



FEATURED OPTIONS RADAR REPORT



Darden Calls See Rally Continuing

Ticker/Price: DRI (\$100.70)

Analysis:

Darden Restaurants (DRI) with a buyer of 1500 November \$105 calls for \$5.20 on 9/30 while 750 January \$100/\$125 call spreads also traded. DRI recently saw opening sales of 4500 October \$90 puts and has 4500 of the \$100 calls in open interest and 5800 of the October \$95 calls, the latter part of \$95/\$85 strangle sales. DRI also still has 1900 January \$95, 1300 January \$100, and 1500 January \$110 calls in open interest. Shares continue to recover from the COVID shutdown impact and recently cleared a \$70/\$90 range that measures back to \$110. The \$13.1B owner of Longhorn Steakhouse, Cheddar's and Olive Garden trades 16.65X Earnings and 1.8X Sales with a 1.2% dividend yield. DRI forecasts see revenue growth of 17.7% in 2022 with 2021 sales seen lower by 4.8%. DRI reinstated its quarterly dividend and is transforming its business model via technology to improve the guest experience. It is still seeing strong sales at restaurants and adjusted its cost structure to generate strong cash flows. DRI off-premise sales jumped 123% last quarter and represented 45% of total sales with 60% coming from online sales. Analysts have an average target of \$107 and short interest is low at 4.6% of the float. CSFB started coverage in July at Buy noting DRI is the best-in-class casual dining operator and sees future market share gains and improving margins. Argus raised shares to Buy with a \$115 target this week seeing Darden turning the corner on sales comps and sees shares undervalued at 16X Earnings. Loop Capital raised its target to \$115 noting best-in-class management and positive on profitability and cost controls. Truist raised its target to \$128 noting the reimagined business will come with higher margins and sees easing of restrictions leading to better comps. Hedge Fund ownership fell 1% in Q2 filings, Soros Fund a top holder and Sachem Head took a new position.

Hawk Vision:



Hawk's Perspective: DRI is a bit extended near-term and typically prefer **WING/CMG** but Darden offers attractive valuation and a transformation story, the October/November \$105 call calendar looks like a nice strategy.

Confidence Ranking: \$\$