



Bulls Load Up on End of Year Calls for Fast Growing Luckin Coffee

Ticker/Price: LK (\$17.25)

Analysis:

Luckin Coffee (LK) with size buys in December \$22.50 calls yesterday up to \$2.60 and 12,000 showing in open interest today which follows 1,000 ITM June \$15 calls bought and the December \$15 calls with 1,380X. Shares had a rough debut after hitting near \$26 highs pulling back to \$13.70 and then basing near \$15 and this week showing some relative strength working out of that base despite China concerns. The \$4.13B Chinese coffee chain is trading 11.5X EV/Sales and forecasts calling for 215% revenue growth this year and 51.5% next year though a long way from profitability. It's been a fast grower after starting operations in just 2017 and going from nine stores by the end of that year to over 2,000 by the end of 2018. That number is just above 2,350 today with over 16.8M customers and 90M items sold. They did ~\$125M in sales last year with losses of \$241.3M as they scaled rapidly. The company has been discount/promotion heavy over the last year and they intend to continue this pace to gain traffic and share. LK is hoping to capitalize on the growing appeal of coffee in China. The market was \$5.8B in 2018 but up from around \$2.5B in 2014 and tailwinds going forward from a growing middle class. According to the ICO, China's consumption of coffee per capita is still relatively low at three cups a year vs 363 in the US but grew 16% in the last decade vs a global growth rate of 2%. A comparison that companies like LK will make is to Japan which saw a big upswing in consumption through the 2000s and is now the fourth largest in the world. LK is a hugely tech-focused retail outlet. None of their stores have cashiers but instead rely on mobile apps for ordering. The most popular style of store they have are called 'pick-up stores' which are smaller outlets with limited seating. They've been strategic in where they build targeting areas like high-density urban zones and universities where they can keep overhead low and volumes high. These stores represent around 92% of all their operations. LK also touts their use of AI and big-data to streamline operations and target consumer behavior. LK has its share of competitors in China, most notably Starbucks, so let's look at a quick comp. The latter has made China a priority and has over 3,600 stores in 150 cities and they are targeting 6,000 by 2023. They have nearly 60% of the market share and their China operations had over \$700M in revenue last year. Darsana Capital disclosed an 11.2% passive stake in LK. We likely to see some analyst coverage roll in soon.

Hawk Vision:



Trading Strategy: LK has a clear base to trade against though likely a name that sees a lot of short interest due to its money losing operations, but the opportunity seems attractive overall with plenty of upside potential for revenues.

Confidence Ranking: \$\$