



Chegg Call Buyers Target Top Small-Cap on Earnings Weakness

Ticker/Price: CHGG \$37.35

Analysis:

Chegg (CHGG) trading 12X average calls in the opening 90 minutes with 7,500 January \$60 calls bought for \$0.65 and later 1,000 July \$40 calls bought up to \$1.65 and 1,125 June \$40 calls bought up to \$1.30. Shares dipped back to the 20-week EMA around \$35 after earnings and rebounding a bit back to the 8- and 13-day EMA. CHGG has been in a strong trend higher since early 2017 and current consolidation under \$41 has room up to \$47. The \$4.13B company trades 43X earnings, 12.85X sales, and 8.8X cash with forward revenue growth expectations of 21.5% and 33.9%. The company is a leader in Direct-to-Student operations across tutoring, digital textbooks, and other study aids. The former is a huge TAM, potentially \$7B, with expanded indications across secondary education and International markets. CHGG runs a high-growth, high-margin model with a significant moat given their brand recognition and partnerships. They had 3.1M subscribers as of Q1 and services growth was near 40%, a record. Analysts have an average target for shares of \$39 with 6 Buy ratings and 4 hold. Craig Hallum raising their PT to \$50 on 4/30 amid a strong Spring semester in post-Secondary education. Short interest is 14.1% and down from around 26% in early 2018. Institutional ownership rose 7%. CHGG has a potential catalyst in the UK with schools pushing forward with increased utilization of education-tech to ease the burden on teachers. The UK government has recently issued a new tech strategy which will bring in a lot of demand for companies in the space. This week we also saw a merger between McGraw-Hill and Cengage as they look to compete in the textbook space and other higher-ed materials.

Hawk Vision:



Trading Strategy: CHGG is a top small-cap name and will be one to watch for a better setup in the coming weeks as the earnings move settles.

Confidence Ranking: \$\$