



Lamb Weston Bulls Active into Weakness

Ticker/Price: LW (\$67.70)

Analysis:

Lamb Weston (LW) buyers active today for 2,500 June \$70 calls from \$1.55 to \$1.60 and follows 2,000 May \$70 puts sold to open in early April, seeing shares attractive here around support. LW also has 2,800 May \$80 calls in OI from buyers before earnings. LW has traded in a range since late December and forming a bull wedge back to support at \$67.50. A move above \$75 targets the 52-week highs at \$83. The \$10B packaged food company trades 19.35X earnings and 2.7X sales with a 1.2% yield and high-single digit growth accelerating into 2021. They see 5.5% revenue growth in FY20 and then 6.3% in 2021. The company is coming off a strong quarter with better price/volume mix helping offset potato costs while their long-term investment in revamping the supply chain has helped boost gross margins. The company has a couple bigger restaurant partner contracts up for renewal this year where they hope to exercise better pricing as well to help offset some near-term issues. Analysts have an average target for shares of \$78 with 5 buy ratings, 2 hold, and 2 sell. Jefferies positive on 4/8. The firm thinks concerns of peak margins due to higher capacity coming online are overblown as they ignore growing demand and tight utilization rates. The firm thinks NA fry pricing will improve in the 2H driven by the worsening of the shortage in Europe. Short interest is 6.6% and up from around 2% in late 2018. Institutional ownership rose 25%.

Hawk Vision:



Trading Strategy: LW is an old favorite that has pulled in on the weekly and we are seeing stronger quarters in CPG, so like the set-up here against the \$65.50 level.

Confidence Ranking: \$\$