forward-looking statements should be considered in conjunction with the cautionary statement in our earnings release and the risk factors included in our filings with the SEC.

This call also includes certain non-GAAP financial measures. You should carefully consider the comparable GAAP measures. Reconciliations of the non-GAAP and GAAP measures should be -- is included in our earnings release.

Today's call includes 3 sections. First, Joey will provide an update regarding recent developments in the coronavirus situation, then she will offer some highlights around our first quarter results. Andy will then cover the financial results and provide an update on our full year outlook.

Finally, we'll open the call to questions.

You can find the webcast of this call and a PowerPoint presentation, which contains operational and financial information for the quarter on our IR website.

Now I'd like to turn the call over to Ms. Joey Wat, CEO of Yum China. Joey?

Joey Wat ***Yum China Holdings, Inc. - CEO & Director***

Thank you. Thank you, Debbie. Thank you all for joining us today. I hope all of you, near and far, remain safe and healthy.

Before covering our quarterly performance, I would like to update you on our actions regarding the COVID-19 situation. Throughout this crisis, we make sure that our top priority was the health and safety of our employees and customers. As stores were closed, we work with local authorities to ensure a quick implementation of health measures. We wanted to ensure 3 things: commitment to value; commitment to supply; and our commitment to quality. We wanted to make sure that in a time of crisis, KFC, Pizza Hut and our other brands will be there to provide reliable, quality meals to our customers, especially those in the front line fighting this outbreak. About 65% of our stores remain open throughout this period. Even when infection cases were rising and store closures accelerating, our employees and delivery riders continue to show up. They wore masks, observed strict hygiene and served our customers, providing a vital service in this time of need.

Employees are the backbone of our business. We support them and their families by extending holiday pay even if the stores were closed. We encouraged our employees to look after each other. We strengthened medical insurance coverage for staff and more importantly, their families. We extended coverage to parents of our restaurant managers up to the age of 75. This is important as providing for parents is a key cultural duty for us in China. This is simply the right thing to do. Providing this support gave our managers the peace of mind to focus on work and contribute to our long-term success.

Also, in response to the pandemic, myself, Andy, senior executives and Board members have agreed to forgo 10% of our salaries for the rest of this year as contributions to fund additional assistance for frontline employees and their families impacted by COVID-19.

Since all this started, I have been humbled and impressed by the dedication, resilience and creativity of our employees. Even as Wuhan was in lockdown and our stores closed, our people helped with the delivery of meals to frontline medical staff. We provided over 170,000 meals at no cost to over 1,450 hospitals and health centers in 28 provinces. On Women's Day on the 8th of March, a day we usually drive holiday sales, we made a decision to close all stores that day in Wuhan that had just opened or reopened. We instead dedicated these stores to serving thousands of free meals to medical workers that have come from all over China to support Wuhan.

With our reputation for quality, safety and value built over 30 years in China, our brands resonate well with consumers. This trust is a key enabler of success of our pivot to delivery and takeaway programs during this quarter. Importantly, we live our mission to be the world's most innovative pioneer in the restaurant industry. We pioneered contactless delivery and takeaway. Pizza Hut increased its takeaway offerings and started delivery of ready-to-cook steak. We adapt quickly to changes in consumer needs, relying on our solid execution and market-leading digital capabilities.

Recently, the situation appears to have turned the corner. Approximately 99% of our stores are open, with some stores offering delivery and takeaway only or operating with shortened hours. Our Wuhan stores are mostly back in business. We look forward to, again, giving our customers what they expect from Yum China, good food, great value, pleasant dining, the convenience and value of our digital experience.

Nevertheless, the recovery is not guaranteed nor linear. Volume has not yet returned to pre-outbreak levels. There remain differences across regions and brands as the country gets back to work. Social distancing, telecommunicating and reductions in travel may become the new normal. This could fundamentally impact the way we work and the services we provide. 2020 will be a very challenging year.

I'm grateful to lead the dedicated team at Yum China. Our culture of innovation, our strong operational excellence and our leadership in digital and delivery in our industry position us to thrive. This crisis also offer us opportunity to grow, to create and to build a stronger Yum China.

Now let's move to our first quarter performance. System sales were down 20%. Approximately 35% of our store base was closed during the peak of the outbreak. Stores that operated suffer outbreak-related declines in sales. We opened 179 new stores, mostly at KFC. Mostly -- almost all of our new builds were completed in January, with store openings gradually resuming in late March. Same-store sales declined 15%. Sales declines were particularly pronounced at our tourists and transportation locations with regional and tier differences. We mitigate sales declines with menu innovation and a shift to delivery and take away.

Our business model proved resilient. With the dedication of our employees across dine-in, delivery and takeaway and a strong digital platform, we were quick to adapt. From inventory management to rental relief, we tackle every opportunity. With help from suppliers and landlords as well as the support from government authorities, we achieved $97 million in operating profit in Q1. We were diligent and flexible in managing inventory issues while maintaining our strict food safety protocols. For example, we used the excess cremia ice cream inventory from Hokkaido as raw material for our egg tarts and milk tea. This created a high-quality product for customers and prevent unnecessary waste.

