



Analog Devices Bullish Positioning for 2H19

Ticker/Price: ADI (\$108.95)

Analysis:

Analog Devices (ADI) yesterday with 1,500 December \$95 puts sold to open and also 1,400 January \$125/\$97.5 bull risk reversals opened. ADI has 3,500 September \$120 calls that were sold to open on 7/8 in open interest now far OTM and has previously seen a lot of put selling in January 2020 at \$110, \$105, and \$90 strikes and has 3,750 of the \$120 long calls in OI. ADI shares have pulled back recently with the rest of the Semiconductors on China trade fears and shares now sitting just above the rising 144 day MA and back near a June base breakout level. The recent low was also an exact 38.2% retracement of the late 2018 low to 2019 new high. The \$40.75B Semi trades 19.7X Earnings, 6.5X Sales and 30.45X FCF with a 1.98% dividend yield. ADI posted 49.3% and 21.4% revenue growth the last two years and sees a return to growth in 2020. The analog industry has been consolidating with ADI and TXN the major leaders and seen as critical suppliers into the IoT Era. ADI has operating and FCF margins in the top 5% of S&P companies and has outgrown the Semi industry. Its key end markets include Consumer, Automotive, Communications and Industrial. Analysts have an average target of \$115 on shares and short interest low at 1.4% of the float and back near a multi-year low. Jefferies sees shares ownable through the next four cycles and thinks 3-5 year earnings bull case is 50-100% above the consensus. Piper raised its target to \$135 on 7/9 seeing strong execution with China channels largely flushed out and sees 5G deployments driving 2020 growth, a best-in-class semiconductor. In June Goldman Sachs double upgraded shares to Buy with a \$114 target, citing exposure to multiple idiosyncratic revenue drivers, including Comms Infrastructure and Automotive, and sees upside to industry-leading margins and consensus estimates. It also notes an improved growth outlook, reduced margin volatility, and declining exposure to the Consumer end-market -- particularly Apple (AAPL) -- will collectively drive relative multiples higher. Hedge Fund ownership jumped 70% in Q1 filings, notable concentrated top owners like Cantillon, First Pacific, Alkeon, and the #1 holding for Jericho Capital.

Hawk Vision:



Hawk's Perspective: ADI looks attractive into this dip and even more so near the 200 MA at \$102, definitely a best of breed name to own when the Semi's come back into favor.

Confidence Ranking: \$\$