



Trex Calls Start Accumulating into Weakness

Ticker/Price: TREX (\$64)

Analysis:

Trex (TREX) trading 3X average calls today with shares moving to session highs and 570 July \$65 calls bought up to \$3.30. TREX has seen buyers over the last week in the June \$55 and \$60 calls for a regularly quiet options name. Shares are down from recent highs around \$77.50 and holding key breakout support at \$60 which stretches back to early 2018. The company has been in a long uptrend and back at trend support as well from the 2017 low. MACD is crossing over bullish today and showing relative strength. TREX is entering a seasonally strong period of the year with spring orders setting up for outperformance in the late July/early August quarter and four of the last five years the strongest response of the year (+21.3%, 2.9%, +16.5%, and 15.1%). The \$3.87B company trades 22.25X earnings, 5.5X sales, and 43.3X FCF. TREX expects 18.2% EPS growth in 2020, up from 4.9%, while revenue growth is up to 10.4% and 7.5%. TREX missed estimates in April largely due to costs related to new product launches and early issues with manufacturing which substantially improved late in the quarter. This also caused one-time margin issues which will ease over the next 2-3 quarter. TREX also disclosed temporary slowdowns in a Nevada facility which will ease in June. Demand remains strong including a lot “left on the books” due to capacity restraints. Analysts have an average target for shares of \$74 with 4 buy ratings and 3 hold ratings. Short interest is 8.6%. Stifel positive in March with a \$72 PT. They think early-season weather does not really matter for Trex and that shelf space gains in the big boxes and two-steppers are being overlooked. DA Davidson positive yesterday noting that 2H and 2020 look strong after read-throughs from HD and LOW into the repair and remodel market. The firm thinks growing demand from the shifting trend in deck repair to composite from wood and the company's ability to gain market share with shelf space wins along with expanded stocking positions within the dealer channel will be long-term positives. Institutional ownership rose 2.3%.

Hawk Vision:



Trading Strategy: TREX is putting in a significant reversal candle on the weekly chart and long been a favorite fundamental name. Shares got oversold and against the low this week is a good level to be long against.

Confidence Ranking: \$\$