LikeFolio

Bullish on Burgers

5/31/2019

Bullish Alert for $SHAK

Takeaways/Key Points

1. Purchase Intent (PI) Mentions for Shake Shack restaurants have a strong positive correlation to the company's top-line revenues and, as a result, an impressive track record of predicting changes in the stock price.

2. Shake Shack's PI volume has demonstrated YoY growth in the past six quarters; shares of $SHAK have risen more than 30% in the same timeframe, due to the company consistently reporting revenues exceeding analysts' expectations.

3. Despite the ongoing streak of remarkable revenue improvements, Shake Shack's stock price remains roughly $10 below the levels attained just last Summer.

4. Expect this burger chain to boost their sales numbers further in 2019, as they reap the benefits of new store openings and current technological trends.

Potential Trade Ideas

Simple Option: Buy the stock

Option Spread: Sell the Jan. 20 62.5/60 Put Spread @ $1.30 Credit. Max Loss: $120 per contract. Max Gain: $130 per contract.

Aggressive: Purchase Call Options at or slightly out of the money with an expiry of December or later.

SHAK analysis:

Barring the volatile post-IPO price action seen in 2015, Purchase Intent Mentions for Shake Shack have remained predictive of the company's share price, with a lead time of approximately six to nine months.

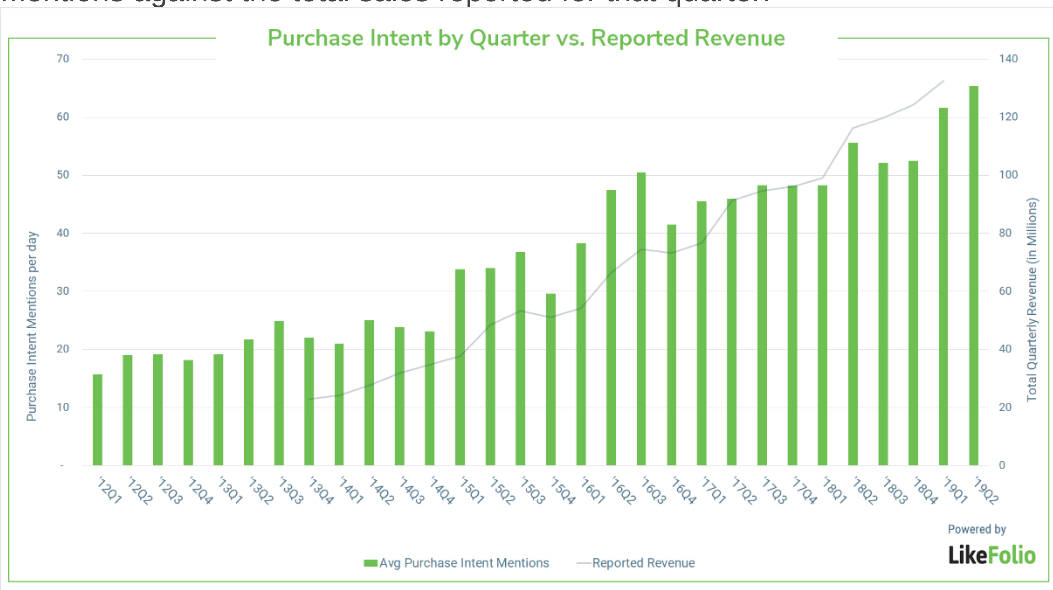
Consider the chart below, which plots the 365-day moving average of Shake Shack's PI Mentions against the company's stock price, beginning in 2013.

[Open this view in Dashboard]

Despite $SHAK shares crashing far below their initial value within a year of going public, Shake Shack's PI trendline has steadily improved since 2013, and the resulting growth of their customer base has caused their stock to regain bullish momentum in recent years. The moving average of Shake Shack's Mentions has reached a new all-time-high in 2019, which bodes well for a continuation of the stock's recent move higher.

The extended period of PI and stock price divergence, observed between late 2015 and the end of 2016 on the chart above, may seem to contradict the predictive capability of Shake Shack's Purchase Intent Mentions, but it wasn't a lack of revenue growth holding back the share price.

