

# Restaurant Stocks Are Getting Beaten Up Again. But Chipotle and Wingstop Are Winning the Pandemic.

By [Jack Hough](#) July 2, 2020 6:21 pm ET



Luke Sharrett/Bloomberg

This past week I got a taste of life beyond the pandemic, and it was pumpkiny and sugar-glazed. Restaurants near me have been opening back up for on-premises dining, and when I popped into a bake shop for a doughnut, the sidewalk tables were mostly free. For the first time since March, I ate out.

A day after that deep-fried milestone, however, I read a troubling report on wait times at Olive Garden. Back in the third week of May, 73% of Saturday night visitors were seated in 15 minutes or less, according to BofA Research. By early June, that was down to 52% —a sign that diners were venturing out. But the latest reading is back up to 74%.

It isn't just Olive Garden. [Data from OpenTable](#) shows that reservation growth slowed to a crawl toward the end of June and slipped into reverse in Texas, Arizona, and Florida, which have seen recent Covid-19 spikes. [Goldman Sachs](#) says spending gains at grocery stores, which had been slowing, recently surged again. The firm's "reopening scale," which tracks shopping, streaming, flying, and more to give a sense of how quickly things are returning to normal, just recorded its first backtrack.



## Chipotle's Back. Also, Who Needs REITs?

The burrito chain's CEO on culinary changes, the pandemic response, and growth potential. Also, Jack takes on real estate.



00:00 / 23:38



SUBSCRIBE

Don't despair, but do take these signs as a reminder that the bounceback is likely to be uneven, and sometimes halting. For the stock market in general, and the restaurant group in particular, share prices have held up well, considering the recent hit to profits. A subindex of 25 restaurants large and small that is part of the S&P 1500 index is down only about 8% year to date. But performance varies wildly among individual names. The entire group is being pulled higher by [Domino's Pizza](#) (ticker: DPZ), up 28%; [Papa John's International](#) (PZZA), up 31%; [Chipotle Mexican Grill](#) (CMG), up 28%; and [Wingstop](#) (WING), up 66%.

READ NEXT ▾

[These 2 Wireless Stocks Will Benefit From 5G, Bernstein Says](#)

[What Investors Who Have Never Driven a Tesla Should Know](#)

[Wear a Mask — That's How We Stop Covid-19 Together](#)

Investors are left with a choice of either cheap and troubled names or thriving chains with spicy valuations. [Cheesecake Factory \(CAKE\)](#), down 44% this year, trades below 10 times last year's earnings, but is expected to report a hefty loss this year and not return to last year's level of earnings for years. Wingstop sells for more than 100 times this year's forecast, but it's expected to report higher earnings per share this year and then double that figure over the following four years.

Nicole Miller Regan, who covers more than 20 restaurants for Piper Sandler, calls Wingstop a top pick. I would have guessed one reason: The bulk of the business is takeout, which has helped during the shutdown. Another reason surprised me. Wingstop's customer base skews slightly male, and Regan says consumer surveys show a pandemic gender divide, with men "less anxious" about reopenings. "Mom's saying, 'No, I'm going to stay home and have Chipotle delivered while I'm in my [Lululemon pants](#),'" Regan says. "Dad's out buying a rifle and RV and chicken wings."

Let me emphasize: This is Regan's take on gender preferences. I'm just sharing it. Please don't petition my boss to make me sit through Zoom sensitivity training. If anyone's looking for me in the week ahead, I'll be speeding away in my RV, trying not to get wing sauce on the steering wheel.

**Another of Regan's top picks** is Chipotle, at more than 50 times next year's earnings forecast. I spoke recently with its chief since 2018, [Brian Niccol](#). He came from Taco Bell, where he presided over the introduction of Doritos-dusted tacos and a sales turnaround. Alas, there are no plans for Doritos dust at Chipotle.

A year before Niccol made his move, [I wrote a cover story](#) saying Chipotle has room for growth, but that a series of illness outbreaks raised the question of whether some of the chain's laudable practices, like local-farm sourcing and plenty of in-house cooking, made food safety more difficult. Piper Sandler's Regan says the company had simply outgrown the management of its visionary founder, Steve Ells. "You don't often see the founder running the company for that long," she says.

Niccol brought in new talent and modernized how the company oversees suppliers and prepares food. "If you're going to take care of making the guac, you're not the person who prepares the meats," he says. Along the way, consistency improved, based on customer feedback.

Niccol also turned a secondary food-prep line for handling big catering orders into a new system for preparing digital orders without slowing down the main line. Young customers especially want digital ordering, he says. Plus, it allows for a rewards system, which is good for business. In January and February of this year, same-store sales shot 14% higher. Chipotle was back.

What Niccol didn't anticipate was a pandemic and shutdown. He says mobile app adoption that would have taken several years happened in months, and digital went from 20% of his business to 70% to 80%. That has kept same-store sales declines modest. He says 30% to 40% of his restaurants have reopened, but that not many people are dining in.

READ NEXT 

[These 2 Wireless Stocks Will Benefit From 5G, Bernstein Says](#)

[What Investors Who Have Never Driven a Tesla Should Know](#)

[Wear a Mask — That's How We Stop Covid-19 Together](#)

7/9/2020

Restaurant Stocks Are Getting Beaten Up Again. But Chipotle and Wingstop Are Winning the Pandemic. - Barron's

Regan and Niccol agree that size is important now. "Scale is going to absolutely dominate this market," Regan says, emphasizing strong balance sheets. Niccol says Chipotle's scale is a competitive advantage. He says smaller chains can do burritos, but not ones big enough to feed two people for \$8 to \$10 using what he calls a different approach to animal welfare and regenerative farming. He says the chain can eventually more than double in size in the U.S. alone, and do much more business per restaurant.

I took the part about his burritos feeding two as a challenge, so I downloaded the app, arranged for a pickup time, and paid a deep-cover visit to the nearest drive-through at the precise minute. The food was within arm's reach of the window attendant, and piping hot. At home, I downed the whole burrito—three-quarters of it joyfully, the last few bites dutifully. I felt like a tranquilized bear, but not one bearish on Chipotle's growth.

**Write to** Jack Hough at [jack.hough@barrons.com](mailto:jack.hough@barrons.com)