



Parsley Energy Bullish Positions Accumulate in Size

Ticker/Price: PE (\$18.7)

Analysis:

Parsley Energy (PE) with buyers yesterday for 4,000 September \$20 calls for \$0.95 to \$1, adding to open interest where over 5,750 sat prior. PE had buyers in the January 2021 \$20 calls on 7-1 and the January 2021 \$22.50/\$15 bull risk reversals opened 10,000X on 6-25. The January 2021 \$17.50 calls and December \$15 calls also active. PE shares are formed a wide base under \$22 with a big low-volume gap back up to \$26 from the October breakdown level. The \$5.79B company trades 8.4X earnings, 6X EV/EBITDA, and 0.94X book with strong FCF expected in the 2H of the year and limited debt. PE sees 51.7% and 11.4% EPS growth over the next two years up to \$2.45 from \$1.45. Revenues are expected to grow 22.2% and 15.1% respectively. PE has one of the best asset bases in the Permian basin while executing well on an action plan to drive self-funded growth improve capital efficiency. They are exploring strategic alternatives for their water infrastructure investments as well. Analysts have an average target for shares of \$31 with 25 buy ratings and 3 hold ratings. Evercore with a \$27 PT in May positive on their scale among the Permian pure plays after the market de-rating on the basin names amid concern over scale and the ability to "pivot to a more ratable growth" with free cash flow model. Wolfe upgrading to Outperform in April citing their mix of growth, top-tier margins, strong balance sheet, and asset base. Short interest is 3.5% and down from around 8% in early 2018. Hedge Fund ownership rose 19.2% last quarter. Adage Capital, Luminus Management, Zimmer Partners, and Discovery Capital all notable holders. In May, Pioneer Natural (PXD) CEO Scott Sheffield noted that Parsley, among others, was one of the best targets in the basins after the CVX/APC deal. On 6-14, Parsley's CEO Matt Gallagher said it was an attractive target for any purchaser. He declined to comment whether they had been approached but noted, "We are in a small handful of companies that have some of the best rock and a healthy business model and a very long runway of inventories."

Hawk Vision:



Hawk's Perspective: PE has a nice basing pattern and above the 50 day MA at \$19 can initiate a long versus recent lows, a sensible M&A target and a favorite in a tricky Energy group that has struggled.

Confidence Ranking: \$\$