



**NFLX, UNP, AA**

**Netflix (NFLX)** will announce results 1/19 after the close with the Street consensus at \$1.39 EPS and \$6.62B in Revenues (+21.1%), and Q1/FY21 seen at \$2.10/\$7.02B and \$9.06/\$29.56B. NFLX shares have closed lower its last four reports and seven of the last eight with a six quarter average max move of 7.3%. The \$220B streaming leader trades 55X Earnings, 7.7X EV/Sales and expectations for 18.4% revenue growth and 44% EPS growth in 2021. NFLX last quarter saw growth slow and cited the pull forward impact from the pandemic. Q3 average streaming paid memberships rose 25%, while streaming ARPU decreased 1.6% year over year and added 2.2M net memberships versus guidance of 2.5M. NFLX forecasts 6M net additions in Q4 versus 8.8M in Q4 2019 and would put it at a record 34M for 2020. Analysts have an average target of \$555 and short interest at 2.1% of the float remains muted. Citi raised its target to \$580 from \$450 last week though prefers Disney and sees some issues in coming quarters from price hikes dampening net additions. Canaccord has a \$630 target and sees estimates as conservative. Bernstein notes that widespread pricing increases are likely in 2021. KeyBanc has a \$634 target and notes a strong quality film slate in 2021 with more star power. CSFB sees results in-line though notes the overhand from tough 1H comps and churn from price increases, likely NFLX a second-half story with margin upside. Hedge Fund ownership fell 4.6% in Q3 filings, Edgewood, Magellan and Lone Pine adding to positions. On the chart NFLX shares have consolidated since July and been holding the rising 34-week MA as support with \$510, \$525, and \$545 key upside resistance levels. If shares break lower a 50% retrace of the post-March rally sits at \$432 with \$482 key volume support as a breakdown level that aligns with the 200-MA. The weekly has an explosive bull pennant pattern so the upside breakout potential above \$545 is alluring. NFLX options are pricing in a 6% earnings move with 30-day IV Skew at 0% comparing to the +2.2% 52-week average. NFLX last week with a buyer of 850 June \$510 calls for \$4.2M, a seller of 1000 June \$440 puts, and recent large buys of 2000 each July \$500 and \$530 calls. There are also 1700 weekly \$490 calls bought on 1/12 in OI and 2000 February \$510 short puts from 12/28.

