



Lennar Bull Spreads Active into Weakness as Mortgage Rates Sink

Ticker/Price: LEN (\$51.15)

Analysis:

Lennar (LEN) with 3,000 July \$52.50/\$57.50 call spreads bought to open today for \$1.05 into the morning lows and follows buyers in the January \$52.50 calls for more than \$525K on 6/6 and accumulation in the August \$55 calls with over 2,800 in OI. LEN has short puts in the August \$45 strike from mid-May. Shares are down 2.65% today after a downgrade but finding support mid-morning at trend support from the January lows and forming a higher low vs the recent May dip. LEN shares are forming a multi-week bull flag consolidation under \$54 with a breakout target \$59.50. The \$16.4B company trades 8.84X earnings, 0.76X sales, and 15.8X cash with a small yield and double-digit EPS growth. LEN sees 4.3% revenue growth in FY20 and 9.2% growth in FY21 with margins expanding nicely since mid-2018. The company will report earnings on 6-25 and a strong long-term performer with shares higher 7 of the last 8 quarters, an average closing move of 4.64%. LEN is coming off a mixed quarter in March but positive on demand into the busy Spring season and a more stable housing market. They also continue to integrate the Cal Atlantic deal and expand their scale to new regions like North Carolina. Analysts have an average target for shares of \$57.50. Raymond James today cautious on softening macro-economic data points and indicators of a late-cycle shift. Buckingham positive on 6-17 with LEN standing out among peers given their more diverse regional exposure and faster absorption pace for a one-year outlook. Wedbush upgrading to Outperform on 6-13 with a \$62 PT citing the company's exposure to western markets which are rebounding. Short interest is 3.6% and near two-year lows. Hedge Fund ownership rose modestly last quarter. Eminence Capital with a 5.5M share position, adding 1.7M last quarter and a 3.8% weight for the firm. Balyasny, Long Pond, and Brave Warrior all concentrated holders as well.

Hawk Vision:



Trading Strategy: LEN needs to confirm this low support today but overall Housing names are setting up nicely into today's decline, DHI often the preferred play.

Confidence Ranking: \$\$