



Advanced Auto Attracts Massive Call Buy into Major Support Level

Ticker/Price: AAP (\$151)

Analysis:

Advanced Auto (AAP) size buyers today of 4,150 September \$150 calls up to \$11.80 to open and follows buyers of \$545K in January \$155 calls last week. AAP has seen buyers in the June \$155 calls and January \$190 OTM calls over the last couple months as well, although today's action by far the most notable. AAP shares have lagged for much of 2019 and back at key support around \$150 which has held multiple times since mid-2018. MACD and RSI have reset back to key levels since a strong run last year and potential for a nice run with momentum out of this recent downtrend back to \$180. The \$10.98B company trades 16.2X earnings, 1.14X sales, and 17.6X FCF with 15% EPS growth and 2.5% revenue growth. The company is coming off a strong quarter with gross margins expanding driven by better product mix and their inventory management initiatives paying off. They've also done noticeable work to close under-performing stores and reduce expenses. AAP also posted strong comps in both DIY and professional despite weather issues in Q1. Analysts have an average target for shares of \$191.25 with 14 buy ratings and 3 hold. CSFB with an Outperform and \$195 PT seeing plenty of top-line drivers including ramping benefits from cross banner visibility, marketing changes, potential upside from WMT partnership and other omni-channel initiatives. RBC with a \$178 PT and in May positive noting that the company continues to execute well in a tough environment and management has a lot of levers to significantly enhance performance, including better comp growth and 500+ bps of EBIT margin expansion. Short interest is 4% and down sharply from over 11.5% in 2017. Hedge Fund ownership fell 5% last quarter but activist Starboard Value remains a top holder with 3.175M shares, their second largest. The two reached a deal in November 2015 and Jeff Smith remains on their board.

Hawk Vision:



Trading Strategy: AAP is on the cusp of a major breakdown, so would either trade tight versus 150 support on a closing basis or wait for a clear base to set-up.

Confidence Ranking: \$\$