Delivery and takeaway make an important contribution to operations during the crisis. Delivery was crucial to driving online orders to our stores, while takeaway offered a safe alternative as dine-in services were limited or closed. Delivery sales grew 40%, and delivery sales mix grew to 35% compared to 19% mix last year. In late January, we rolled out contactless delivery on our Super App at both KFC and Pizza Hut. Contactless delivery's emphasis on safety is both popular and responsible. Over 60% of all own channel orders at KFC and Pizza Hut selected the contactless option with adoption peaking at over 80%.

Having dedicated riders was crucial in supporting our business during this time. Our commitments around value, supply and quality will not have been possible without amazing riders. This emphasis on safety and rider supply drove our own channel growth above that of aggregators during the quarter.

Successful takeaway requires digital pre order capability, a suitable menu and packaging, and most importantly, a strong value proposition. KFC and Pizza Hut has all these things. I'm very proud of our Pizza Hut brand, which more than doubled takeaway contribution in the quarter, establishing a clear third option on top of dine-in and delivery adds to the resilience of this brand.

Turning to digital. Communicating with our customers quickly and transparently was important to building trust and engagement during the outbreak. We leveraged our vast member platform to provide information on our safety protocols and store operations. Our membership program continued to grow with over 250 million members at the end of the quarter. Member sales exceed 60% at KFC due to the increased shift to online sales. Digital orders account for over 84% of KFC sales and 65% at Pizza Hut. Mobile preorders rose as consumers increased use of takeaway services.

We continue to drive menu innovation and value even during the crisis. During the quarter, our primary focus was safety and providing safety food. We emphasized our core products and deferred some new innovations. We continue to delight and surprise with several new products, such as tea-infused hard boiled egg; Cha Ye Dan, which is a traditional Chinese side item and very popular, particularly in east and southern part of China. At KFC -- and also we have (Qing Tuan) during the Qingming festival as well, which is a kind of food just for the Qingming festival. And in Pizza Hut, we launched the crayfish mozzarella pasta, which is Zhi Shi Xiao Long Xia. We also continue to provide smart abundant value, which was important in an environment of economic stress. Our signature Crazy Thursday campaign at KFC and RMB 25 1-person set meal at Pizza Hut. In Chinese, we call it Yi Ren Shi. All these value campaigns were well received. In late April, we just launched test for our plant-based chicken nugget in some of our Tier 1 stores. We are excited about this new innovation in meat alternatives. Shanghai presell coupons for this test sold out in just 1 hour.

Now let me make a few brand-specific observations. First, KFC showed its resilience again. Our digital delivery and takeaway offerings provide a strong basis of support for the business even during the crisis. Our flexible workforce and variable rent structure across most of our stores allow us to quickly adjust to sales fluctuations. With this focus on casual and family dining, Pizza Hut was more impacted by the outbreak as consumers congregated less and practiced social distancing. We will continue to focus on building a young family-friendly dining environment, while strengthening our offerings for individuals and takeaway.

Throughout the crisis, we continued to develop our new and emerging brands. We formed a joint venture with Lavazza and opened the first Lavazza Asia flagship store in Shanghai. As part of this pilot program, this store showcases the premium and authentic Italian coffee experience Lavazza has developed over its 125-year history. We combined this with Yum China's scale, operational capabilities and in-depth knowledge of the China market.

On April 8, we completed the acquisition of Huang Ji Huang, a pioneer of Chinese simmer pot casual dining Men Guo. It has over 640 mostly franchised stores, both in China and internationally.

In addition to this acquisition, we established a Chinese dine-in business unit, comprised of our 3 core Chinese dine-in brands, Little Sheep, East Dawning and Huang Ji Huang. I'm confident that the Chinese and Western brands in our portfolio will synergize to delight consumers with delicious food and the digital customer experience.

With that, I will hand over the call to our CFO, Andy. Andy?

Ka Wai Yeung ***Yum China Holdings, Inc. - CFO***

Thank you, Joey, and good morning, everyone. I will first address key financials and developments in the first quarter, then provide perspective on our full year outlook. Unless noted otherwise, figures mentioned refer to the first quarter of 2020. All figures are before foreign exchange rate effects, and all comparisons are year-over-year.

The first quarter financial results. Total revenues declined 21% due to both temporary store closure and same-store sales declines arising from COVID-19 outbreak. Public health efforts to combat the outbreak resulted in significant store closure and reduced customer traffic.

Same-store sales decline was driven by reduced dine-in sales, partly offset by delivery and takeaway growth. Temporary store closure were taken out of the same-store sales calculation and included once they reopened. KFC same-store sales decline of 11% was driven by reduced dine-in traffic. Ticket average benefited from increased mix to delivery and takeaway.

Pizza Hut's same-store sales decline was 31%. Reduced dine-in traffic was also the primary driver. However, different from KFC, the increase in delivery and takeaway mix contributed to lower ticket average.

January sales for both brands were strong leading into Chinese New Year but was severely impacted later in the month as news of the outbreak became widely reported and social distancing and other restrictions were implemented. As infection rate declined and same store reopened, our sales showed recovery, although we are still below pre-outbreak levels.