Consider the chart below, which plots the quarterly average of Shake Shack's PI Mentions against the total sales reported for that quarter.

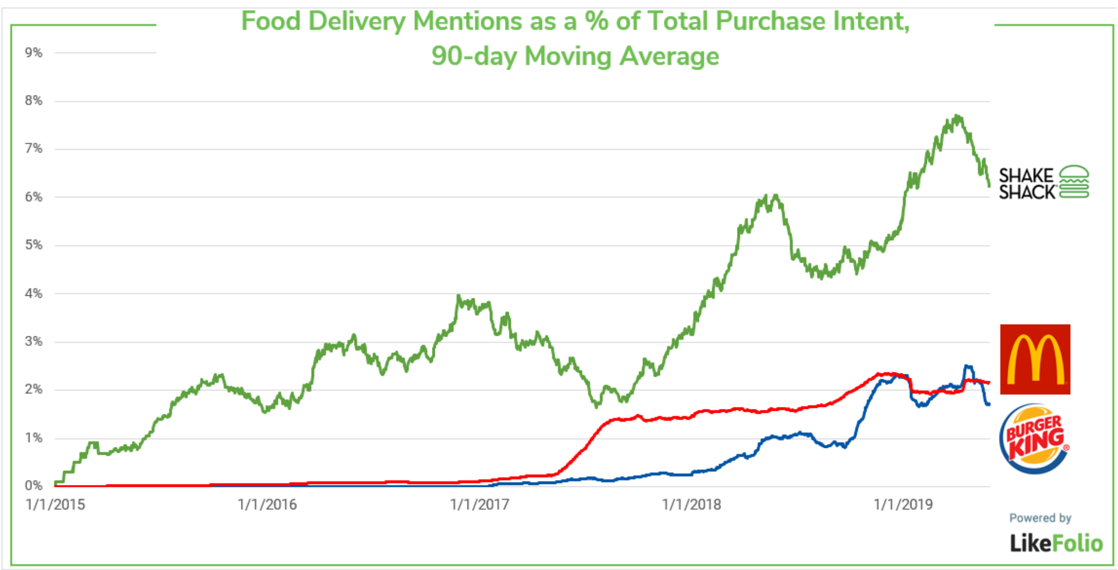


Since their IPO, Shake Shack has done a phenomenal job of enlarging both their revenue stream and influence across North America, mainly by opening new locations. Unfortunately, they have consistently struggled to remain profitable while expanding, with lower than expected same-store sales and shrinking margins casting doubt on the future of the brand during periods of robust revenue growth.

Recently, Shake Shack's campaign of relentless expansion has begun to benefit their stockholders, with the additional sales garnered from new markets starting to outweigh the development costs. In addition to the plethora of new locations slated to open in 2019, Shake Shack currently has a major societal trend working in their favor.

A recent LikeFolio report detailed the meteoric rise of app-based food delivery companies such as GrubHub, Postmates, and Doordash. Shake Shack and other "Fast-Casual" restaurants have ideal positioning within the market to benefit from the adoption of these services.

Consider the graph below, which compares the impact of delivery apps on Shake Shack's Purchase Intent to that of their fast-food competition.



By plotting the number of delivery app mentions for each brand as a percentage of their total Purchase Intent, the chart above demonstrates the overall relevance of delivery services for each company. Although Burger King and McDonald's average a higher volume of Purchase Intent Mentions overall, the rise of app-based delivery has had a far greater significance for Shake Shack, relative to other, more-conventional fast-food restaurants.

Shake Shack’s fast-casual layout requires more effort than the traditional drive-through burger joint, but they make up for the lack of convenience with increased quality. Having delivery as an option eliminates the hindrance of walking into a store to order. Shake Shack stands to benefit enormously from this tech trend, as they expand into a more substantial number of markets across the U.S.

Rising Purchase Intent Mentions, like those seen on the charts above, have accurately forecasted revenue growth for Shake Shack in the past; factoring in the company’s high potential for future growth, $SHAK represents a compelling long opportunity at the current price level.

Andy Swan
founder, LikeFolio