OptionsHawk

Earnings Snapshots 7/25/2022

MSFT, GOOG, META, QCOM, AAPL, AMZN

Microsoft (MSFT) will report earnings 7/26 after the close with the Street expecting $2.29 EPS and $52.45B in Revenues (+13.6%) and Q1/FY23 seen at $2.48/$51.53B and $10.66/$225.8B. MSFT share shave closed higher the last three reports after being lower four of the previous five, a six quarter average max move of 4.66%. Microsoft continues to represent a rare combination of strong secular positioning and reasonable profitability-based valuation within the software space. Server Products and Windows OEM growth normalization are headwinds, but MSFT remains positioned well in leading IT budget categories and continues to expand margins. Microsoft is well positioned to double its $60B+ commercial cloud business (Azure, Office 365, Dynamics, and LinkedIn Commercial) and Office 365 could potentially double its installed base from 255mn+ to 500mn given the massive number of knowledge workers worldwide. Into this quarter, Azure and O365 upside will likely offset by PC/Windows weakness. Expectations for a muted Q4 are largely priced into the shares, with the stock trading at 22x C23E FCF. PC shipment declines pressuring Windows OEM results, FX headwinds, a weakening consumer and overall macro weaknesses all serve as potential risks. MSFT's stock reaction likely depends on hitting the 47% Azure constant-currency growth target and guiding Q1 to at-least low-40% growth. MSFT has a $1.92 trillion market cap and trades 24.4X Earnings, 9.5X EV/Sales and 42X FCF with a 0.95% yield. Analysts have an average target of $345 with short interest low at less than 1% of the float. Cowen cut its target to $330 last week noting the stock is heavily owned and not immune to demand softness. On the chart, MSFT shares forming a nice weekly base on VWAP off 2020 lows and an inverse H&S bottom on the daily that measures to $300 on a move through $270. Weekly MACD is nearing a bull crossover while $250 and $240 levels of notable support. MSFT options are pricing in an earnings move of 3.85% with 30-day IV Skew at +6.3 comparing to the +4.9 52-week average. MSFT historical put/call open interest ratio at the 50th percentile and average IV30 crush is -10%. MSFT last week with a big buy of ITM August 245/255 call spreads has also seen a good amount of selling in July 29th (W) 260 and 262.5 calls. MSFT has 5000 September 285 short puts in open interest.

Trade to Consider: Long the **MSFT** August $265/$280/$295 Call Butterfly at $3.15 Debit

Google (GOOGL) will announce quarterly results on 7/26 after the close with the Street looking for $1.29 EPS and $69.95B in Revenues (+13%) with Q3/FY22 seen at $1.38/$73.04B and $5.44/$294.27B. GOOGL shares have closed higher five of the last seven reports, lower last quarter, with a six-quarter average max move of 6.77%. Google continues to see strength from improving digital advertising budgets as the leader in search but faces a much more volatile environment into this quarter with some companies cutting back on spending, while also a leading media play with YouTube's success and the cloud business has been a recent standout. Alphabet has outlined several initiatives to continue to build out its capabilities around shopping/commerce and creators. GOOGL continues to face tougher comps and weaker ecommerce has been a headwind or search. Channel checks have suggested search deceleration in 2Q vs 1Q, but in-line with expectations as Street estimates have been declining into earnings. Alphabet's CEOs recently wrote an internal memo on slowing hiring but slowing expense growth may be a quarter or two behind. Compared to smaller peers, Alphabet has more relative revenue stability given breadth of advertisers, more expense flexibility than most peers, healthy margins that will minimize cash flow concerns, and opportunity to support stock with buybacks. Historical data suggests US online advertising industry growth and US GDP have a high correlation. Four drivers for Alphabet sentiment on quarters are: 1) Y/Y revenue trajectory, 2) Y/Y margin trajectory, 3) capital allocation, and 4) new disclosures/outlook. The main question for 2Q earnings call is if management provides any outlook for search or total revenue growth in 3Q given the continued macro uncertainty, and the company's ability to cut costs to maintain margins. Google has a $1.425 trillion market cap and trades 16.7X Earnings, 5.3X Sales and 20.65X FCF. Analysts have an average target of $155 with short interest low at 0.9% of the float. Stifel lowered its target last week to $145 seeing weaker ad industry growth and Deutsche Bank noted that estimates need to come down despite stable ad checks in Search. On the chart, GOOGL also has been basing above VWAP off 2020 lows while a bear 8/21 week EMA cross remains though MACD trying to cross bullish. The 50% retrace was its recent low, like many names, and below $100 opens the door to $88.50 support. The $115, $119, and $123 levels of note for resistance on a rally. GOOGL options are pricing in a 5.65% earnings move with 30-day IV Skew at +5.6 steady the last few weeks and compares to +4.3 52-week average. GOOGL put/call open interest ratio at the 12th percentile while average IV30 rush is -15%. GOOGL large collar last week sold Aug. 116 calls to buy 108/101 put spread 14,000X while 20K Sep. $95 puts in OI from some recent buys and seen longer-dated opening call sellers active at 115 and 125 strikes.