New store openings were robust in January before the Chinese New Year period. Outbreak-related traffic restrictions and construction worker supply thereafter impacted the pace of our store opening. Restaurant margin were 13.6% at KFC and 0.3% at Pizza Hut. Declines in restaurant margins across both KFC and Pizza Hut were primarily driven by sales leveraging, partly offset by our efforts to control costs. Specifically, cost of sales was 32% and a 1.5% year-over-year increase. Commodity inflation for the quarter was 3%. Through decisive actions at the store level and working proactively with our supplier, we were able to manage down inventory write-offs and store level waste, normally associated with store closure and sales fluctuation.

Cost of labor was 25% -- 25.5%, a 3% year-over-year increase. Year-on-year wage inflation was 4%. Increased portion of delivery sales contributed to higher labor cost percentages. Employees have extra holiday pay and with additional labor hours for increased safety protocols at our stores. We manage our cost of labor by quickly adjusting schedules. Our digital scheduling tools and pocket manager, a real-time app, were instrumental in sustaining high level of productivity across both brands. Lastly, temporary relief from social insurance payments provided by the government was approximately $20 million.

Rental expenses. Over the past few years, we have made a concerted effort to increase the variable components and lower the fixed components of our rental expenses to improve the resiliency and flexibility of our operations. In general, approximately 40% of our rental expenses are tied to revenues, which declined proportionally to lower sales in the quarter. In addition, we negotiated approximately $15 million in rental reduction.

G&A costs were lower by 11% year-over-year, benefiting from cost control as well as certain onetime government relief programs, including temporary reductions in social insurance payments and accelerated payments of certain government incentives that we received in the first quarter, which would usually have been received in the second or third quarter. We recorded impairment charge of $9 million. Bottom line, we achieved operating profit of $97 million. We are incredibly proud to have achieved profitability in such difficult circumstances.

The effective tax rate was 32.7%, higher than usual, primarily due to the mark-to-market loss from our equity investment in Meituan that is not taxable but reduced our pretax income. Net income was $62 million, driven by the operating profit just mentioned and the $8 million mark-to-market loss from our investment in Meituan. Diluted EPS and adjusted diluted EPS were both $0.16 in the first quarter.

Next, let me cover our balance sheet and capital allocation. Cash and short-term investments remained strong at $1.54 billion. The COVID-19 outbreak has a significant impact on our operations and results in the first quarter. While the situation in China was discretionally stabilizing, we remain cautious as our restaurant traffic is still below pre-outbreak levels. We expect an extended recovery period, and the pace will be uneven across regions, day parts and segments. We will continue to implement aggressive measure to control our costs. On the other hand, global infection continues to rise. It remains difficult to predict the full impact of the pandemic on the broader economy and how consumer behavior may change. The outbreak has highlighted the importance of having a prudent financial profit. With a challenging year ahead, we need to proactively maintain a strong balance sheet while positioning ourselves to take advantage of growth opportunities. Therefore, despite having a strong balance sheet, we will temporarily suspend our share purchases and for the next 2 quarter dividends. We have taken this action out of an abundance of cautions as we navigate through these challenging times.

We believe the strength of our balance sheet and capital structure will offer us flexibility to respond to contingency, if needed, and to continue investments in long-term value-creating opportunities where appropriate.

Now I will turn to our outlook for 2020. The situation continues to evolve. Our resilience and adaptability helped avoid operating losses for the quarter. Results were supported by strong performance and other onetime relief that are likely to reduce, if not terminated in early 2Q. We continue to experience significant disruption to our business from the outbreak. Some stores are still closed or operating under limited hours or services. The traffic at restaurant is below pre-outbreak levels as people avoid going out and practice social distancing. The recovery of weekend leisure volumes have been weaker than weekdays volume. Traffic and transportation hub and tourist locations has also been extremely soft. The recovery trend is gradual and choppy. We'll be taking decisive actions with regard to cost management. Sales deleveraging will continue to pressure margins. At the current sales run rate, since the outbreak and excluding onetime relief, we have not reached levels required for sustained profitability.

Our store buildout program previously interrupted is restarting. We are not revising our target of 800 to 850 new stores for the year. However, we will reevaluate conditions as the year goes on. We will be revisiting the target as needed. The outbreak highlights the importance of online to offline integration. Our investment in digital, technology and supply chain will continues.

Together with investment in new stores and remodelling, our 2020 CapEx plan is unchanged in the range of $500 million to $550 million. We expect wage inflation to stay at mid- to high single digits this year. Commodity inflation is still a challenge. Despite volatility across most commodities, protein supply in China remains tight. Our best estimate of 2020 commodity inflation now is for low to mid-single digits.

We expect 2020 to be difficult. A new normal categorized by reduced travel and social activity may persist. As we look forward to recovery, we will continue to focus on serving our employees, our customers and the community in which we operate. At Yum China, we're here for the long run.

Now before I turn the call to Debbie for the Q&A session, I will update you on some investments we have made. In addition to the acquisition of Huang Ji Huang that Joey mentioned, we have entered into agreement to purchase an additional 25% equity stake in Suzhou KFC for approximately $149 million. We expect to close the transaction in the second half of this year, subject to reveling closing conditions. Upon closing, Yum China will hold a consolidating 72% equity stake in the entity.

Now with that, I will pass you back to Debbie to start the Q&A. Debbie?

Debbie Ding ***Yum China Holdings, Inc. - Senior IR Manager***

Thanks, Andy. We will now open the call for questions. (Operator Instructions) Operator, please start the Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is from Xiaopo Wei from Citigroup.

