Wealth | Investing

Netflix, Chipotle and Evergrande: Investments in the Spotlight

Bloomberg Wealth reviews assets that made a splash this week.

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Streaming Slump

Is the world's most popular streaming service feeling a post-pandemic hangover? **Netflix Inc.** suffered its worst stock decline in three months, falling as much as 4.8% on Wednesday after reporting it added 1.54 million new subscribers in the second quarter. While that was above analyst estimates, it was a far cry from its performance in the same period a year ago.

The streaming giant saw a surge in new subscriptions during the pandemic as lockdowns kept people in their homes, with shares gaining nearly 70%

over the course of 2020. But with economies reopening, the company is struggling to match that performance.

Management sought to assure investors that there is still room for Netflix to grow, even in the face of competition from competitors such as HBO Max and Disney+. Netflix also announced new offerings such as video games based on their most popular original series and movies.

What's next? The expansion into gaming will drive user engagement and help attract younger subscribers, said Canaccord analyst Maria Ripps. "While subscriber growth volatility may impact near-term sentiment, we see Netflix as well positioned to increase its share of entertainment screen time given its robust investment in quality original content, improving cash flow profile, and global scale," she added.

Sales Boost

Inflation didn't dampen business for **Chipotle Mexican Grill Inc.** On Tuesday the chain reported that comparable sales rose 31.2% in the second quarter, outpacing analysts' projections for a jump of nearly 30%. Shares rose 12% on Wednesday on the news and are up around 30% since January.

The company made news in June when it raised menu prices in response to wage pressures and increased food costs, sparking doubts about whether consumers would be willing to spend the extra money. Encouraging sales figures are a sign that diners have largely shrugged off higher prices, at least for now.

During the pandemic, Chipotle benefited as lockdowns closed sit-down restaurants, forcing diners to frequent fast-casual chains instead. Management is looking to build on that success and announced plans to open new locations and add drive-thrus.

What's next? Online orders should remain a growth driver even as the pandemic recedes. "Chipotle may gain U.S. market share again in 2021, as we see it, fueled by the retention of digital sales, as well as an enhanced loyalty program and strong operations," said Bloomberg Intelligence analyst Michael Halen, predicting restaurant margin might surpass 23% this year.

Evergrande Woes

In a sign of dwindling confidence in the world's most indebted developer, four of Hong Kong's top banks stopped offering some mortgages for buyers of **China Evergrande Group**'s unfinished residential properties (two banks are now reconsidering the halt).

It adds to a week of woes for the developer, which already had a $20 million bank deposit frozen by a local court and was hit with a sales ban by a city government alleging it failed to set aside enough funds in escrow accounts.

Though the ban was later removed, concerns are growing among investors that Evergrande isn't selling properties and assets fast enough to repay its debts. Shares in the developer have tumbled some 28% just this month with several of its dollar bonds hitting record lows.

What's next? Evergrande has a history of "pulling a rabbit out of a hat in terms of financing," said Nigel Stevenson, an analyst at GMT Research Ltd. "The problem is if that confidence ebbs away, people start looking out for their own interest and grabbing whatever they can. That's the danger of things unraveling quite quickly."

Space Dreams

It's not just Jeff Bezos focusing on space. Speculators are starting to eye space-themed ETFs and startups in search of the next big thing.

Cathie Wood's ARK **Space Exploration ETF** launched earlier this year and has already attracted more than $600 million in assets. A raft of startups including launch company **Rocket Lab USA Inc.** have announced plans to go public.

It's not all going to the moon, though. For example, shares of Branson's **Virgin Galactic Holdings Inc.** have plunged since his space trip earlier this month because investors got jitters about how long the road might be from the splashy first trip to a viable business.

What's next? It's difficult to overstate how speculative such investments are. Still, there is the lure that you just might get it right. "It's got an opportunity for enormous growth in ways that we can't even imagine," says Noah Damsky, founder of Marina Wealth Advisors in Los Angeles. "Like Bitcoin a number of years ago, it could be something that we can't even fathom."

Buyout Confidence

Back on earth, the stock market debut of private equity firm **Bridgepoint Group Ltd.** was met with a resounding thumbs-up. Shares jumped as much as 28%, pushing its market value to about $5 billion.

Bridgepoint, which owns stakes in the likes of Burger King franchises and sushi fast-food chain Itsu, was spun out of Royal Bank of Scotland Group in 2000. It's the largest listing of a U.K. private equity firm in decades. Unlike their U.S. rivals, buyout groups in Britain are usually private partnerships.

The IPO comes amid a buyout firm spending spree in the U.K. as firms vie to takeover publicly traded companies like grocer **Wm Morrison Supermarkets Plc.**

What's next? Expect the buzz to continue as other private equity companies consider their options. **Antin Infrastructure Partners** is considering a listing and **TPG** is weighing a potential IPO or merger with a special purpose acquisition company, people with knowledge of the matter have said.

“Private equity is one of the most in-demand asset classes right now given the opportunity for these businesses to pick up investments at relatively cheap valuations,” said Liberum Capital strategist Joachim Klement.

– With assistance from Charlie Zhu, Swetha Gopinath, and Lucas Shaw