



Bulls Active in Northrop Grumman after Extended Weakness

Ticker/Price: NOC (\$265)

Analysis:

Northrop Grumman (NOC) with an opening sale of 1,450 May \$240 puts for \$2.45 to \$2.40 and follows the May \$285 calls bought over 1,350X earlier this week. NOC shares have pulled back to the 38.2% of the 2019 bounce from the lows as well as a big volume node from late 2018 at \$265. Shares pulled back off of trend resistance from the early 2018 highs but a move above \$280 has room up to \$300 and then \$320 which are key high volume nodes. The \$45.8B defense stock trades 12X earnings, 1.5X sales, and 26X FCF with a 1.8% yield. NOC sees 16% EPS growth and 8% to 13% sales growth through 2020 with room for margin expansion back near 2016 levels amid cost initiatives. NOC is a key beneficiary of the recent \$750B proposed defense budget which came in on the high-end of expectations as the current administration advances their “defense recapitalization” push. NOC is in line to get an additional \$20B over the next five years with the Air Force renovation plan adding new B-21 bombers. Last quarter came in mixed with pension outlays higher than expected but sales across Aerospace, Tech, and Mission Systems growing. Analysts have an average target for shares of \$335 with 12 buy ratings and 6 hold ratings. Goldman removed shares from the Conviction List in February but kept at Buy. They see several years of fast organic revenue growth into the middle of next decade given its long list of program wins. CSFB upgraded to Outperform in January with a \$302 PT. Short interest is 1.3% and down from 2.5% in October. Institutional ownership fell 25%.

Hawk Vision:



Trading Strategy: NOC selling looks to be abating and have already set a \$274 alert for some price strength to consider a position.

Confidence Ranking: \$\$