



Cal-Maine Size Put Buyer into Rebound

Ticker/Price: CALM (\$39)

Analysis:

Cal-Maine (CALM) buyers today of 3,000 November \$42.50 puts for \$4.10 to \$4.20, sizable trade which is over 9X average. CALM doesn't have a lot of notable open interest but does still has 2,000 August \$42.50 puts and 1775 August \$40 puts in OI. Shares gapped lower on earnings this week and rebounding today into the declining 8- and 20-MA. On a long-term look, CALM is just above major support at \$35 with a breakdown targeting \$27.50 and channel support. Shares formed a big lower high in 2018/2019 from the five-year highs. The \$1.89B company trades 65.25X earnings, 1.24X sales, and 24.3X FCF with a 2.2% yield. CALM has seen revenues contract over the last four quarters while margins under pressure. They see 106% EPS growth and 6% revenue growth in 2020. CALM cut their dividend as well. The company is facing headwinds two fronts. Pricing was weak this quarter again, down 52% with ASP down 37%, while flock size continues to grow. CALM also expects feed costs to be more volatile for the year due to unfavorable crop conditions and grain prices jumping with the flooding/historic rainfall in the Midwest. Analysts have an average target for shares of \$40, although limited coverage. Stephens with a \$42 PT seeing valuation as 'full' while supply indicators are pointing to significant increases in production which will pressure pricing. Short interest is 11.9% and rising steadily since June 2018 when it was 7.4%. Hedge Fund ownership rose 6.2% in Q1. Diamond Hill Capital adding to their position, now 1.39M. in October 2018 the CFO bought \$91k in stock at \$45.50.

Hawk Vision:



Hawk's Perspective: CALM certainly looks to be a viable short position with the rising short interest, accumulating puts, and weakening fundamentals as well as a downtrend.

Confidence Ranking: \$\$