Bryan’s Hot Stock: Shake Shack (NYSE:SHAK)

Nothing says Spring like snow flurries outside my window in Waltham, Massachusetts. As I lay bundled in bed sipping a warm cup of coffee, I can’t think of anything I want more than some comfort food to combat the cold. That’s why I decided to write a short piece on one for my favorite stocks and restaurants, Shake Shack (NYSE: SHAK).

Description:
“Shake Shack is a modern day “roadside” burger stand known for its 100% all-natural Angus beef burgers and flat-top beef dogs (no added hormones and no antibiotics ever), 100% all-natural cage-free chicken (no antibiotics ever), spun-fresh frozen custard, crinkle cut fries, craft beer and wine (available at select locations) and more. The company offers high-quality food for a great value, and focuses on ensuring an excellent customer experience with a lively ambiance. It strives to uphold its mission to Stand For Something Good®. The Company has opened numerous locations across 20 states and the District of Columbia, as well an international location including London, Istanbul, Dubai, Tokyo, Moscow, Seoul and more” (source: Shake Shack Website)

Fundamentals:

- SHAK holds a leading position in the “better-burger” fast food category, demonstrated by growing revenues, strong expansion prospects, and a strong emphasis on brand recognition.
- The Company is looking for open 110 new locations domestically and 51 licensed restaurants (primarily overseas), with a long-term target of 450 company operated restaurants by 2027. This translates to adding between 32-35 locations a year.
- Building a strong brand awareness dedicated to higher quality food in the age of rising health concerns will allow SHAK to acquire sales from traditional fast-food organizations.
- SHAK has embraced the technological age by advancing its digital platform by creating the SHAK app, which ahs resulted in 15% high check balances relative to in-store visits.

Stand For Something Good®

Technicals

- 50-day moving average indicates upward momentum potential. I've seen a lot of volatility in the markets these past weeks, and fears of trade wars have been sending higher-beta stocks down. But as tensions ease, we could be headed for more upside.
- Reversal of death-cross (200-day MA above 50-day MA) imminent as spreads between 50 and 200 day moving averages tighten. I project this will ultimately reverse given the recent volatility we've been seeing.
- You can notice that relative to previous history, volume is low, and individuals are buying. This stock price is highly sensitive to changes in trading volume, and as more investors arise from fears and reinvest in the equity markets, this has upside potential.
- Well-within Bollinger bands. Higher levels were accompanied by a downfall in price, but the current price is evenly distributed, indicating potential to rise higher before correction.
- Breakout from YE 2016 to mid-2017 indicates shift in investor sentiment, allowing stock to push to higher highs. There is an uptrend from September 2017 to Feb 2018.

Why SHAK:
Besides the fact that snow is in the forecast for Boston this week, I chose this company because it truly resonates with me as a good company. It is a major competitor in the fast-casual dining space, gaining market share and increasing revenues year-over-year. It is prone to typical

cyclical risks due to customer behaviors and economic downturns (less people eat out when the market isn't doing well) and has strong positive free-cash-flow as of FYE 2017. The company does not pay a dividend, meaning that it will retain its free cash. This is good because SHAK has profitable ideas to expand and create more restaurants into new markets. More restaurants have translated into increased revenue, and it will be interesting to see market penetration in more southern states as opposed to primary concentration in the Northeast.

Risk(s):
A major indicator of a company's performance in the restaurant industry is same-store sales growth. Unfortunately for SHAK, same-store sales have been stagnant, and are projected by management to be stagnant. I worry that long-term growth prospects and expansion without accompanying same-store sales growth might result in poor performance and an inability to service fixed costs in the long-run. Moreover, the company pledges to Stand For Something Good®, but what might happen if a food-borne illness breaks out, or bad news about the sustainability practices is leaked? SHAK is much more sensitive since this is a core tenant to its business model.

Final Thoughts:
Every investment has the potential to surprise you. A student of the markets, I've seen my investment theses fail and be affected by events I was unable to anticipate. However, the benefit to all that was that it is all a learning experience. The more things that happen, the more you learn about an industry, and the less surprises you'll have down the line. For any company, you must consider greater risks than disclosed, its fundamentals, technical indicators, and the potential for it to succeed in the long-run.

To your success,

Bryan Baratian