



Bullish Spreads Open in Ashland with Chemical Stocks Weak

Ticker/Price: ASH (\$72.70)

Analysis:

Ashland (ASH) spreads again today buying 500 October \$75 calls and selling the January \$65 puts to open, same as yesterday, and also today seeing 500 October \$85 calls bought for \$0.70. ASH had 2,000 January \$80/\$75 bull risk reversals bought on 5/1 into weakness and 1,500 July \$85 calls bought on 4/29 remain in OI. Shares have pulled back from recent highs and testing VPOC from December at \$71 which has held up. A move above the 8-EMA at \$73.50 has room back up to May VPOC around \$75 and then a big volume node at \$79 from earlier this year. Long-term, ASH remains in a steady uptrend with shares back at trend support from the 2016 lows. The \$4.6B company trades 17.8X earnings, 1.5X sales, and 28X cash with a 1.4% yield. ASH sees 33% and then 17.9% EPS growth with better cost controls while revenue growth will be 2.5% to 3.5%. ASH recently lowered their outlook due to continued FX headwinds and growth in lower-margin areas like Construction, Energy, and Nutrition. They expect a recovery in coatings and Adhesives demand by Q4. ASH also expects an uptick in demand for cellulose while recent meetings in China support growth in their pharma business. Analysts have an average target for shares of \$90 with 8 buy ratings and 1 hold. JP Morgan positive in April citing their high free cash flow yield and cheaper valuation relative to peers like HB Fuller. CSFB has an Outperform and \$92 PT for shares. They think the bull thesis surrounding long-term margin opportunities and portfolio mix remains fully intact. They see drivers being 1) their cost-reduction program, 2) better pricing being executed outpacing inflation, 3) their new buyback program, and 4) long-term growth in Pharma. Institutional ownership fell 7.25%. Short interest is 3.3%, down from 4% in January/

Hawk Vision:



Trading Strategy: ASH has always been a favorite in the group and the longer term trend support level does make this a good spot to consider getting involved, though the overall group remains under pressure.

Confidence Ranking: \$\$