Xiaopo Wei ***Citigroup Inc, Research Division - Director & Head of Asia-Pacific Consumer Research***

First of all, thank you for hard work and social responsibility during the COVID-19 outbreak. We are seeing very resilient performance, especially KFC.

So my question is, what's your observation on the consumer behavior changes during the crisis? And the automation, the new norm, and Joey mentioned a lot of innovations, what's your thinking of reinvent yourself in the business, especially for Pizza Hut? So we believe that Pizza Hut is focused on casual dining, but it would be more impacted than KFC. Is any inspiration from the crisis which will position yourself better for the recovery of Pizza Hut looking forward?

Joey Wat ***Yum China Holdings, Inc. - CEO & Director***

Thank you, Xiaopo. Throughout the crisis, I think the -- in terms of customer response, the first response obviously is about focus on hygiene and safety, which our business has very long traditional in this area, and we obviously are very well positioned to enhance that. And then in terms of other behavioral change, basically, the value for money and the desire for new food is still there. But most importantly is the availability of food because, right now, it's better. But back to February or last week of January, it's very important to provide the service. And our team has worked very hard to keep as many stores open as possible. On top of that, we leveraged our digital and delivery and take away business model to serve our customer while protecting our employees. So the innovation is important as well.

And then going forward, is there any sort of behavioral change in the medium term, et cetera? The social distancing will linger a little bit. We continue to see that. Particularly, we can see the sales challenge still during the weekend. Because for weekday, we are okay now. We are pretty much back to last year level. But weekend is still a challenge. And holiday is still a challenge, which is quite different from past sales pattern. On top of that, the traffic hubs, because of the reduced traveling, the traffic hub business are challenged. So the weekend, the dine-in and the transportation hub.

Looking forward, how do we reinvent ourselves, particularly for Pizza Hut? Let me talk about the 3 theme, and then I'll go to Pizza Hut a bit more. There are 3 focus: menu innovation, digital innovation, that's one; second, value for money; third is cost savings. It's not only about the robust business model. Cost saving is also about we save every bit we can save and pass on the savings back to the customer to further improve the value for money for the customer. So in the long term, while we are in the short term, doing the menu innovation, value for money and cost saving, in the long term, we are also building even more agile and robust business model.

When it comes to Pizza Hut, as I mentioned earlier -- in my presentation earlier, I'm very proud of Pizza Hut in this crisis because Pizza Hut business has higher percentage of dine-in business. So naturally, it was more impacted because at the worst time, the dine-in business -- even though if we managed to open the store, the dine-in business were not allowed to operate. And KFC, because it's QSR, it has high percentage of takeaway sales, during the worst time was impacted slightly less.

However, it has always been one of the strategic initiative to build the takeaway business for Pizza Hut. We actually started 2019 Chinese New Year, try to push for the takeaway business. It achieved certain traction. So we get to 5% roughly of the sales is from takeaway. And before the 2020 Chinese New Year, we have planned and we have prepared to take advantage of the Chinese New Year to accelerate the takeaway business.

And then the COVID-19 hit. It actually gave Pizza Hut opportunity to accelerate the takeaway business even more. So for Q1, the takeaway business for Pizza Hut, roughly about twice as before, so it's like 10%, 11%. But that's for Q1, on average. During the worst time of crisis, the percentage was even higher. To do takeaway business, it's not only just tell the customer to do the takeaway business. It requires a few things. One, it requires the digital order capability, the mobile order capability, and we got that ready right before the Chinese New Year. It also requires very strong value for money because that's what customers for takeaway business wants. And then also require a flexible menu, a slightly different, more simpler menu. During the crisis, because of the certain closure of the store, we have inventory challenges. But instead of just facing the challenge, we took advantage of this as opportunity to create some new item with the inventory that we have and then make it into takeaway menu.

So the innovation agility happened right there. And with that, the takeaway business right now is a meaningful part of the business, which is fantastic. And this is something I believe I shared with our investment community before. We want the delivery business, which is a dominant part of Pizza Hut business already. We also want takeaway business because it does not require the delivery challenge, while we are trying to strengthen the dine-in business.

So I hope that gives you a sense of the challenges, of the changes of customer behavior and our focus on building ourselves back and then a little bit color on Pizza Hut business. Thank you, Xiaopo.

Operator

Our next telephone question is from Brian Bittner from Oppenheimer.

Brian John Bittner ***Oppenheimer & Co. Inc., Research Division - MD and Senior Analyst***

Do you expect any store closings from your competitors because of this crisis? Which -- what is your insights regarding the ability for all of the industry capacity in China to survive this pandemic? And then secondly, you did not change your guidance for store openings for 2020. Can you just maybe talk a little bit more about how confident you are that you can indeed achieve these store opening goals in 2020?

