



Lumentum Call Buyer Sees Upside in Shares

Ticker/Price: LITE (\$48.75)

Analysis:

Lumentum (LITE) buyer today of 1,000 April \$47.50 calls for \$3.40 to open and follows buyers of more than \$575K in January \$50 calls recently. LITE has seen smaller buys in the January 2021 \$55 calls as well and has 1,500 March \$47.50 calls in OI which could roll this week. Shares pulled back to cloud support last week and bouncing back above the 8- and 20-EMA today with the 200-EMA just above at \$51.15 and potential breakout. The current range would measure out to \$61 and weekly cloud resistance. The \$3.53B company trades 9.3X earnings, 2.66X sales, and 14.2X FCF with 18-20% EPS growth. LITE expects 29.4% and 26.9% sales growth through FY20 before settling into a growth range in the high-single digits as long-term demand for lasers stabilizes and telecom improves. LITE closed on their deal for Oclaro in December and Q2 the first quarter since the deal which gives them far greater scale and product momentum in 3-D sensing, transmission and transport. They see the deal making them a leader in the \$10B TAM from cloud, networking and manufacturing. Analysts have an average target for shares of \$70 with 16 buy ratings and 2 hold ratings. Short interest is 7.2% but down from 16.8% in September 2018 and as high as 22.2% in late 2017. B Riley positive on 2/11 after the Photonics West trade show noting that Face ID has long-term implications in the iPhone lineup and that a slowdown from Apple has been priced into shares. Needham with a Strong Buy on 2/6, \$65 PT. They note that guidance includes robust telecom demand and that 3D outperformed despite Apple. They cite sold-out conditions for ROADMs and Pumps/Amps for optimism while the Oclaro deal continues to look highly accretive. Institutional ownership rose 17% last quarter.

Hawk Vision:



Trading Strategy: LITE is coming back from a big sell-off but has never really been a favorite of mine, plenty of better Tech stories and see some headwinds in Mobile comps.

Confidence Ranking: \$