



Hershey Call Spreads See More Upside Next Quarter

Ticker/Price: HSY (\$137.80)

Analysis:

Hershey (HSY) now has 3,350 August \$135/\$145 call spreads in open interest after buys yesterday and still has size August \$120 and \$125 calls with 1,800X each in OI from buys in mid-May. HSY has seen some scattered puts open in September, October and November as well, but likely hedging in a strong performer. HSY shares are forming a tight bull flag under new highs on the daily chart, a strong run since a multi-year resistance breakout above \$115 earlier this year, a range break that has a measured move to \$145/\$150. The \$28.7B snack maker trades 23X Earnings, 44.75X FCF and 16.5X EV/EBITDA with a 2.1% yield. HSY sees modest 1.5-2% top-line growth ahead with 5-6% EPS growth. The Company may pursue CBD as a growth opportunity but is holding off for now. HSY is a clear leader in confection and looking to capture additional growth in snacking while also growing Internationally. India has been a major growth market lately. HSY has also been optimizing operations and improving profitability, while also exploring digital channels. Analysts have an average target down at \$120 on shares and short interest is 3.7% of the float. HSY was the target of a takeover a few years ago but defended itself against it. BAML is one of the more bullish firms with a \$152 target, recently meeting with the Co. seeing improved fundamentals as investments flow through and margin expansion remains a key tailwind. Evercore ISI started shares Neutral with a \$145 target on 6-11, and CSFB in late May raised its target to \$130 after a positive tone at the Sweet and Snacks Expo and Nielsen tracking data. Hedge Fund ownership dropped nearly 25% in Q1 filings, no major concentrated holders with the Hershey Trust having major control.

Hawk Vision:



Trading Strategy: HSY a solid set-up, and though valuation remains elevated, the margin expansion story continues to play out, so the upside call spreads are a nice reward/risk way to participate.

Confidence Ranking: \$\$