Hormel Puts Accumulate Amid ASF Fears

Ticker/Price: HRL $41.75

Analysis:

Hormel (HRL) early buyers of 4,000 September $42.50 puts from $2.40 to $2.45 to open and follows recent buyers in the June puts. Shares have rebounded strong off the recent lows and running into the 200-day MA this week and a big level of support from January/February at $42.50 which is now resistance. HRL has been forming a series of lower highs since November and shares have room back to May VPOC at $39.50. The $22B company trades 23.27X earnings, 2.3X sales, and 34X cash with a 2% yield. They see EPS growth in the mid-single digits with revenue growth down 1.8% in 2020 and down 1% in 2020, cutting their forecasts in May. They've struggled with volumes while margins contracted as their mix weakened as well, especially Internationally. Management was cautious in May on the African Swine Fever currently hitting China and likely driving uncertainty for HRL in the near-term. Analysts have an average target for shares of $39 with 1 buy rating, 6 hold, and 4 sell ratings. JP Morgan downgrading to Sell in April with a $35 PT. The firm thinks rising pork costs and worsening Jennie-O ground turkey brand distribution points could weigh on Hormel's earnings. Hormel is heavily reliant upon pork as an input for its products, and the company will likely be able to fully offset these cost increases through pricing. Short interest is 8.1% and recently moving to its highest levels in 20 years. Institutional ownership rose 1% last quarter. Bridgeway Capital a buyer of shares last quarter.

Hawk Vision:

Trading Strategy: HRL looks like a nice short vs the 200-day MA and clear-cut headwinds.

Confidence Ranking: $$