



Put Buyers and Shorts See Wabtec Struggles Persisting

Ticker/Price: WAB (\$70.70)

Analysis:

Wabtec (WAB) yesterday with a large buy of 2,000 October \$75 puts to open up to \$6.80 for over \$1.3M and follows recent opening sales of 2000 October \$75 calls. WAB also has 14,000 October \$65 puts in open interest with the initial 5000 bought on 4/25 near \$3.45 and short interest in the name now 20% of the float to a record high and up 50% Q/Q. The \$11.5B provider of equipment for freight rail and passenger transit vehicles trades 14.8X Earnings, 0.88X Book, 68X FCF and 10.5X EV/EBITDA with a 0.68% dividend yield and potentially troublesome balance sheet. WAB will next report on 7/30 before the open. WAB did see some insider buys in May for over \$1.3M with shares around \$63-\$65. WAB is coming off a transformational deal for GE Transportation and has faced pressures from industry-wide transitions to PSR which is reducing locomotive use. It expects \$250M annual run-rate synergies from the deal and strong FCF to allow for deleveraging. It notes significant scale, rapid growth trajectory, superior margins and a combined \$23B backlog as a highly compelling financial profile. An aging locomotive fleet is seen as a prime point in the cycle currently for increased growth. Analysts have an average target of \$88 on shares, Cowen out on 6/18 calling it a top idea as it now has a duopolistic and near-monopolistic position in its business while trading at a deep discount to its closest peer. Goldman started shares Neutral with a \$79 target on 7/10 seeing another 8% downside to consensus earnings on margin headwinds and wants to see a bottom in freight traffic and rail capital allocation to locomotives and rail cars before turning more positive. Citi also started at Neutral with an \$80 target noting PSR implementation is making rails more efficient and volume growth appears to be slowing, capex growth is likely to be more modest near term. Buckingham downgraded shares on 6/24 with an \$81 target citing North American freight rail fundamentals weaker than expected with a greater PSR impact and sees further earnings disappointments. Hedge Fund ownership jumped 38% in Q1 filings, Farallon adding to a large concentrated position as did Fairpointe. On the chart shares have rebounded off 2019 lows but plenty of overhead resistance with the downtrend firmly intact.

Hawk Vision:



Hawk's Perspective: WAB continues to be a name with a short bias and see it being a top name to position in puts for upcoming earnings.

Confidence Ranking: \$\$