Refiner Delek Seen Having Upside Over Next 6 Months

Ticker/Price: DK ($36)

Analysis:

Delek US (DK) yesterday with a sizable trade that opened 3,800 October $37.5/$45 call spreads and today the $45 calls trading 2,500X and may be uncapping the calls, while 1,900 October $30/$27.5 put spreads were sold to open as well. DK also still has 5,560 April $42.50 OTM calls in op[en interest from a buy in February. DK shares have formed a large weekly base right at a 61.8% Fibonacci of the 2016/2018 range, major support at $30.35, and weekly RSI nearing a bull cross above the 50 level out of this base, above $37.70 can target a run to $42. The $2.88B refiner trades 8.3X Earnings, 1.77X Book, 4.5X EBITDA and 18.2X FCF with a 3% dividend yield. Revenues jumped 40% in 2018 and EPS surged 325% with 2019 estimates seeing year/year declines. DK is presenting at the Howard Weil Energy Conference today. It is a reifiner that screened favorably into 2019 and has a strong balance sheet to better withstand downcycles while expecting growth in Permian production to boost results. It has a lot of cash and is integrating its Alon acquisition. It sees favorable market factors through 2022 including IMO 2020's impact. Analysts have an average target of $45 on shares and short interest is in the lower end of its historical range at 7% of the float. Barclays remained positive last month with a $51 target and saw key messages from management as positives. DK raised its dividend in February and continues to look for more returns of cash to shareholders. Hedge Fund ownership fell 19.5% in Q4 filings.

Hawk Vision:

Trading Strategy: DK is setting up nicely and a preferred small cap for Refiner exposure, above $36.70 can trigger a trend move higher.

Confidence Ranking: $$