



Quest Bulls See Strong 2H Growth as UNH Contract Kicks In

Ticker/Price: DGX (\$102.60)

Analysis:

Quest Diagnostics (DGX) buyers yesterday of 500 January \$95 calls up to \$10.40, a more than \$545K buy. DGX has over 1200 January ITM \$110 puts sold to open from around \$27 back in January while the September \$100 calls with 1000 bought on 7-22 in open interest. Shares are forming a bull flag under \$104 after pulling back to rising cloud support and has a small gap above to \$108. DGX is forming a big weekly down channel from the 2018 highs with a move above \$108 targeting \$116 and then a run to \$125+. The \$13.85B company trades 15X earnings, 1.83X sales, and 21.35X FCF with a 2% yield and mid-single digit growth. DGX expects 2.5% annual revenue growth with plenty of room for margin expansion. DGX is coming off a strong quarter with volumes given PAMA, expanded network access, and the increased consumerization of health care. DGX has made a focus on shifting towards higher-margin contracts despite a modest drop in volumes. In April, the company announced that UNH had selected the company to take part in their PLN which started on 7-1. Analysts have an average target for shares of \$106. Goldman cut to Sell in June with the analyst seeing a "challenging" setup for the shares amid "muted" Preferred Lab Network prospects. Canaccord with a \$103 PT and Buy rating. They think Quest is off to a "good start" as it adds new volume growth related to 43M new lives from recent health plan wins from UnitedHealthcare (UNH) and others, and Quest expects volumes to gradually grow throughout this year. Jefferies upgrading to Buy in April with a \$107 PT. They think the outlook looks conservative given inclusion with UNH should bolster their organic growth beginning in 2020. Short interest is 3% and down from around 3.8% recently. Hedge Fund ownership fell 2% in Q2. Balyasny, Ariel Investment, and Tamarak Advisors notable holders.

Hawk Vision:



Hawk's Perspective: DGX looks good on all accounts and can set an alert at \$103.65 for a breakout.

Confidence Ranking: \$\$