Trade to Consider: Long the **GOOGL** August/September $100 Put Calendar Spreads at $1.20 Debit

Meta (META) will release earnings 7/27 after the close with the Street consensus at $2.60 EPS and $29B in Revenues (-0.4%) with Q3/FY22 seen at $2.65/$30.64B and $11.58/$124.83B. META shares jumped last quarter on results after being lower five of the prior six, a six-quarter average max move of 11.65%. META now reports in two segments with Family of Apps the advertising business and Reality Labs its augmented and virtual reality products. Management commentary sentiment has scored weak the last few quarters with challenges from the Apple iOS changes, tough comps, competition from TikTok and increased spending. Management sees the advertising business returning to better revenue growth with high margins and plans to use income to fund the growth of the Reality Labs business. The shift to short-form videos has been a drag on revenues due to less monetization that will eventually inflect positively. In Q1, the total number of ad impressions served increased 15% and the average price per ad decreased 8%. Reels monetization will be a critical catalyst moving forward and the recent hiring freeze could add to FCF. Like peers, META faces growing competition, namely from TiKTok, and a less certain advertising budget backdrop. The majority of the company's headwinds are well understood and the combination of an all-time low multiple, moderating total expense growth, and advertiser checks that are better than feared could leave room for upside in shares. Press reports indicate that Meta, through both internal memos and conversations with employees, has recently been discussing the likelihood of persistent revenue growth headwinds in 2H22 as well as reiterating plans to slow hiring efforts. META might be positioning for lower 2022 opex than management's current guidance. US pure-play short-form video ad spend is expected to grow +23% YoY in 2022, driven by continued user engagement/consumption growth across several platforms. META has a $440B market cap and trades 12.5X Earnings, 3.7X Sales and 11X FCF, trough valuation. Analysts have an average target of $275 with short interest flat Q/Q and low at 1.2% of the float. Deutsche Bank lowered its target to $235 last week on rising macro fears and concerns on engagement trends but sees cost discipline as a positive. Needham cut shares to Underperform on 7/11 seeing weaken fundamentals with structural risks from consumer behavior shifts, competition, moat degradation, regulatory risks and Metaverse investment risks. On the chart, META with a different look than peers with shares well below VWAP off 2020 lows and its 200-week EMA, forming a falling wedge on the weekly with bull RSI divergences and MACD triggering to a bull signal. Support levels are at $164 and $155 while $140-$145 is long-term trend support. Upside target levels of resistance include e$188, $196 and $220. META options are pricing in a 10% earnings move and 30-day IV Skew at +5.6 has been steady and compares to the +4.3 52-week average. META flows have been skewed bullish with large longer-dated opening put sales and some big all buys. META has 129,000 Jan. 2024 $420 calls in OI from a 6/15 buyer and has seen 40,000 November $200 calls bought in large trades 6/17 and 7/5.

