



MSG Network Calls Bought in Size, Potential M&A bet

Ticker/Price: MSGN (\$21.90)

Analysis:

MSG Networks (MSGN) unusual action yesterday with over 3,200 June \$20 calls bought on the afternoon up to \$2.60 and later 1,000 August \$20 calls bought around \$3.40. MSGN traded over 11X average calls with IV30 up over 20%. Shares have lagged the broader market in 2019, down 5%, and forming a multi-month bull wedge under \$23.50. A breakout targets \$26 and a high-volume node from November. The \$1.65B company trades 8.38X earnings, 2.28X sales, and 9X FCF. MSGN is a combination of two regional sports networks which broadcasts the NY Knicks, NY Rangers, NY Islanders, Buffalo Sabres, and coverage of the NY Giants and Buffalo Bills. It also has a streaming platform MSG+. Their market is NY DMA as well as parts of surrounding states out as far as PA, CT, and NJ. MSGN is seeing mid-single digit growth with a strong uptick in demand for advertising inventory. They see legalized gambling in NY/NJ driving upside in those areas in 2020 and 2021. The company has seen decelerating in subscribers but a potential turnaround there would be focused on new players on their respective sports franchises (i.e. Zion Williamson in the NBA draft lottery tonight on 5-14 and the draft on 6-20). MSGN was under some pressure recently after the YES Network sale to Amazon and the Yankees. The price came in below some estimates and valued YES around 7.5X to 9X EBITDA. That would put a similar price for MSGN based on FY21 EBITDA estimates at \$2.42B to \$2.91B. Analysts have an average target for shares of \$25.50 with 4 buy ratings, 7 hold, and 1 sell. Imperial has a \$32 PT for shares and Outperform rating. They think revenue growth was impressive and notes its advertising revenue was up nicely despite the poor performances this season by the Knicks and Rangers. Institutional ownership fell 26.6% last quarter. River Road Asset Management a buyer of a new 1.1M shares. In March, the NY Post reported that John Malone was considering a bid for the company. Malone was in the mix for the Fox RSNs but lost out to Sinclair. The idea speculates that with YES out of the running, the biggest game in the biggest market now available is MSGN.

Hawk Vision:



Trading Strategy: MSGN looks like a nice stab here versus that high volume reversal low and options are attractively priced.

Confidence Ranking: \$\$