Earnings Snapshots 4/17/2023

NFLX, IBM, LVS, TSLA, UNP, SLB

Netflix (NFLX) will report quarterly results on 4/18 after the close with the Street looking for $2.86 EPS and $8.18B in Revenues (+3.9%) and Q2/FY23 seen at $3.07/$8.49B and $11.51/$34.46B implying 15.7% EPS growth and 9% revenue growth with each seen accelerating through the year and in 2024. NFLX shares have closed higher the last three reports after closing lower the precious five, a six-quarter average max move of 16.7%. NFLX is the leader in streaming and the recent focus has been its push into an ad-supported tier at a lower price that will drive incremental revenues for years to come. Netflix remains mired in a period of post-pandemic growth normalization while also seeing increased industry wide competition. NFLX operates in a maturing business in a highly competitive market facing a global consumer under increasing economic stress. Success in monetizing the 100M homes identified as password-sharing would translate into higher ARPU over time. NFLX likely still has some more strategic levers to pull across live sports and gaming. NFLX has a market cap of $152B and trades 23.55X Earnings, 4.8X Sales, 21X EBITDA and 94X FCF. Relative to most quarters, 1Q23 may be confusing given: 1) an incipient ad tier, 2) slower rollout of password sharing enforcement, and 3) questions around NFLX's sharply lower prices in ~100 smaller, lower penetration markets. Analysts have an average target of $360 with short interest moving lower to 2% of the float. BAML with a note 3/23 saying Third-party data has indicated that subscriber results for US and Canadas (UCAN) will be significantly stronger than current consensus (+100k) and our estimate (-350k) of net adds for the region. Specifically, the data source has indicated that net adds will be greater than +500k for UCAN as gross adds in Canada have accelerated materially. While the higher subscriber count will have a minimal impact on 1Q revenue, it alleviates concerns which had been emerging that Netflix's password sharing crackdown was having a detrimental impact to sub results. BAML rates NFLX a Buy with a $410 target. KeyBanc says Netflix's 1Q results and 2Q guidance take a backseat to what management says about paid sharing. Benchmark is cautious on Netflix as advertising initiatives and the nettlesome password sharing crackdown, while likely ARM accretive, may largely work to offset some SVOD competitive pressure rather than reignite growth under current difficult conditions. UBS adds that Netflix's Q2 guidance will also imply accelerating revenue and operating income growth thanks to accretion from paid sharing and easier comps on operating expense. OTR Global says its checks point to limited adoption of advertising on Netflix Inc. during Q1. On the chart, NFLX shares consolidating nicely the last two weeks below the key $350 upper 1-year value level, a move above can target 2023 highs near $375 and more likely a 50% retracement target up to $430. On a negative reaction, the first level to look for a bounce is $320, retesting monthly value, while $295 is a 50% retrace from the October low and $260 VWAP from the May 2022 low. NFLX options are pricing in a 7.8% earnings move and 30-day IV Skew at +4.4 compares to the +6 52-week average. NFLX put/call open interest ratio is at the 33rd percentile and average IV30 crush is -23%. NFLX flows have leaned strongly bullish since early March including 2000 April 28th (W) $390 calls bought in OI, 2000X the $385 calls as well and last week a size buy of 1K June 2024 $410 calls and May $370 and $395 calls.