Trade to Consider: Long the **META** November $170/$190 Call Spreads at $8 Debit

Qualcomm (QCOM) will post numbers 7/27 after the close with the Street view at $2.87 EPS and $10.87B in Revenues (+35% Y/Y) and FY22 seen at $12.50/$44.55B. QCOM shares have closed higher six of the last eight reports with an average max move of 9.4%, one of the stronger recent performers on earnings. QCOM is a global chip leader in the wireless industry that has expanded from mobile to IoT, Automotive and Industrial while being a prime beneficiary of the upcoming 5G ramp cycle. QCOM continues to see momentum from their key customers with Oppo, Vivo, Xiaomi, and others all gaining market share, especially around the premium tier, which is creating positive momentum for QCOM. Recent industry reports suggest Apple has delayed deployment of their internal iPhone 5G baseband, once again relying on Qualcomm to supply the component for 5G units released through YE 2023. Investor focus is on whether Qualcomm's guidance of >50% Y/Y revenue growth in Handsets revenue in FY'22 is still achievable. Although the group has seen some weakening trends, TSMC's commentary that elevated channel inventory levels are less of a concern at the high-end could be a positive signal for QCOM while higher end Android launches in the November timeframe should drive some ship-in volume for high value Snapdragon parts in FQ4 to September. Canalys noted a 9% Y/Y decline in smartphone shipments in CQ2’22 citing sluggish demand. TSMC commented that the supply chain has started taking actions to reduce inventory levels owing to softening demand in smartphones, PC and other consumer end markets. The company expects this inventory reduction to continue through H2'CY22 and possibly last until H1'CY23. Qualcomm and other chip companies have likely notified their customers about price increases effective from August. IoT revenue growth accelerated to +61% Y/Y in FQ2 from +41% Y/Y in FQ1 driven by broad-based momentum across all three categories (Enterprise, Consumer and Edge Networking) but also benefiting from improving supply. QCOM has a market cap of $169B and trades 11.7X Earnings, 4.3X Sales and 41X FCF with a 1.95% dividend yield, near a tough multiple. Analysts have an average target of $195 with short interest rising 37% Q/Q to 1.7% of the float. Deutsche Bank cut its target to $170 last week seeing investors waiting for a deck-clearing guide-down across Semi stocks with macro/sector headwinds to 2023 estimates. On the chart, QCOM shares with a sharp three-week rally off its 200-week EMA and now back above VWAP off 2020 lows with a potential 8/21 week bull cross nearing and weekly MACD crossed bullish last week. QCOM also closed above 2022 VWAP last week, one of the real relative strength names and hit its 50% retrace level at $156 before stalling. QCOM options are pricing in a 6.25% earnings move with 30-day IV skew at +6.4 comparing to the +4.2 52-week average. QCOM historical put/call open interest ratio at the 1st percentile while average IV30 crush is -15%. QCOM with some recent opening sales in Oct. $150 puts, buyer sin Sep. $145 and oct. $150 calls, and has a massive 59,000 contract Oct. $165 long call position in OI. QCOM has also seen 6000 Jan. 2024 $135 short puts open.

Trade to Consider: Sell the **QCOM** September $170/$165/$145/$140 Iron Condors for $3.10 Credit

