



Archer Daniels Seen as a Bottoming Play

Ticker/Price: ADM (\$43)

Analysis:

Archer Daniels Midland (ADM) strong today after its CEO bought \$1M in stock earlier at \$42.30 and name with bullish open interest across multiple months. The January \$45 calls have 2,500 in OI from buys in April while the January 2021 \$35 calls had 600 bought in March. The June \$45 calls with 1,700 in OI from buyers as well. On Friday, the June \$38 puts were sold to open into weakness. ADM is back near resistance of a multi-month range today at \$43 with a breakout above the 200-EMA targeting \$46 and a VPOC from November. On a longer-term trend, ADM remains in an uptrend from the 2016 lows with a channel target higher at \$50. Shares haven't recovered as well as others since the Q4 selloff and a move above \$44 key to shifting sentiment. The \$23.27B company trades 11X earnings, 0.36X sales, and 11.6X cash with a nearly 3.5% yield. ADM sees 15% EPS growth and 2.6% sales growth in FY20 as they see adverse weather, a weak ethanol environment and trade impacts abating in the 2H. ADM has been closing older mills as part of a larger re-organization of their US footprint and focus on simplification of their structure to improve profitability. Many of the impacts will be noticeable in the 2H while they continue to add strategic assets like expanding in the UK and launching their JV with Cargill. Margins and demand in the US remain strong and should continue with many US providers stepping up orders to fill International demand. Analysts have an average target for shares of \$50 with 7 buy ratings and 5 hold ratings. BMO upgraded to Outperform today with a \$51 PT. They think there are plenty of catalysts ahead to drive upside including a trade resolution and internal actions have helped accelerate the earnings power. MSCO noting that they expect further restructuring and maybe steps to potentially break out their ethanol business into a separate company. Institutional ownership fell 5.25%.

Hawk Vision:



Trading Strategy: ADM is up 5% today and not the kind of name to chase that kind of move, awaiting a cleaner set-up to revisit the name.

Confidence Ranking: \$