Kemet Bears Accumulate Ahead of Supply Disruptions, End-Market Slowdown

Ticker/Price: HRL $41.75

Analysis:

Kemet (KEM) more bearish flow with 1,775 August $16 puts bought for $1.40 and then volume jumping to 5,000 with a bigger block at $1.55, aggressive trade. KEM has seen the $17 puts with over 9,500 bought already this week. Shares are back near key support at $16 and potential breakdown of a major range which stretches back to early 2018. KEM has support down at $12.50 while resistance above the declining 20- and 50-day MA has been steadfast since March. The $978M company trades 5.2X earnings, 0.71X sales, and 4.7X cash with a 1.2% yield. KEM sees mid-single digit EPS growth and revenue growth of 4-5% after being in the mid-teens growth in 2019 and 2020. KEM provides passive electronic components including solid capacitors, film, and electro-magnetic sensors for various industries. Their biggest exposure is to industrial and personal computers with automotive and telecom also key areas. KEM faces risks from a slowdown in the mobile device market which utilizes their ceramics line. Their biggest exposure is to automotive where they've already noted a slowdown in orders from the distribution channel and future issues could crop up as they face supply issues with MLCC supply. Analysts have an average target for shares of $26 with limited coverage, just two Buy ratings. B Riley wit ha $26 PT in May noting that the company's long-term outlook should ease investor concerns. Institutional ownership fell 35%. RenTech, Copper Rock, and Maplelane Capital all selling out of positions. Short interest is 9.8% and up from around 3.5% in October 2018.

Hawk Vision:

Trading Strategy: KEM is on the verge of an ugly breakdown and given the headwinds and rising short interest, one to target on a move lower.

Confidence Ranking: $$