Joey Wat ***Yum China Holdings, Inc. - CEO & Director***

Thank you, Brian. It's a really good question. We believe that we have turned a corner, but I hate to just remind everyone that we're still in the middle of it. It's not over yet. We are still cautious that Q2 and Q3 will still be challenging for our industry in China. The reason -- I'll get to the competitive bit. Let me give you the context first. For the Q2, we expect May and June will be very challenging for our industry because sales is recovering, but still at preoutbreak -- still lower than preoutbreak level, as Andy mentioned earlier. And in terms of cost structure, during Q1, I think most of the industry players managed to get some help from the landlord and from the government. Or even in some situation, some companies can manage to have certain agreement with their employees in terms of flexible pay. But that -- all these sort of onetime relief that I mentioned, they are likely to go down. It's not going away by Q2. And that situation is likely to happen during May and June. So that's point 1. Point 3 -- sorry, Point 2 is, what about Q3? Will Q3 be better? Hopefully. However, in our industry, we benefit from the summer because of children's holidays, because of children's holiday that usually give us 20% to 30% uplift of sales. But this year, the summer holiday for the kids will be shortened. To what extent is still not clear across the board, but it will be shorter. So that will be challenging. So this is the context.

And then come to your question, Brian, about the store closing from competitors and et cetera. We have seen some business, mainly the smaller competitors, are going such difficult times, some very famous named ones. So right now, this is the test for financial prudence, I suppose. But as I mentioned, it still will take some time to see the full impact.

Come to your question about store opening, we have not changed our guidance because, while things are very tough, we are cautious, but we are also optimistic at the same time because it is the time for us to continue to build our brand, further refine our business model and also it's possible that there will be some locations or store sites that become available, particularly the high-quality ones, if they become available, our financial prudence will be helpful to allow us to still expand and invest in new stores because we are here in China market for long term. And we -- in the long term, we still believe in the market potential. And thus, our unchanged guidance on new stores.

Andy, do you have anything to add?

Ka Wai Yeung ***Yum China Holdings, Inc. - CFO***

Sure, Joey. Just a few points, right? So as we mentioned, we're investing for the long term. So our fundamental view on China have not changed. We still think there's a lot of opportunity there. So although in the first quarter, we have done roughly 180 new store opening, we're slightly below last year's schedule. And as mentioned before, it's mostly impacted by post COVID-19 outbreak, obviously traffic situation there, in terms of worker can return to work, especially on construction site.

So we will try to make that up, make up the lost time in the coming quarters. And so, so far, we have not -- we targeted our 2020 new build target. So -- and same goes for other CapEx spending. So if you look at our importance, how important IT, online operations, supply chain, all these things are during the crisis, and I think, in the long term, I think those trends will continue, right? So we're seeing acceleration in -- from moving from offline to online, moving more to delivery, takeaway. So we need that infrastructure to support our long-term growth opportunities. So we will stick to $500 million to $550 million in CapEx spending this year as well. So hopefully, that helped answer your question. Thank you, Brian.

Operator

Our next telephone question is from Michelle Cheng from Goldman Sachs.

Michelle Cheng ***Goldman Sachs Group Inc., Research Division - Executive Director***

I want to follow up a little bit on the recovery path. Since, Joey, you just mentioned that industry has been -- will be quite challenging into second quarter, third quarter, but can you please share your thoughts about our recovery path for different brands? When do you think the same-store sales to recover to last year level and how to drive this improvement? And also I think in announcement, you mentioned the uneven recovery across region day part segment. And so can you share more color about this and potentially also the consumer groups like the younger generation families, et cetera?

Joey Wat ***Yum China Holdings, Inc. - CEO & Director***

Thank you, Michelle. For recovery path, as I mentioned earlier, the immediate focus right now is still about protecting our staff and also open as many stores as possible and also reopen the dine-in business in some stores that we were still not allowed to open. So that's immediate.

And then in terms of focus, immediate is about getting the traffic back. Because for Q1, for both brands, particularly for KFC, our traffic was very heavily impacted, but we make up for the loss of sales with much higher ticket average by going to corporate catering, et cetera, et cetera, or big item ticket delivery.

So right now, it's still about getting the traffic back. We are happy to see the trend improving during March and then April. Because April, right now, the same-store sales is slightly more than 10%, which is an improvement compared to March.

But in the medium term, the journey continues because our traffic is not back to last year yet. As I mentioned earlier, particularly during the weekend and the transportation hub. Then the question is what to do. So when I talk about menu innovation, I probably should have elaborated a little bit more. So if for example, for both KC and Pizza Hut, we adjust our marketing calendar. I'll give you an example. Traditionally, we put a lot of this value-for-money promotion during weekdays, particularly for Pizza Hut because weekday sales is slightly lower. And in Pizza Hut's case, the weekday sales is significantly lower than weekend. So we'll put the value program during weekdays.

However, now time has changed. And as I mentioned, the problem of a weekend, so we -- even for the same marketing campaign, we'll be shifting the weight of the value program to weekend and holidays to stimulate the sales to get the traffic back. So it's sort of a small tweaking, but incredibly important to get our bullet to focus on the right area.

Secondly, in terms of menu and innovation, food, exciting food. I mean, in Chinese, we call it Xiao Que Xing, small fortune, small happiness. During the crisis time, we launched Cha Ye Dan, which is a very traditional small, right, the egg, the tea egg. Customers were surprised and delighted. How do you guys manage to launch new product in the middle of crisis? And they were happy. And it's wonderful to be in food business that -- to see that we can put a smile on people's face during such difficult times. So whether during good time or bad time, good food still make people happy.

