



KLA Tencor Call Buyers as Relative Strength Semi Leads

Ticker/Price: KLAC (\$136.5)

Analysis:

KLA-Tencor (KLAC) buyer of 1430 September \$140 calls for \$3.60 this morning, notable size in the name recently. Shares are holding up well after a strong run from the June lows and flagging above the 20-day MA and the May breakout level. A short-term move higher targets \$150 while longer-term targets up to \$170 from the massive 2018 range. The \$21.89B company trades 12.87X earnings, 4.8X sales, and 11.5X cash with strong FCF and a 2.25% yield. They expect 11.9% and 14.2% EPS growth the next two years with revenue growth in the mid-single digits. KLAC is coming off a strong quarter despite overall macro challenges. They continue to see upside from their Orbotech acquisition which expanded their scale in high-growth areas like printed circuit board, flat panel display, and packaging. Analysts have an average target for shares of \$142. BAML with a \$150 PT as better execution and solid share gains are offsetting macro headwinds. CSFB with a \$170 PT as the analyst sees continued upside with the KLA franchise value underappreciated and improving, the addition to Orbotech, and continued capital return to shareholders driving additional leverage to the model. Cowen sees upside from better demand in the core foundry/logic business and domestic China memory cap-ex. Short interest is 1.9% and down from around 4.4% in early 2019. Hedge Fund ownership fell 35% in Q2. Alkeon Capital and Clough Capital notable holders. Point72 sold the majority of their stake.

Hawk Vision:



Hawk's Perspective: KLAC has shown clear relative strength to peers and screened better into this year than LRCX/AMAT, so continue to prefer it among Semi Equipment large caps.

Confidence Ranking: \$\$