



Call Buyers Go In-the-Money in Keurig Dr. Pepper

Ticker/Price: KDP (\$28.60)

Analysis:

Keurig Dr. Pepper (KDP) with buyers of 1,000 January \$26 ITM calls yesterday for \$3.85 and name which still has 2,000 July \$30 calls in OI from buyers in March as well as 1,350 of the July \$26 calls from February. KDP also has 1,900 January \$30 calls in OI from buys. Shares have been in a steady trend higher since October and basing in a small range at the 50-day MA and below recent highs at \$29.75. A continuation out of this long-term range targets \$35. The \$40.29B company trades 20.44X earnings and 4.5X sales with a 2% yield. KDP is targeting 15% and 13.1% EPS growth with 2.8% sales growth through 2021. KDP sees a lot of opportunity to gain share in the massive market, especially e-commerce which is expected to be a \$200B space for beverages by 2022. KDP is partnering with online retailers to leverage their top brands like Dr. Pepper, Snapple, Bai, Fiji, and Vita Coco. Meanwhile, Keurig has become leaner since going private with a focus now on next-gen systems and continued share gains. KDP has seen sales improve while better volumes/pricing drove margin expansion last quarter. Analysts have an average target for shares of \$28 with 7 buy ratings, 7 hold, and 1 sell. MSCO downgraded shares to Sell in late March citing higher risk to coffee growth. Goldman has a Buy rating for shares and \$30 PT seeing KDP as a solid defensive name with improving margins and strong FCF generation. KDP has seen a number of insider buys over the last year with recent notables a nearly \$4M purchase by a director at \$25.44 in March.

Hawk Vision:



Trading Strategy: KDP was my favorite Beverage name into 2019 and setting up nicely again, an easy trade versus recent lows. We rode calls a few weeks ago for big gains and looks ready for a run to \$30+.

Confidence Ranking: \$\$