



Call Buyer in Ubiquiti Sees Return to Momentum

Ticker/Price: UBNT (\$135)

Analysis:

Ubiquiti Networks (UBNT) on Friday with unusual activity as September \$140 calls were opened more than 1,000X near \$7.50 and August \$140 call OI jumped by 400X as well. UBNT does have 3,185 September \$135 puts in open interest from previous purchases as the most notable open interest while 455 August \$115 ITM calls bought on 5/28 remain in OI. The \$9.5B developer of networking technology will next report in late August, and trades 23.55X Earnings and 8.2X EV/Sales. UBNT's forecast calls for 16% revenue growth this year after 17.5% growth last year and EPS growth of 33.3%, the latter its best since 2014. UBNT offers disruptive pricing on its products that are innovative with high performance serving under penetrated markets. Its revenues are broken into 47% Enterprise and 53% Service Providers with 38% of sales in North America and 39% in EMEA. It estimates an addressable market of \$47B with \$30B targeting Enterprise Wi-Fi with AP, Switches, and Routers and adjacent markets like Consumer Wi-Fi, Video Surveillance, Carrier Routing & Switching, and Wireless Backhaul. UBNT's operating expenses are just 12% of sales which is extremely low compared to peers like ANET, ARRS, CAMP, CSCO, HPE, FFIV, INFN, NTGR, JNPR, PANW, FTNT and MSI. Enterprise is its major growth focus with a 52% 3 year CAGR for revenues and a \$10-\$15B market opportunity. On the chart UBNT shares sold off last quarter despite beating on EPS as revenues came in a touch light and the FY19 outlook disappointed. Shares managed to hold key 18 month trend support at the \$120 level which was also a 61.8% Fibonacci. Shares have since formed a based giving a \$125 level to trade against. Analysts have an average target of \$106 and short interest remains elevated at 31% of the float but trending lower near a three-year low. Some analysts are concerned with margin headwinds surrounding Chinese tariffs but overall not a lot of commentary in the name. Hedge fund ownership jumped 29.5% in Q1 filings, Akre Capital a notable holder of a \$400M position is its 11th largest and Disciplined Growth Investors a \$230M stake as the 5th largest, while Maplelane Capital disclosed a put option position.

Hawk Vision:



Hawk's Perspective: UBNT is tricky, an intriguing company with solid fundamentals and attractive valuation for the growth, but the massive short float and large September put position keeps me hesitant. This is a situation to trade with a tight stop, or own stock paired with puts.

Confidence Ranking: \$\$