



Eagle Materials Call Buyers Active as CEO Retires, Outlook Improves

Ticker/Price: KSU (\$115)

Analysis:

Kansas City Southern (KSU) buyer of 4,200 April \$120/\$125 call spreads today for \$1.05 and follows buyers late last week in the January \$110 calls around \$11.50. The \$120 calls have seen over 700 bought while the \$130 calls were bought 500X last year which remain in OI. KSU has also seen buyers in the June \$110 calls. Shares are working out of a bull flag this week which targets the August highs around \$117.50 while the longer-term picture shows a massive range breakout above \$120 stretching back to 2013. The six-year bull flag targets \$160. The \$11.5B railroad operator trades 14.8X earnings, 4.2X sales, and 16.5X FCF with a 1.25% yield. KSU is targeting 13% EPS growth in both FY20 and FY21 with revenue growth accelerating to 6% annually after years of flat growth. KSU announced plans in January to shift to Precision Scheduled Railroading as it focuses on making operations a more cost-efficient. The company is hoping to emulate the success of CN, Canadian Pacific, and CSX who have all taken on similar measures but KSU intends to do so more gradually to avoid many of the disruptive changes their peers faced. Long-term, the move will make KSU less capital-intensive and reduce labor costs while maintaining their volumes. They expect to announce initial targets throughout the year as they progress which Citi noted on 3/6 gives the company a number of incremental catalysts for shares. They raised their PT to \$130 seeing upside to their OR and earnings throughout the year. Their bull case targets \$183. Loop Capital positive on 2/22 citing easier comps this year due to the 2018 closure of their Texas utility plan which pressured volumes last year. Analysts have an average target for shares of \$124 with 11 buy ratings and 2 hold. Short interest is 1.7% and recently broke down to 1-year lows. Institutional ownership fell 3% last quarter. 3G Capital and Point72 both buyers of shares. In October, a Director bought \$102K in stock around \$103.

Hawk Vision:



Trading Strategy: KSU shares did break out of a small flag this week and the \$111 level would be the pullback support of note.

Confidence Ranking: \$\$