And this month, we test launched the plant-based chicken nugget. Very, very popular. So popular that even our own staff cannot have a taste of that because the coupons were gone in 1 hour. And as of right now, this week, Monday, we just launched Dou Hua Sweet Tofu. Well, actually, more than sweet, it's spicy and it's salty, different flavor across China. But this is like an amazing breakfast item and a traditional one. And it's an item that will bring back so much childhood memory for every Chinese because we have our Dou Hua when we were kids, but it's pretty much very hard to find right now because it's very -- it's street food. So we put the item on our menu. And the response was -- it's fantastic, so really look forward to that. So good food.

And then the value for money, good price. Because now or in the medium term or even longer term, there's such uncertainty of future. And even for people who might be a bit relaxed with the money in their pocket right now might think twice. So during such difficult time, the value for money becomes even more important. We did not raise price. Dou Hua is still priced at RMB 7, slightly more than USD 1, or actually exactly at USD 1. So the value for money will continue there. And we can only make it possible if we look at our entire cost structure and look at all the possible areas of improvement, so that we are committed to pass on the savings back to the customer. It's a commitment from our entire company, not only the customer but frontline employees. During the very difficult time, we launched -- we expand the medical coverage and we protect all our frontline staff pay even when the stores are closed because we understand the importance of our employee and our customer during bad time and good time. So there's no magic nor there's some fancy strategy there. It is about our commitment in the short term and long term to deliver customers something that they like so that they can enjoy affordable and delicious food, either in our stores or at their home or whatever convenient to take away. So Michelle, thank you very much.

Ka Wai Yeung ***Yum China Holdings, Inc. - CFO***

I just have a couple of things to add, right? So as we mentioned on our press release, our current, at least in this month, right, so far, our traffic is still down compared to the pre-outbreak level. I think more than 10% same-store sales compared to last year. And then we're also constrained, as Joey mentioned, right? So we have a slight proportion of our business is in the transportation hub and tourist location. As you probably know, most airports are still -- have very limited services. Same goes for the high-speed train services. So we do see that portion of business quite depressed.

So if you look at, our recovery trajectory, for example, in January, we go into the January, before the Chinese New Year, very strong. And then we were significantly impacted by the outbreak. The trough was in February. And then we're beginning to recover as the outbreak eased and people are beginning to return to work.

And we've benefited quite a bit because we have kept most of our stores open during that period of time, and we're one of the few options and safe and healthy options for folks to get food, right? And as we mentioned, like in the previous update, 20% year-over-year, like same-store sales decline in March, and then now we are about like 10%, right? So -- but we're still constrained. Tourist locations, transportation hub are still restricted quite a bit in terms of traffic. And then we look forward to the recovery. I think the timing of those locations, how they will recover, I think, is still a little bit uncertain at this moment.

And then also, as Joey mentioned, there's some social behavior change that are still lingering from the outbreak. Social distancing is still being practiced here in China. People, on the weekend, even when they go to a restaurant, they try to avoid congregation in large crowd, right? So I think how long that will last and how long it will take for us to go to the normal prior to the outbreak, I think is still quite a bit of uncertainty, and it's hard to predict at this time, especially given the situation globally and how that reverberates back into the Chinese economy and how that would change customer behavior, I think we still have yet to see clearly at this time.

Joey Wat ***Yum China Holdings, Inc. - CEO & Director***

Thank you, Andy. Michelle, I do notice that at the end of your question, you asked about the regional and tier. There is difference. East region has recovered the best. And then some region in northern part of China is still slightly behind. And in terms of city tier, our lower Tier cities are doing slightly better than the top-tier cities for a few reasons. The main reason is Tier 1 city like Beijing, particularly Beijing, Shanghai, Guangzhou, Shenzhen -- particular Beijing, these Tier 1 cities have disproportionately higher percentage of sales from transportation hubs. And since the transportation hub business are still heavily impacted, we are talking about half of the business being impacted in transportation hub, and thus, impact the overall top-tier city business recovery. For lower-tier cities business, it has been quite resilient for other reasons as well other than the lack of transportation hubs.

In lower-tier cities, during the most difficult time, it was not uncommon, and actually it was reported by some media outside China, if you go to -- if you went to a small city at that time, it was very likely that KFC was the only store that was operating. And even right now, as the country is recovering from the crisis, the competition in the lower-tier city still favor us because of our strong reputation in hygiene and food safety. And that's the difference. So thank you, Michelle.

Operator

Our next question is from Annie Ling from Jefferies.

Kin Shun Ling ***Jefferies LLC, Research Division - Equity Analyst***

I have 2 questions. First is on the cost side. Management mentions about like all these cost increase. I just want to check like whether this include all these like onetime relief in first quarter and possibly in the second quarter. And if you could like share with us what is the nature? You just talk about some of these like pension relief and all that. Would you share with us like what -- would you itemize what are this nature and on this part and whether it's included in our cost assumption and all that? And then also in terms of the commodity price increase, we understand -- it seems that based on some of the latest trends, the ticket price actually start to come down these days. So is it fair to say that we should be seeing some delay impact from last year's higher inventory costs that, first half, we might see a higher like commodity price increase and then, subsequently, it will be lower? How do we see this cost trend by half year basis? And lastly, in terms of the upcoming labor holidays, do we have any expectation? I mean, is it fair to say that this will be a good test in terms of like -- to test out how quickly the consumer can come back?