Apple (AAPL) will report results 7/28 after the close with the Street expecting $1.16 EPS and $82.64B in Revenues (+1.5%) and Q4/FY22 seen at $1.32/$90B and $6.13/$393.643B. AAPL shares have closed lower after reporting six of its last seven reports with an average max move near 4%. Apple tends to outperform in later economic cycles given its strong brand, product/services innovation, and recurring purchases from higher-end consumers. Apple's industry-leading retention rates and expanding ecosystem of hardware and services has already created one of the world's most valuable technology platforms that centralizes and controls everything from traditional communication to entertainment, social media engagement, photo & video development, gaming, business, payments, travel, fitness, and more. Elevated buybacks and institutional under ownership should also provide support, with upcoming product launches (iPhone 14 in Fall 2022 and AR/VR glasses in early 2023) key catalysts. Apple has likely seen solid demand in the June quarter helped by a rapid rebound in demand in China as lockdowns eased in the month of June and potential outperformance against Apple's indicated $4bn-$8bn supply chain impact. FX is expected to be a meaningful headwind. Based on CAICT data for handset shipments in Mainland China, iPhone shipments rebounded to +13% Y/Y in the month of May from a -39% decline in April. Given Apple has stopped disclosing unit volumes for its products investors should be increasingly focused on ARPU trends. The Apple business model is shifting from one that maximizes hardware shipment growth to one that maximizes installed base monetization, underscored by increased services and installed base disclosures, and a move away from reporting units and ASPs. If Apple were to monetize advertising beyond the App Store, it could potentially be a $20B business by 2026, driving up the pace of Services growth back to the high teens vs. concerns of a permanent slowdown. Apple has a $2.465 trillion market cap and trades 23.7X Earnings, 6.4X Sales and 27X FCF with a 0.6% yield. Analysts have an average target of $180 with short interest low at 0.7% of the float. MSCO out positive last week seeing Apples shift to subscriptions potentially adding another $1 trillion to its market cap over time. JPM noted improving China iPhone shipments in June and Wedbush noted demand is holding up well for iPhones despite fears and sees a strong product/services ramp cycle into 2023. On the chart, AAPL with a strong rally the last few weeks and a bull 8/21 week EMA cross nearing while VWAP off highs at $159 as potential resistance along with its 200-MA near $158.50. Weekly MACD is nearing a bull crossover and shares held firmly above 200-week EMA and VWAP off 2020 lows into the recent dip, major relative strength to Tech peers. On weakness look for a retest of upper value near $144 while the 21-MA at $145 as well, shares near-term extended, while $165 a likely upside target. AAPL options are pricing in a 3.65% earnings move with 30-day IV Skew at +8 steep compared to the +4.8 52-week average. AAPL historical put/call open interest ratio at the 93rd percentile while average IV30 crush is -11.25%. AAPL recently notable buyers of 49,000 October $165 calls and a recent opening seller of 20,000 September $155 puts. AAPL also with 15,000 Aug. 26th (W) $147 calls bought and 16,000 Oct. $145 puts sold to open on 7/7.

Trade to Consider: Long the **AAPL** September/October $165 Call Calendar Spreads at $2 Debit

Amazon (AMZN) will announce earnings 7/28 after the close with the Street estimate at $0.14 EPS and $119.1B in Revenues (+5.3%), the lowest Y/Y growth forecasted in many years, while Q3/FY22 seen at $0.33/$126.84B and $0.63/$520.2B. Amazon continues to have a massive retail business that faces headwinds of slowing consumer spending and rising costs but the focus remains on AWS, a behemoth in cloud which continues to scale and see increased spending. AMZN also has a massive opportunity in Advertising and has been making moves into Healthcare with a recent deal for One-Medical. AMZN likely sets up as a stronger 2H story as costs moderate and growth reaccelerates. Prime Day drove $4.6B of revenue (12% above expectations), implying 19% growth, an acceleration vs 8% Prime Day growth in 2021. AMZN will continue to face SBC (stock-based comp) headwinds from the tech hiring landscape. The 2Q22 CIO survey suggests the cloud backdrop remains strong despite a slight moderation in IT spending expectations. AMZN likely will face further margin pressures but many of those easing into 2H and the same can be said of FX headwinds. AWS growth is forecasted at 33% Y/Y at 30% margins. Key topics for the quarter will likely be inflation impact on the consumer spend, retail gross margins, still elevated gas price and labor cost impact on operating costs, and FX pressure and deceleration of AWS growth. AMZN has a $1.2 trillion market cap and trades 47X Earnings and 2.55X Sales. Analysts have an average target of $170. Mizuho cut its target to $155 seeing a downward revision cycle with cloud growth estimates at risk. Barclays is a buyer into Q2 numbers. On the chart, AMZN a weaker name that broke its 200-week EMA and the rally recently retesting that are where the falling 21-week EMA also comes into play near $127. The recent low in shares was at a key support retesting the 2020 range breakout and high volume zone while weekly MACD did cross bullish last week. A retest of upper value near $118 could happen early in the week while $110 a key VPOC. A move through $126/$127 opens the door to $140 being VWAP off November 2021 highs. AMZN options are pricing in a 5.9% earnings move and 30-day IV Skew at +7 is steep compared to the +4 52-week average. AMZN put/call open interest ratio is at the 30th percentile and average IV30 crush is -17%. AMZN with a large seller of 4500 Dec. $110 puts to open last week has also seen 5000 August $113 puts bought, 10,000 Oct. $145 calls bought, and 2000 Feb. $130 calls bought. AMZN has 6000 weekly $115 calls sitting in open interest from a 7/5 buyer that are +59%.

Trade to Consider: Long the **AMZN** August $125/$120 Strangles for $10

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