



Size Call Buys in Luckin Coffee See Strong 2020 Ahead

Ticker/Price: LK (\$26.25)

Analysis:

Luckin Coffee (LK) with a buyer of 10,000 January 2021 \$30 calls today up to \$5.40, sizable long-term position in a name that continues to trade a lot of bullish flows. Recently, LK has also seen over 9500 December \$30 calls and 4000 December \$27 calls bought. Shares have been on a massive run over the last week and far overbought near-term but the 2019 range breakout above \$27 has a measured move to \$40 and LEAP positioning gives plenty of time. The \$5.12B company trades 17X sales and 5.9X cash with estimates for 165% revenue growth in 2020 and 81% in 2021 with profitability within two years. LK has been growing exponentially over the last 12 months with plans to expand their footprint by 4500 stores in mainland China by year-end, more than Starbucks's entire base. LK is focusing on expanding their brand with new spokespeople, retail partnerships, advertising at events like the China Open, and better placements at high-traffic areas. Their focus on smaller stores and investments in making to-go more efficient are driving customer growth as well as better ticket realizations. Last quarter, LK saw a 470% increase in items sold while average customers rose near 400%. One major area of growth in 2020 will be tea with the company positioning LK Tea as an independent concept. They tested it in two cities in April and started the official roll out in October. The concept is focused not on metropolitan areas where coffee is growing faster but rather lower-tier cities where tea remains dominant. They noted on the call last week they hope exposure to their brand will eventually convert to coffee consumption over time. Short interest is 5.7%. LK had some notable hedge funds buy in Q3 including Melvin Capital, Alkeon Capital, Darsana Capital and Southpoint Capital. Analysts have an average target for shares of \$25.50. Needham at Buy seeing strong disruption potential from their small-format stores that are playing to a large under-served mass market. The firm thinks their tech-driven model will help give it a long-term advantage over SBUX in the area.

Hawk Vision:



Hawk's Perspective: LK has surged the past week and not the best spot to get involved, but one that is likely to give opportunities in the future keeping this position in mind.

Confidence Ranking: \$\$