



Calls Surge in Dunkin' as Shares Hit New Highs

Ticker/Price: DNKN (\$76.90)

Analysis:

Dunkin' (DNKN) with a strong open this morning and trading 3,275 calls in the opening 40 minutes, 12X daily average. The action is focused on June \$75 calls trading 1,590X with 1,430 of the \$80 calls sold against in call spreads, earnings expected later this month. On the weekly chart DNKN shares are clearing 2018 highs this week out of a pattern that measures to \$88-\$90 longer term. The \$6.3B quick-service dining Co. trades 23.57X Earnings, 4.77X Sales and 61.6X FCF with a 1.97% dividend yield. DNKN expects 2019 to be a transitional year with revenues +3% and EPS +2.7% before accelerating into 2020. DNKN receives a premium valuation due to its asset-light 100% franchised business model and sees significant expansion opportunities remaining in the US and Internationally. Comps only grew 0.6% in FY18 but expects menu innovation to improve results moving forward. It is targeting 200-250 new units annually outside of its core markets. Analysts have an average target of \$72 and short interest at 5.7% of the float is at a new three-year low. Maxim removed DNKN from its top picks in the QSR space yesterday partly on weather impact concerns. BMO downgraded to Perform on 4-3 with a \$75 target positive longer-term but current risk-reward less attractive despite an opinion of the brand re-positioned for solid same-store sales growth the next several years. OpCo started shares Perform on 3-25 awaiting a better entry due to premium valuation. DNKN has also been often mentioned as a potential takeover target for a foreign buyer. Hedge Fund ownership was flat in Q4 filings.

Hawk Vision:



Trading Strategy: DNKN is a fresh breakout and prefer entry closer to 73.50, but remains a favorite name in the space as a multi-year fundamental tailwind play.

Confidence Ranking: \$\$