



Electronic Arts Calls Accumulate as Large Base Forms

Ticker/Price: EA (\$96.90)

Analysis:

Electronic Arts (EA) with bullish positioning recently as shares continue to consolidate under the \$100 level and yesterday another 1,200 August \$105/\$115 call spreads bought where buyers were active yesterday. EA had buyers of 4,500 July \$100 calls on 6-21 as well as action in the December \$90 calls, September \$105 calls, and December \$105 calls. The August \$75 and August \$80 puts have also been sold to open recently. Shares have been consolidating under the \$100/\$105 range since February with a breakout targeting \$120 and a longer-term base breakout target \$140. The \$29B videogame developer trades 18.95X earnings, 5.87X sales, and 20X FCF with over \$18/share in cash on hand. EA is targeting 12.6% and 12.9% EPS growth with 6.2% and 6.5% revenue growth through 2022. The company is coming off a strong quarter with their live services business growing nicely and expected to ramp with the subscription package now on PS4. They were at E3 earlier this month debuting the new Star Wars title to positive reviews as well as new characters, weapons, and challenges for Apex Legends 2. Analysts have an average target for shares of \$112 with 20 buy ratings and 7 hold. Stephens making EA their Top Pick on 6-24 citing a number of near-term catalysts like a new season of Apex Legends starting on July 2. They think Season 2 can generate \$150M in revenue for EA and also expects a China deal to be announced soon. Sun Trust positive as well noting that "July 2 will be important "given concerns on EA's ability to achieve the \$300M-400M in Apex revenue included in FY20 guidance ." Nomura with a \$120 PT and new Buy rating in early June expecting EA's subscription service to scale well and expand to new platforms. Short interest is 3.5%. Hedge Fund ownership fell 11.25% last quarter. SRS Investment a buyer of 2.5M shares while Alyeska buying a new stake as well. Melvin Capital remains a top holder with 1.6M shares and Eminence Capital with 1.33M shares but both reducing.

Hawk Vision:



Trading Strategy: EA is looking healthy out of this base and seeing similar bull flows in ATVI/TTWO recently, a group seen as an area of safety and into a new console cycle potential upside to estimates. The call spreads are a nice reward/risk approach.

Confidence Ranking: \$\$