



Large Put Positions Stay Bearish Altria Group

Ticker/Price: MO (\$51.50)

Analysis:

Altria (MO) with 5,000 December \$55 puts opening today for \$6.35 to \$6.45 as the May puts adjust and also seeing the December \$50 puts bought over 1,225X up to \$3.50. MO has seen buyers recently in the short-term May \$57.50 puts as well as the June \$42.50 puts and September \$52.50 puts where over 3,000 have accumulated. The June \$50 puts have over 10,000 in open interest from buyers earlier this year. MO shares are sitting just above support from the April lows and forming a series of lower highs since March. Shares have been in a big channel down since late 2017 which targets a move under \$42. The \$97.65B company trades 11.6X earnings, 3.9X sales, and 29X cash with a 6.15% yield. EPS estimates are slowing with growth expected to be 6.6% next year and 5.4% in FY21, down from 13.5% this year. Sales estimates are near their lowest in a year at 1.5% growth. MO posted a 13.5% drop in cigarette volumes last quarter and faces longer-term pressure from recent decisions by large retailers and more than 450 local governments to move the buying age to 21. Congress is also considering a nationwide move to 21 which Cowen expects could cut sales nationally by 4.6%. MO also faces headline risk from their Juul investment as the EU pushes back on nicotine limits, the FDA seeks limitations on marketing to teens and a recent study refuted claims that e-cigarettes helped people quit smoking. Analysts have an average target for shares of \$62 with 7 buy ratings and 4 hold ratings. Short interest is 1.2%, historically high for the name which is usually closer to 0.4%. MSCO with an Underweight rating for shares and \$45 PT. They see a harsher FDA environment impacting cigarette volumes while shifting demographic trends are a long-term negative. Wells Fargo positive on 4/26 noting they don't think the model is broken and MO can achieve 7-9% growth over the long-term. Institutional ownership fell 8%.

Hawk Vision:



Trading Strategy: MO remains in a longer term channel down pattern that can measure back to \$40 or lower, and see plenty of fundamental headwinds as well. The issue with MO is the large dividend yield and until we see indications of that at risk, difficult to play for much more downside.

Confidence Ranking: \$\$