



DaVita Bulls Position for Upside after FTC Approval Unlocks Cash for Buybacks

Ticker/Price: DVA (\$54.84)

Analysis:

DaVita (DVA) shares standing out rallying for the past three weeks and on strong volume the last six sessions, a name that has seen 2,000 July \$50 puts sold to open, 2500 July \$50 calls bought, 2000 January \$52.5/\$47.5 bull risk reversals open, 2,000 October \$52.5/\$35 bull risk reversals open, and nearly 6000 January \$50/\$45 bull risk reversals open in the past two weeks. DVA's 30 day IV at 31.85% is at the 25th percentile of its 52-week range and 30 Day IV Skew at +0.9% compares to a +1.1% 52-week average. The \$9B provider of dialysis services trades 10.75X Earnings, 35.35X FCF and 9.4X EV/EBITDA. DVA is expecting topline growth to return to 4-5% Y/Y starting in Q4 2019 while EPS seen rising 17% this year and 20% next year. DVA shares have been trending lower since 2015 and the US continues to seek ways to cut costs of dialysis with more home care. It recently received approval from the FTC for its sale of DaVita Medical to United Health's Optum for \$4.34B. With the deal approved, DVA is set to receive \$4.34B of cash that they can use the pay down debt to their target leverage levels, and, combined with FCF, buy back an estimated 1/3 of their market cap in the next 18 months. RW Baird has a \$70 target saying valuation already reflects earnings risk. RBC has a \$65 target noting the company's near term is likely to be impacted by industry headline risk, potential margin pressures due to increased scrutiny of dialysis rates, and ongoing labor cost growth, but sees dialysis as a steady, stable, defensive industry over the long term, with predictable patient volumes and strong cash flows. Hedge Fund ownership jumped 20% in Q1 filings, Glenview with a new position while Berkshire Hathaway holds a \$2B position as its 16th largest and Gates Capital Mgmt. holds DVA with a 7.22% weighting as its top position.

Hawk Vision:



Trading Strategy: DVA is extended short-term but a ton of longer term bullish positioning making it an attractive value play with Buffett involved. Not a fan of the lack of growth but buying back 1/3 of the shares outstanding can provide a nice lift for shares.

Confidence Ranking: \$\$