Trade to Consider: Long **NFLX** May $350/$370 Call Spreads at $7 or Better

IBM (IBM) will announce earnings 4/19 after the close with the Street view at $1.26 EPS and $14.35B in revenues (+1%), and Q2/FY23 seen at $2.07/$15.79B and $9.48/$62.69B implying 3.8% EPS growth and 3.6% revenues growth with each seen stronger in 2H23 and 2024. IBM shares have closed lower two of the last three after being higher four of the prior five, a six-quarter average max move of 6.4%. IBM has primarily been focused on Software with digital transformation but also continues to have large Consulting and Infrastructure segments. IBM has been optimizing its portfolio via acquisitions, notable the Red Hat deal that positioned it well in the cloud and saw 21% growth last quarter. The consulting business could be further pressured by a competitive and inflationary labor market which will impact profitability. IBM is taking the proper steps to align its portfolio with the strategic priorities of hybrid cloud, AI/automation, security, and quantum. IBM views quantum as critical technology as we move into the back-half of the decade, with many applications across physics, chemistry, materials sciences, finance, optimization, and machine learning. The weak USD in Q4 will removed a major headwind to earnings. IBM outperformed in 2022 as a more defensive name but in 2023 will face a tougher Macro backdrop and tougher comps. Consulting revs will benefit from better pricing, streamlined go-to-market, utilization rates improving, acquisitions gaining scale, increased collaboration with the partner eco-system, and streamlined G&A. IBM has a market cap of $118B and trades 12.65X Earnings, 1.95X Sales and 37.5X FCF with a 5.15% yield and heavy debt-load. IBM is exploring a sale of its weather operation for around $1B. Near-term IT budget uncertainty, more cautious checks, and a steep implied 2H EPS ramp means the 1Q print/CY23 outlook needs to be clean to support shares at 14x EV/FCF. Analysts have an average target of $146 with short interest low at 2.9% of the float. UBS out cautious on 3/30 suggests that Red Hat "normalized" revenue growth on a constant currency (cc) basis has likely decelerated to 10% in Q4:22. On the chart, IBM peaked in December and has shown relative weakness lately, with $127 and $124 near-term levels of downside but shares could easily break under multi-year trend support. The $131 and $132.70 near-term upside levels while the 200-day at $134.20 a potential test and fade level on a positive reaction. IBM options are pricing in a 4% earnings move with 30-day IV Skew at +3.8 comparing to the +3.5 52-week average. IBM's put/call open interest ratio is at the 80th percentile and average IV30 crush is -27%. IBM recently with 2000 April $131 puts bought but 10,000 June $120 short puts supportive back at March lows while 3500 June $125 long calls also in open interest.

Trade to Consider: Long the **IBM** April $130/$125/$120 Butterfly Put Spreads at $1.20 Debit or Better

Las Vegas Sands (LVS) is set to announce results 4/19 after the close with the Street consensus at $0.17 EPS and $1.8B in Revenues (+90.5%) and Q2/FY23 seen at $0.28/$2B and $1.43/$8.76B implying 219% EPS growth and 113% revenue growth off the easy comps while 2024 still seen strong at 100% EPS growth and 30% revenue growth off the tough 2023 comps. LVS shares have closed strongly higher the last three reports following five straight closes lower, a six-quarter average max move of around 6%. LVS is a leading global developer of destination properties that feature premium accommodations, world-class gaming, entertainment and retail malls, convention and exhibition facilities, celebrity chef restaurants and other amenities. LVS owns properties in the US and Asia with a focus on mass market, the most profitable gaming segment. LVS shares have outperformed on the China reopening with a quick recovery in Macau visitation. LVS has a market cap of $44B and trades 21.2X Earnings, 6.2X EV/Sales and 11.8X expected FY24 EBITDA. Analysts have an average target of $66 with short interest low at 2% of the float. Wells Fargo raised its target to $68 and sees a faster-than-expected recovery in Macau and likes Las Vegas Sands as a pure-play on reopening momentum in Macau and Singapore, and for having minimal U.S. consumer exposure/risk. Roth MKM recently initiated at Buy with a $74 target seeing Macau in early innings of a multi-year growth cycle. On the chart, LVS is forming a massive weekly bull flag pattern that measures to $85 on a move over $60. The $55 level is support followed by the 21-week which has held firm near $53.20. LVS options are pricing in a 4.2% earnings move and 30-day IV Skew at +5.6% compares to the 52-week average of +4.5%. LVS put/call open interest ratio is at the 64th percentile and average IV30 crush is -10.4%. LVS recently with a small buy of 2000 May $50 puts and has seen September $55 puts with 5000X bought and the $60 calls sold to open 1500X. A massive buy of 35,000 June $45 calls continues to sit in open interest as well as 5500 June $55/$65 call spreads. On Friday a trader sold 5000 April $55 puts to buy 5000 of the $59/$63 call spreads.

