



Cree Bulls Accumulate Calls

Ticker/Price: CREE (\$53.50)

Analysis:

Cree (CREE) trading nearly 3X average calls today with more than 3,650 April \$55 calls bought up to \$1.75 to open on the day. CREE still has 1,800 January 2020 \$55 calls and 2,325 January 2021 \$55 calls in OI from buyers as well as 5,500 deep ITM January \$28 calls. CREE has been a strong name recently hitting its highest levels since 2014 last week. Shares recent broke out above \$50, an optimal spot to target on a pullback with the 13-EMA aligning as well, and the range targets a long-term move to \$65. The \$5.44B company trades 40X earnings, 3.4X sales, and 7.5X cash. CREE expects a significant ramp in profitability through FY21 with EPS up to \$1.85 from \$0.15 in 2018. Revenue growth is expected to be steady, around 10% annually up to \$2B. CREE is coming off a strong quarter despite issues from trade and seeing margin improvement across all of their businesses, a major headwind in prior quarters. Their Wolfspeed business remains a standout and the company continues to focus on adding capacity to meet growing demand, especially in RF where the wireless market is moving more towards GaN. CREE expects the transition to 5G to be a tailwind for their longer-term outlook as demand for higher-efficiency products grows. Analysts have an average target for shares of \$50 with 6 buy ratings, 6 hold ratings, and 1 sell. Oppenheimer raising their PT to \$59 on 1/31 seeing lower risk to 2020 estimates due to strong SiC demand and improved operational performance. They think CREE continues to see significant growth in EV demand, particularly in China, and believes the U.S. and EU will hit tipping points for growth in 2021 and 2022. Short interest is 10.1% but falling from around 13.5% in September and near its lowest level in two years. Institutional ownership rose 27% last quarter.

Hawk Vision:



Trading Strategy: CREE has been impressive since calls started accumulating last October and I continue to like how it trades. With moves coming on lower volume today, could see it pull back in more before rallying.

Confidence Ranking: \$