



Allergan Trades Sees Better Reward/Risk

Ticker/Price: AGN (\$143.75)

Analysis:

Allergan (AGN) with the May \$150/\$130 bull risk reversal trading today over 1,200X for \$1.59 and follows buyers recently in the August \$140 calls and the \$165/\$185 call spread 5,000X. AGN has also seen the August \$125 puts sold to open 1,000X while the \$130 calls also with buyers. Shares are showing strength today, up almost 5%, despite a trial failure and nearing a downtrend break from the October highs as well as cloud resistance at \$145/\$147.50. A move higher has room to a high-volume node at \$160 before testing a long-term downtrend at \$175 while today's reversal candle gives a strong low to trade against. The \$46B company trades 7.88X earnings, 2.9X sales, and 10.6X FCF with a 2.15% yield. The company now expects 2019 to be a flat/no growth year before seeing 7-8% growth in 2020. AGN has been at odds with shareholder Appaloosa who is pushing the company to separate its Chairman/CEO positions and put in an independent voice who will bring a fresh approach to a strategy which has gone stagnant. The company has pushed back but today's trial failure likely gives the activist a more firm ground to reaffirm their push and they recently got support from activist John Chevedden. AGN's core business continues to show steady growth and margins among several of their key brands like Botox, Juvederm, and Linzess. They see medical aesthetics, CNS, and GI as key areas for future growth as their legacy business starts to age. Analysts have an average target for shares of \$200 with 13 buy ratings and 7 hold. Short interest is 1.2% and down from 1.4% in early 2019. It has dropped from around 3.3% in 2018. MSCO today said that the trial failure was disappointing but not surprising. JP Morgan with a \$200 PT today, down from \$245, noting that while there are few near-term product catalysts for the story, Allergan's valuation does not reflect its core portfolio of durable, cash-pay aesthetics assets. Institutional ownership was flat last quarter, hedge fund ownership down 11%. Edgewood, Artisan Partners, Baupost, and Appaloosa key holders. AGN last saw insider buying in Sept/Nov when a Director bought \$1.9M in stock at \$190.64.

Hawk Vision:



Trading Strategy: AGN is having its first strong session in a while but overall remains in a sharp downtrend and not the type of name I target with weak fundamentals.

Confidence Ranking: \$\$