Ka Wai Yeung ***Yum China Holdings, Inc. - CFO***

Okay. Thank you, Annie. This is Andy. And so I will try to address your question regarding the cost increases, the onetime relief in the first quarter and how does that look like in the second quarter.

So as we mentioned in the prepared remarks, we did receive some relief from the government in terms of social insurance payments. There was a general reduction of that across China. We benefit from that as well. And so there's approximately $20 million of that in the cost of labor and then another, probably, a few million dollars in our SG&A. We also received rent reduction, right, so from the landlord in the quarter, it's about $15 million. So those, in total, is roughly about $40 million in onetime.

Now if you look at the social insurance payment reduction program, I think that's going to expire in early second quarter. I think in April is the last month that we would probably receive that relief. Now same for rent. Most of the landlord have agreed to rent reductions during the crisis. But as the economy is initially beginning to recover, we do not expect, if there's any rent reduction, to be the same magnitude as we have received in the first quarter. Now -- and we also have about $15 million worth of government incentive that we received in the first quarter that we normally receive in the second or third quarter. So if you do that, you will notice that we will benefit in the first quarter, but year-over-year comparisons will be more difficult for us going into the second -- in the third quarter.

Now I think you also have mentioned the commodity price. chicken, in particular. I think, as we mentioned, we do expect cost of sales at a single-digit level. The -- you're right. I think the demand declined -- the demand declines and logistic issues, we saw it from the COVID-19, have caused a temporary glut of supply in poultry during that period of time. And so the price had come down a little bit. But if you look at, however, the overall commodity prices is still very -- is still at a very high elevated level. If you look at, for example, pork price is more than double year-over-year, still very high level. The reason is because overall protein products remain very tight in China despite the crisis. So -- and then if you would think about the feedstock that are going to raising chicken and pigs and all that, it still remains very tight because transportation hub, transportation and international transportation are being impacted by COVID. So it may have an impact later on as well.

So as we have mentioned before, our contract generally are set at least a quarter ahead of time. And so I think we'll see how this is going to pan out. But I think, overall, I think our expectation is that protein prices in China, chicken, pork and et cetera, will remain elevated in the near term, at least immediate term.

So if we're also looking at the impact of how they shift. I think -- first of all, I think they're coming up this -- next week. We have the May 1 Labor Day or a long weekend. I think if you look at it's a tricky one, right? Because obviously, on one point, we have been cooped up in our houses for a long time and then we want to go out and sight see and do all kind of tourist attractions. On the other hand, the government also aware of the large congregation of people, at this point, probably not a preferred option. So we do see some cities in China have implemented different schedule for kids for the holiday period so that they try to alleviate that congestion during holiday outing.

And so I think it will be interesting to see how consumer behavior is actually going to work out for the long weekend coming up. But overall, I think we also are looking into other holiday and kind of a shift that will have impact on our business. So if you think about school year this year, have shifted quite a bit. So a lot of school have reopened. But I think a number of cities also announced that they're going to do -- shorten the -- or delay the summer vacation holiday. That's going to have an impact on our business. Obviously, historically, summer, when kids are out, people traveling, that generally is a peak season for us. So the shift in school holiday may have an impact for the summer for us.

Joey Wat ***Yum China Holdings, Inc. - CEO & Director***

Yes. And just for the May 1 holiday, on top of what Andy just mentioned, the transportation hub business will still be struggling. The reason is schools are opening up, particularly for the younger kids, after the May holiday. So that means that parents and kids are not encouraged to travel outside their city before the school started. So our transportation hub business in the train station are likely to continue to suffer a little bit, even during the May holiday. Thank you.

Operator

Our next telephone question is from Sara Senatore, Bernstein.

Sara Harkavy Senatore ***Sanford C. Bernstein & Co., LLC., Research Division - Senior Research Analyst***

I wanted to step away from the current environment and just ask about the portfolio you're building. You -- Lavazza now and then COFFii & JOY, the recent acquisition of Huang Ji Huang -- sorry, if I butchered that -- increased equity stake and I think in investee. So just how should we think about these acquisitions in terms of contribution to growth over time? Because I think, historically, some of your smaller concepts have not performed as well as KFC or even Pizza Hut. And maybe just a trade-off between making these investments now and suspending your share buyback as we think about how you're allocating capital.

Ka Wai Yeung ***Yum China Holdings, Inc. - CFO***

Yes. So thank you, Sara. I will try to address your questions. So in terms of our overall brand portfolio, for example, so you can think of it as sort of 3 main groupings for us, right? We have the Western food, which consists of KFC, Pizza Hut and Taco Bell. And our announcement of the equity investment in Suzhou KFC is to strengthen our control. So Suzhou KFC was a joint venture. We are able to negotiate a favorable term for us for this transaction. And so it's -- so we take that opportunity to gain control of the JV. And I think, over time, it would be incremental to our operations, okay? So -- and I think, going forward, I think we'll also look into other potential opportunity, obviously, to continue to grow our Western food portfolio in these 3 core brands.

