

5/25/2016

As of today, we are 99 trading days into the year and the S&P is up 2.2%. The S&P is also up 2.0% in the last day and a half. Ever feel like it would be more productive to take 6 months off? We're lucky to have access to good ideas though. In the short time we've been publishing SGI, we highlighted 3 companies that have double digit returns and the group overall has an average return of 4.9%. I guess it pays to look for stocks with improving fundamentals and reasonable valuations.

David Eller
david.eller@streetinsider.com

Costco Wholesale Corp (COST)

- SSS may be suffering in part from credit as some members are shifting away from using the Costco Amex, this could reverse in June with Visa
- The number of organic food items is continuing to rise which comes with a higher price point than non organic
- Valuation wise, the stock is not expensive but it isn't cheap either at 24x out year EPS.

Same Store Sales should reaccelerate after the Visa credit card transition.

After a year of comp store sales coming in below trendline, the slowing growth may finally be coming to an end when Visa replaces American Express next month. UBS analyst, Michael Lasser, believes that growth was artificially constrained as people switched from AmEx to debit cards and the reduced flexibility of using a cash substitute rather than credit reduced the average transaction size. When the Visa goes into effect next month, if the analyst is right, we should see an uplift in SSS as people use credit as opposed to cash.

COST is reporting earnings tomorrow, 5/26, before the bell and the focus will be on the company's expense management and outlook. Over the last few years, comps have averaged 3-5% growth but this quarter, SSS implies that growth will be just below that level. Expectations are low for this reason but according to RBC analyst, Scot Ciccarelli, SSS should benefit from strong membership growth helping the numbers to stabilize. Combine this with the CC transition, reduced FX headwinds and an improving organic product selection and we believe the risk is to the upside ahead of the quarter.



Buffalo Wild Wings (BWLD)

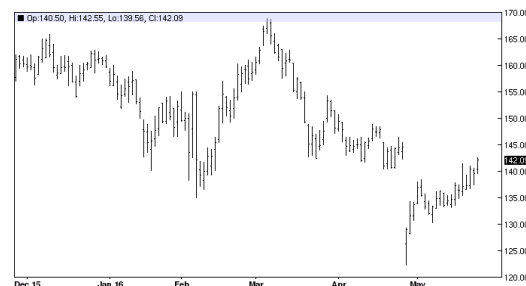
- The company's biggest input cost, Wings, has fallen 16% in the last month
- Revenue growth is in the mid to high teens but expectations are low for the coming year with only a 13% growth rate modeled.
- Profit margins have been holding ~7.5% for the last two years and likely to see an uptick on lower input costs.

The thesis is margins should improve immediately on lower input costs which are not in guidance

Chicken wing costs had remained stubbornly high through April, not seeing the normal decline post the NCAA tournament, partially because of a large QSR chain stockpiling ahead of a promotion (see Mighty Confident Wings Can Come Down). With that inventory build seemingly over, Urner Barry wing costs have fallen 16% since late April and are now down 4% year over year, which benefits BWLD's costs for June.

The lower input costs offer the company more flexibility on promotional activity as well. The company has revamped its happy hour and offers specials for "Wing Tuesdays" but as we head into the Olympics, promotional activity is likely to increase which will raise SSS and create intra quarter catalysts.

At 27x earnings, the stock is below its 5 year avg of 31x and is trading at a 1.4 PEG multiple with earnings growth at 19.5%



Cray (CRAY)

- Cray's new unified single system for big data processing and graphing is targeted at Enterprise clients, a segment that is relatively untouched and could increase revenue growth over years
- Revenue growth has been increasing from the high 20's in 2015 to 32.5% in the most recent quarter
- Valuation is 41.8x EPS below its 5 year average of 68.5x

**Cray is entering the relatively untouched enterprise market with a custom solution for data analysis, offering a huge incremental revenue opportunity**

Cray announced the launch of Urika-GX, which is a combination of Cray's Urika-GD and Urika-XA, the company's two previously existing systems targeted at graph analytics and big data Hadoop/Spark workloads. Cray intends to use the Urika-GX to gain traction with enterprise customers that want to run big data and graph analytics workloads on a single system.

Even though customers have been testing the systems, installations are primarily running proof-of-concept big data workloads on small clusters. The high-performance nature of Cray's Urika-XA is well placed competitively with its superior interconnect technology to facilitate the movement of data which is crucial for any high-performance big data analytics workloads.