Trade to Consider: Long **LVS** June $57.5/$62.5 Call Spreads for $2.25 Debit or Better

Tesla (TSLA) will report results 4/19 after the close with the Street seeing $0.86 EPS and $23.34B in Revenues (+24.4%) and Q2/FY23 seen at $0.93/$24.77B and $3.90/$103B implying negative 4.3% EPS Y/Y and 26.5% revenue growth while current consensus expects record EPS of $5.45/share in 2024. TSLA shares have closed higher three of the last four reports with a six quarter average max move of 9.75%. TSLA only crossed 1 million units in the past 12 months and aspires to head to 20 million units a year, still early in its journey as an EV leader. The importance of Optimus will become apparent in the coming years as it estimates that business will be worth more than the car business and FSD. Tesla has been in the news a lot cutting prices on weaker demand and will likely face margin compression which weighed on its premium multiple. 2023 is shaping up to be a 'reset' year for the EV market where the last 2 years of demand exceeding supply will be substantially inverted to supply exceeding demand. Between a worsening macro backdrop, record high unaffordability, and increasing competition, there are hurdles to overcome. Lower pricing on EVs could spur stronger demand, driving higher volumes and thereby accelerating the shift away from internal combustion engine (ICE) vehicles. Auto demand in general appears to be easing given the difficult macro backdrop, including high interest rates, lower used pricing and risks of a recession. TSLA has a market cap of $586B and trades 34X Earnings, 40X FCF and 20.6X FY24 expected EBITDA. TSLA missed estimates on Q1 deliveries and production is outgrowing sales leading to higher inventories. Tesla and its EV competition may require further price cuts to achieve the higher end of consensus volume expectations this year. During 4Q results, Tesla management expressed confidence in keeping gross auto margins at a minimum of 20% (ex. credits) each quarter this year. Analysts have an average target of $200 and short interest has jumped 30% Q/Q to 8.5% of the float. Citi sees the Q1 gross margin number as key to driving sentiment near-term and sees a less than compelling risk/reward at this valuation. On the chart, TSLA has shown considerable relative weakness unable to work above key near-term moving averages after a recent failed break higher. The $180 level is key and a gap below sets up for $165 and likely a gap fill move back to $147. For now, shares are holding VWAP off the January lows and $173.65, $160 (50%) and $146.25 are retracement levels. If TSLA can clear a key volume node at $199, the 200-day at $213.75 is likely the target and above that, VWAP off the highs is at $237.50 and a 50% retracement of the move down off highs sits at $258. TSLA options are pricing in a 6% earnings move and 30-day IV Skew at +5.1% compares to the 52-week average of +8%. TSLA put/call open interest ratio is at the 16th percentile and average IV30 crush is -10.8%. TSLA has seen mixed flows, Large October bear risk reversals opened in late March with $195 and $190 size puts bought. TSLA has 28K April $190 puts bought in open interest which pressures shares and on 3/15 January $175 puts bought 6000X to open.

