Sanderson Calls Active into Strength

Ticker/Price: SAFM $149

Analysis:

Sanderson Farms (SAFM) with 2,000 August $160 calls being bought today for $6.50 to $6.60, second day of bullish flow for the name after 2,000 May $150 calls bought yesterday for $3.90. SAFM is trading 15X average calls, the two most notable positions in OI. Shares have shown real relative strength since December up almost 60% after clearing a multi-month base and out of a downtrend from the 2017 highs. SAFM traded as high as $176, so plenty of upside, but fairly extended here with a focus on the 20-EMA at $140 and the prior breakout at $132.50. The $3.35B company trades 39X earnings, 1.05X sales, and 45X cash with a small yield under 1%. SAFM sees 63% EPS growth in FY20 and 18.2% in FY21 with sales up 5.5% and 2.9% respectively. SAFM is the third largest poultry company in the US behind Pilgrim's and Tyson with a 9.6% market share and strong history of organic growth. The company excels as a low-cost, efficient producer which allows them to grow margins while expanding their scale. They have a wide base of customers across foodservice and retail with key export region to Mexico (48%) and Asia (12%) so trade talks are key for the company. Analysts have an average target for shares of $118 with 1 buy rating, 7 hold ratings, and 1 sell. Short interest is 14.8% but down to its lowest level since early 2014 and steadily lower since early 2018. Goldman upgraded shares to Neutral on 4/23 as African swine fever is upending the protein markets, especially in China. They have a $131 PT. Institutional ownership fell 1.8%.

Hawk Vision:

Trading Strategy: SAFM is really extended here and due for a breather, so not interested in a new position today. However, with August expiry, there's time to let it set up.

Confidence Ranking: $$