Trade to Consider: Long the **NFLX** February \$500 Straddle for \$57 Debit



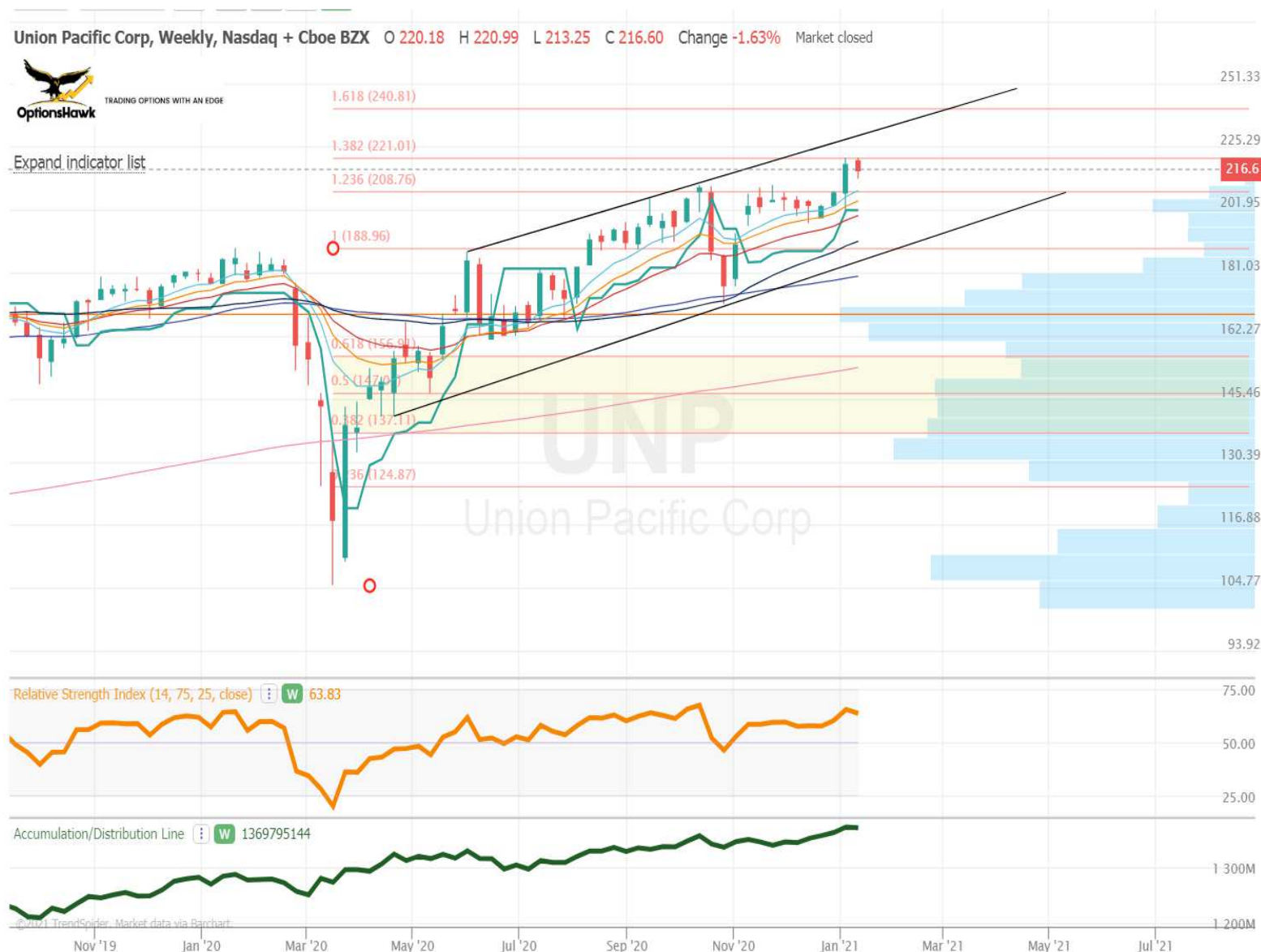
**Alcoa (AA)** will announce earnings 1/20 after the close with the Street looking for \$0.10 EPS and \$2.34B in Revenues (-3.8%), and Q1/FY21 seen at \$0.34/\$2.51B and \$1.21/\$10B. AA shares have closed lower three of the last four reports and a six quarter average max move of 9.77%. The \$4.37B aluminum leader trades 28X Earnings, 3.6X FY21 EBITDA and 18.05X FCF. AA forecasts see 4% revenue growth in 2021 and 63% EBITDA growth. Aluminum prices rebounded in 2020 and the Biden stimulus plan is seen as a boost for metals though the industry is concerned with a removal of the Section 232 tariffs. AA's reliance on the Aerospace industry is likely a headwind until we see a recovery in global travel but the Automotive sector should be a positive. AA has been transforming the last few years restructuring its portfolio and selling non-core assets while increasing productivity. China's V-shaped recovery has played a strong role in recovering metal prices. Analysts have an average target of \$22 and short interest at 5% of the float has fallen 27% Q/Q. Goldman started shares Sell in November with a \$12 target citing weak cash flow generation due to high pension and environmental expenses with limited volume growth. Hedge Fund ownership rose 5% in Q3 filings. On the chart AA shares recently broke out of a bull flag and then pulled back to the 21-day MA last week with volume support near \$22 and the 55-MA down at \$20.35 as another support level. The weekly flag breakout measures way up to a \$35 target. Shares did stall right at a 38.2% retracement of the 2018 high to 2020 low at \$26.80. AA options are pricing in a 6.65% earnings move and 30-day IV Skew at +0.8% is in-line with the 52-week average. AA had a buyer of 1000 July \$20 puts last week but mostly bullish flow since November. The February \$20 calls with 4900X bought in OI, the April \$21 calls with 3000X bought, the Jan. 29<sup>th</sup> (W) \$23 calls with 10,000X bought, and March \$30 calls with 18,000X bought while February \$20 puts sold to open 5000X.

Trade to Consider: Long the **AA** April \$22/\$27 Call Spreads at \$2 Debit



**Union Pacific (UNP)** will report results 1/21 before the open with the Street expecting \$2.23 EPS and \$5.08B in Revenues (-2.4%), and Q1/FY21 seen at \$2.20/\$5.15B and \$9.53/\$21.09B. UNP shares have closed lower the last two reports after being higher the previous 7 and a six quarter average max move of 5.05%. The \$142B Rail leader trades 23X Earnings, 15X FY21 EBITDA and 58X FCF with a 1.79% dividend yield. The current consensus sees UNP generating 8% revenue growth in 2021, best since 2014, while EBITDA seen rising 11.5%, also the best since 2014. UNP spoke at the CSFB Conference in December noting fourth quarter volumes up about 3% year-over-year with growth in the premium sector and improving sequential volumes in bulk and industrial. Intermodal volumes continue to be led by e-commerce or parcel and inventory restocking that's spurred by the holiday shopping season. Coal remains a headwind but strong improvements being seen in the grains market. On 1-8 UNP guided Q4 modestly above the Street view. Ray-Jay raised its target to \$250 last week on PSR implementations ahead of schedule and sees more profitable and reliable networks. Bernstein upgraded to Outperform on an improving demand outlook and see rails gaining an edge over competition from trucking. Citi raised its target to \$250 seeing tailwinds for the rail sector driving robust revenue and earnings growth in 2021, though it's a consensus view. Hedge fund ownership fell 4.5% in Q3 filings, Soroban Capital remaining a large holder. On the chart UNP shares pulled back to the 13-MA last week after a nice breakout move to new highs, a strong chart overall and stalled right at a 138.2% extension of the COVID correction at \$221 while \$240 the next upside extension target. The \$200/\$206 zone is seen as support on weakness. UNP options are pricing in a 2.95% earnings move with 30-day IV Skew at +1.3% versus the +2.7% 52-week average. UNP on 1/15 with a buyer of 1800 March \$220 calls to open up to \$8.30, has seen February \$180 short puts open 1800X, the February \$210 calls with 3000X bought in OI, the June \$200 calls over 4150X, and 2900 Jan 2022 \$185 calls bought in OI.

Trade to Consider: Sell the **UNP** February \$210/\$200 Put Spreads to Open at \$2.35 Credit (Bull Put Spreads)



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