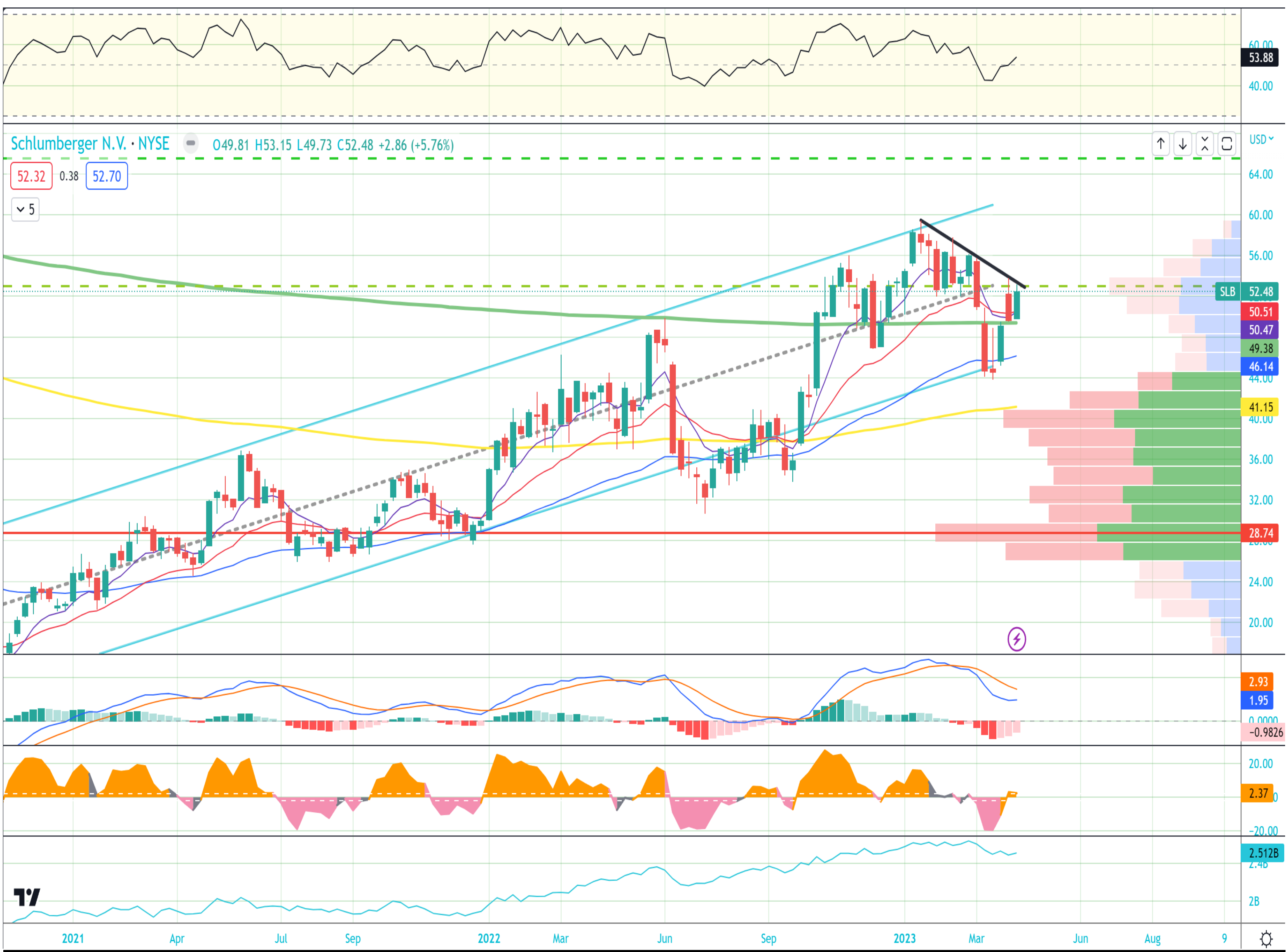
Trade to Consider: Long the **TSLA** May $175/$150/$125 Butterfly Put Spreads at $4.15 Debit

