



Bullish Positions Accumulate in Small Cap Kratos Defense

Ticker/Price: KTOS (\$22.15)

Analysis:

Kratos Defense (KTOS) name with a number of bullish trades recently including 875 July \$20 calls yesterday at \$2.05, 5,000 July \$25 calls bought on 6-20, and more than 2,000 August \$22.50 calls in late May. On 5-15, the August \$20 calls were bought 3,500X and the \$17.50 calls have over 2,750 in OI from March buyers. Shares have been on a strong run higher since earnings in early May and flagging above the rising 34-MA. A move above \$22.50 has room out to \$25. The \$2.41B company trades 42.8X earnings, 3.8X sales, and 13.5X cash with 44.7% and 42.8% EPS growth. The company raised estimates in May and now sees 15.7% and 17.9% sales growth through 2021. KTOS is seeing strong demand across all of their business segments including Space/Satellite, Unmanned Systems Drones and AI, Missile Defense Radars, Training Systems, and Microwave Electronics and Electronic Warfare. The satellite business is benefitting from more government spending, one of the largest growth areas of the new DoD budget up 20% Y/Y. The company thinks this is likely to continue for a longer-time with nextgen missile warning satellites and future communications system in focus. In March, the company successfully flew their Valkyrie tactical drone for the first time, expected to be a significant driver of longterm value. The Valkyrie is considered a hugely valuable drone as it can be used multiple times but also inexpensive so it can be used for more aggressive missions in combat. It also uses supersonic speed which makes it an ideal partner with manned fighter jets. The USAF has shown interest in the drone and the company has been involved in several hearings since May as bipartisan support builds for use of the aircraft. On 6-17 it was reported that the USAF is looking to fast-track funding to the company to buy 20- 30 drones for experimentation. They are also getting several additional customer interest. Analysts have an average target for shares of \$22 with 6 buy ratings and 3 hold. Goldman cut shares to Neutral on 6-6 with a \$24 PT and thinks the company continues to have big growth potential but shares are a bit extended. Baird raising their PT to \$25 on 5-28 citing higher growth prospects for KTOS Space and Satellite Solutions. JP Morgan upgrading to Overweight with a \$24 PT on 5-24 citing potential for the Valkyrie tactical drone which has gained the attention of the USAF. Short interest is 7.9% and down sharply from late 2018 when it was above 14%. Hedge Fund ownership rose 25.5% last quarter. Impala Asset Management, Paradigm Capital, and S-Squared all notable holders. KTOS saw a lot of insider buying in 2018 from President/CEO Demarco and other directors.

Hawk Vision:



Trading Strategy: KTOS looks to be an emerging growth name in a Defense group that lacks a lot of smaller growth players, and sets up well on the charts to own versus the 33 EMA.

Confidence Ranking: \$\$