



UPS Calls Accumulate into 2019 Transformation

Ticker/Price: UPS (\$111.25)

Analysis:

United Parcel (UPS) buyers of 6,650 March 29th (W) \$112 calls \$1.89 to \$1.96, follows recent buys of 5,000 May \$115 calls and 1,000 of the April \$90 deep ITM calls. UPS also still has 30,000 Jan. \$140/\$160 call spreads bought in open interest from September 2017. Shares are trading in a very narrow range the last three weeks near its 200 day MA, and shares sitting above a key VPOC here with a large monthly bull wedge forming that sets up as a breakout above \$119. The \$96B shipping/logistics leader trades 13.4X Earnings, 1.33X Sales, 28X FCF and 10.6X EBITDA with a 3.48% dividend yield. UPS is expecting 5-6% annual revenue growth and sees EPS growth returning to double digits over the long-run. UPS presented its long term vision back in September to improve metrics and deliver best-in-class ROIC. It is also targeting a number of initiatives to reduce costs and expand margins. UPS has plenty of capital to target an acquisition, possibly a name like XPO which is seeing bullish activity this week after a large sell-off, but also UPS could be a name that Warren Buffett would target as its next mega-acquisition, fitting his criteria. Analysts have an average target of \$117 and short interest is low at 1.4% of the float. UPS is trading near the bottom of its historical PE level due to concerns on margin pressures, but likely a long term opportunity as its transformation occurs. It is coming off a record peak season with strength in eCommerce and small/mid-size businesses. UBS has a \$121 target with optimism in the International business and likely margin expansion. Hedge Fund ownership fell 15.75% in Q4 filings, a 4.08% weighting for Vulcan Value.

Hawk Vision:



Trading Strategy: UPS is flagging perfectly near the 200 MA on breakout watch, and either these calls or the April \$115's look like a nice way to participate.

Confidence Ranking: \$\$\$