Union Pacific (UNP) is expected to release results 4/20 before the open with the Street looking for $2.60 EPS and $6.08B in Revenues (+3.7%), and Q2/FY23 seen at $2.88/$6.22B and $11.50/$24.95B implying 1.5% EPS growth and 0.3% Revenue growth while 2024 seen at 9.4% and 3.7% growth respectively. UNP shares closed sharply higher last quarter after closing lower the prior three reports, a six-quarter average max move of 4.55%. Union Pacific Railroad Company connects 23 states in the western two-thirds of the country by rail, providing a critical link in the global supply chain. The Railroad's diversified business mix includes Bulk, Industrial, and Premium. Union Pacific serves many of the fastest-growing U.S. population centers, operates from all major West Coast and Gulf Coast ports to eastern gateways, connects with Canada's rail systems, and is the only railroad serving all six major Mexico gateways. The Company's Bulk shipments consist of grain and grain products, fertilizer, food and refrigerated, and coal and renewables accounting for 33% of revenues. The Industrial group consists of several categories, including construction, industrial chemicals, plastics, forest products, specialized products (primarily waste, salt, and roofing), metals and ores, petroleum, liquid petroleum gases (LPG), soda ash, and sand and accounts for 36% of revenues. Premium includes finished automobiles, automotive parts, and merchandise in intermodal containers and accounts for 31% of revenues. UNP has a $119B market cap and trades 15.75X Earnings, 12.3X EBITDA and 46X FCF with a 2.62% yield. First quarter rail volumes for the entire group came in lower than originally modeled base don the latest AAR data. Based on commentary from the rails, pressure on intermodal is likely to continue at least until the back half of the year. As for pricing, renewal rates remain strong and should help offset some of the volume weakness. Expenses should benefit from a drop in fuel prices but will likely face headwinds from inflation on the labor and purchased services fronts. Analysts have an average target of $220 with short interest minimal at 0.7% of the float. BAML raised to Buy in late February with news of the new CEO seeing room for significant operational improvements. JPM was out cautious last week on intermodal exposed names. On the chart, UNP shares sitting on the 8-day all week last week and under 1-year VPOC and monthly value high near 201.50, above and can run to the 200-day at $209.25. The $190/$192.50 zone offers solid support. UNP is tough to be constructive on until it clears 220-225 as it remains in an ugly trend. UNP options are pricing in a 2.5% earnings move and 30-day IV Skew at +3.7 compares to the 52-week average of +4.1. UNP put/call open interest ratio is at the 4th percentile and average IV30 crush is -9.5%. UNP recently with some May $205 and $210 long calls opening and has 10K May $180 short puts in open interest. UNP overall has very little open interest of note but 1000 January 2025 $190 calls bought 12/19 and valued near $3.5M.

Trade to Consider: Long the **UNP** May $200/$210/$215 Unbalanced Call Fly at $2.80 Debit or Better

Schlumberger (SLB) will release quarterly numbers 4/21 before the open with the Street view at $0.60 EPS and $7.43B in Revenues (+24.6%) and Q2/FY23 seen at $0.71/$7.91B and $3.01/$32.59B implying EPS growth of 37.8% and Revenue growth of 16% though growth slowing sequentially. SLB shares have closed higher the last four reports, a six-quarter average max move of 5.87%. Schlumberger is the world's leading provider of technology and digital solutions for reservoir characterization, drilling, production, and processing to the energy industry. SLB said recently that they are in the early stage of a very distinctive growth cycle characterized by supply-led investment decisions. The fundamentals are aligned with our core business as investment is increasingly pivoting to international basins, both in oil and in gas resource plays. SLB has a $76B market cap and trades 14.1X Earnings, 10.5X EBITDA and 61X FCF with a 1.91% yield. A strong int'l OFS cycle likely drives 30% EPS CAGR for SLB over the next 3 years. SLB's Int'l growth accelerated in 2H22, with revenue up 23% vs. 1H22 and +26% y/y vs. 2H22 NAM revenue up 13% vs. 1H22. As evidenced by this, US land momentum is slowing while Int'l is accelerating. Analysts have an average target of $65 with short interest low at 1.3% of the float and down 27% Q/Q. Barclays raised its target to $74 in January seeing margin expansion and sustained growth. On the chart, SLB has stayed in a rising channel pattern for a few years, recently broke lower and held its rising 200-day and consolidating last week. A move above $54 can open a strong trend inflection run to $60. The $51 and $48.50 level seen as support. SLB options are pricing in an earnings move of 3.6% and 30-day IV Skew at +0.8% compares to the 52-week average of +3%. SLB put/call open interest ratio is at the 88th percentile and average IV30 crush is -5%. SLB recent flows mixed with November $45 puts bought 1000X on 4/12 and 3000 June $50 puts bought on 4/3. SLB does have large short put open interest at May $57.5 and $50 strikes and has seen some buying in May $50 and August $60 calls. On 4/3 the May $55/$47.5 bull risk reversal opened 4000X at a debit of $1.84.

Trade to Consider: Long the **SLB** April/May $55 Call Calendar at $1.20 Debit or Better



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