



Calls Surge in Small Refiner Delek

Ticker/Price: DK (\$40.60)

Analysis:

Delek (DK) a refiner flagging and seeing IV rise with nearly 3500 August \$45 calls opening \$0.65 to \$0.85 and also 875 January \$45 calls opening up to \$2.95. Volume continuing to come in now with the August calls over 8700X and the January calls over 2900X. DK recently had the October \$37.50 calls open over 2500X, some spread with the \$30 puts and \$45 calls in covered bull risk reversals. Shares are flagging above the rising 8-EMA and working out of a weekly base above \$41 which targets \$50+. DK had a positive RSI divergence into the recent low. The \$3.09B company trades 9.9X earnings, 0.3X sales, and 7.26X FCF with a 2.8% yield. They see revenues growing 3.2% in FY20. The company is coming off a strong quarter with margins improving behind better differentials as well as accretive drop-downs to Delek Logistics which is unlocking value. They're also making positive headway on new midstream projects like Big Spring as part of a plan to generate \$1B in EBITDA and support long-term growth. Analysts have an average target for shares of \$46.50. Goldman Sachs downgrading to Sell on 6-25 with a \$37 PT. The firm thinks earnings may be strong but long-term risk as three new pipelines come into service which could compress the Brent-Midland differential. CSFB positive on 5-16 with a \$48 PT and Outperform as the company's capture continues to be positive. They think higher gasoline margins across PADDs II and III should continue to drive upward revisions. Short interest is 7.6%. Hedge Fund ownership fell 33.8% last quarter. Fisher Asset Management, Encompass, and Tortoise Capital all notable holders.

Hawk Vision:



Trading Strategy: DK is one of a few refiners strong since the incident in Philly and this is notable activity in one of the better growth plays, a good name for exposure to the group.

Confidence Ranking: \$\$