Darden Calls Bought as Reopening Seen Spurring Sales

Ticker/Price: DRI ($65)

Analysis:

Darden (DRI) buyer of 6,000 July $70 calls up to $5.60 to open today and follows buyers of 1,500 July $80 calls yesterday. DRI has seen bullish positioning out into October and later with the January $70/$100 call spread and January 2022 $60/$100 call spread bought longer-term. DRI is trading back to YTD VPOC today around $62.50 after rebounding from the March lows. The recent multi-week consolidation under $80 has upside to $100 and the 200-MA with a continuation higher. The $8.62B restaurant operator trades 27X earnings and 0.98X sales with ample cash and liquidity after an equity raise on 4/21. Like many others, DRI saw a sharp drop in sales at the start of the pandemic but noted on 4/20 that their to-go business had improved steadily with comps at both Olive Garden and Long Horn growing M/M. Analysts have an average target for shares of $86.75. BAML positive on 4/22 noting that the equity raise puts them on the offensive and they should outperform peers given their scale advantage and growing cost of capital advantage to others following years of conservatively running their balance sheet. BTIG positive on 4/8 noting that Olive Garden has been strong relative to peers in their checks since the shutdown started and off-premises growth had started far before the current situation. They think DRI is better positioned than others to survive a long-term shift in consumer behavior and take share when things re-open. Raymond James stress tested the stock on 4/2 noting that the company can still earning $6/share in EPS in a to-go and limited capacity environment. Short interest is 6.2%. Hedge fund ownership fell 4% in Q4. DRI saw a lot of insiders buy stock in the offering at $58.50 including a $1.5M allocation for the CEO, $1M allocation for director Tim Wilmott, and a $750k allocation for another director. In total, twelve insiders bought stock.

Hawk Vision:

Hawk's Perspective: DRI is likely a top survivor but still prefer focusing on the main delivery/takeout plays like **CMG, WING, DPZ** in this environment.

Confidence Ranking: $$