Now if we look at the Huang Ji Huang acquisitions, that is sort of complementary to our existing leadership operation. So it forms our Chinese cuisine. And as we have mentioned, it's important to gain a larger share of stomach from Chinese consumer. Chinese food remains the largest portion of the restaurant business. So we'd like to gain some expertise in that area. It's a very large and growing market. So if you think about the investment, for Huang Ji Huang, which is slightly less than $200 million, and I think that is a good investment in terms of leveraging our existing infrastructure to scale that franchise business and, I think, in the long run, would help us to build expertise in Chinese cuisine products and services. It's an important long-term growth driver for us, okay?

In terms of coffee, I think coffee is mostly an organic initiative. So KFC -- so K-Coffee is sort of a brand within KFC, and we roll out that across our restaurants, have been very successful, right? So we have -- so, I think so far, right, 137 million cups of coffees, so making us one of the largest coffee seller in China.

And C&J is a concept that we launched a little bit more than a year ago or 2, almost 2 years now. It's still in a development phase. While it's not possible, and you should not expect building a new brand to be profitable in the first year or 2, but we are very disciplined. So if you have look at our store number and new build number, we have been extremely disciplined. And our concept is always to try and experiment with a product offering, with the format of the store. Once we have a winning formula, then we would scale it up quickly. Given our capability in building a store and building our infrastructure, I think that will be good. But the first thing is finding the right product, the right mix of model for C&J.

Now Lavazza. Lavazza is a joint venture we have set up. It's a wonderful brand, a wonderful coffee brand globally. And so right now, we have 1 flagship store for this joint venture. And we have been pretty well received since our like soft launch, right? And we will continue to develop that pipeline.

So in terms of our capital allocation strategy. We -- #1 priority for us, as we always mentioned, is organic growth. So we'll continue to invest in store opening, remodeling of our store. And then -- and the second part is that we continue to invest in some of these growth initiatives, like coffee, like Chinese cuisine. And if we look at the third one is, obviously, we're very committed to return excessive cash to our shareholders.

Over the past couple of years, we have -- we all -- obviously, we have a share repurchase program that was like $1.5 billion. We still -- we have repurchased almost 800 million plus of our share. We still have about $600-some million in the program. I think once the situation stabilized and become clear, and we would -- we'll continue that commitment to return excessive cash to shareholders. But we'll only do so when it's appropriate and prudent. During this time of crisis or during time of uncertainty, I think we have proven that a strong balance sheet is extremely important, especially for a restaurant operator. So that's #1 priority for us to make sure that we have the balance sheet to maintain normal operations, to deal with any contingency that may have -- arise and then continue to invest for our long-term growth opportunity, right? So that's our priority. I hope I addressed your question, Sara.

Operator

Our next question is from Christine Peng from UBS.

Yan Peng ***UBS Investment Bank, Research Division - Executive Director & China Consumer Staples Sector Analyst***

I think most of the questions I have, have already been addressed by the management. But if I could ask the last question I have towards Joey.

So given all the changes you are seeing in the restaurant industry during the COVID-19, especially given your resilience during this crisis, should we expect an even higher than 2019 expansion pace as you look into 2021 in terms of the store opening, et cetera?

Joey Wat ***Yum China Holdings, Inc. - CEO & Director***

Thank you, Christine. You are familiar with our business, and we always emphasize that we still have a rough guidance of the number of new stores, but we don't really give it as sort of a target to the business. We make the store opening decision from bottom-up perspective. So if we can find enough store that meets our financial assessment and the growth assessment, we'll open the store. Because financially, if we are prudent enough, we have the capital. But if the store itself does not pass the test, we don't. So therefore, it's very difficult to sort of have a very, very specific target. But if we see the opportunity, of course, we'll take it. But we never really push our team to chase after the target.

I mean, it's always good to have a bit more certainty. However, we have been doing it because we emphasize on the quality of the store more than the quantity of the store. And for us, the quality of the store is not something that we compromise. So I guess the short answer is it's possible if we find the opportunity. But if we do not find the opportunity, we won't force ourselves or push our team to do it.

Ka Wai Yeung ***Yum China Holdings, Inc. - CFO***

Right. And this is Andy. I want to emphasize that for -- even though we provide sort of a scope and target each year, but that is just sort of like a guideline aim that help our team to aim for. We have a very internal but disciplined process to make sure that the store that we open are financially viable projects. So it's very good that our team, our development team have done a very good job over the past few years opening new store. And as you can see from our financial performance, those store have very good payback. So if you look at KFC, it's roughly 2 -- a little bit more than 2 years. And then if you look at Pizza Hut, it's about 3 to 4 years. So very good by industry standards, and we'll try to maintain that going forward as well.

So as Joey mentioned, if they have find good targets, we encourage them to exceed whatever number. But if they don't, then they don't have to force themselves to get to that point.

Operator

As there's no more further questions, I'd like to hand the call back to the speakers. Please go ahead. Thank you.

Debbie Ding ***Yum China Holdings, Inc. - Senior IR Manager***

Thank you for joining the call today. We look forward to speaking with you on the next earnings call. That concludes today's call. Thank you, and have a good day.

Joey Wat ***Yum China Holdings, Inc. - CEO & Director***

Thank you very much. Thank you.

Ka Wai Yeung ***Yum China Holdings, Inc. - CFO***

Thank you, everyone.

Operator

Ladies and gentlemen, you may all disconnect, and goodbye. Thank you.