Bulls Position in Five Below for Earnings

Ticker/Price: FIVE ($111.60)

Analysis:

Five Below (FIVE) active on 8/12 with over 2,000 Aug. 30th (W) $115 calls bought to open while another strategist sold 2,000 of the Aug. 30th (W) $120 calls to buy 2,000 September 13th (W) $115/$125 call spreads. FIVE shares have broken down under all its key daily moving averages though the 89 week MA marked the recent low and is also 18 month channel support on the weekly chart with shares the most oversold in a few years. The $6.4B discount retailer will report earnings in early September with shares higher four of its last six reports. Shares trade 29.5X Earnings and 3.95X Sales as one of the top retail performers with less ecommerce threat due to its "treasure hunt" shopping experience and a name with a lot of room for expansion. FIVE projections are calling for three years of 20% topline growth and right around 19-20% EPS growth as well. By the end of 2019 it expects to have 900 stores in 36 states and remains relatively underpenetrated, and has best in class new store metrics. After posting +6.5% comps in 2017 it saw 3.9% comp growth in 2018 and saw a shift to average ticket growth from average transaction growth. FIVE sees potential for 2500 stores. Analysts have an average target of $141 and short interest at 4.2% of the float has been declining. Morgan Stanley started coverage in early July at Overweight with a $135 target citing 3.1% comp growth in the first quarter of 2019 was driven evenly between ticket growth and traffic growth at a time when many retailers weren't showing any traffic growth. Also, new stores are operating near 100% productivity at an industry-leading payback period of less than one year. Loop Capital was encouraged by Q1 results and has a $145 target seeing upside from a strong movie release slate in 2H19 like Frozen, Spiderman, Star Wars and Toy Story. BAML was out positive with a $150 target on 8-12 calling it "A rare discounted multiple for a high quality, multi-year growth story." It notes "FIVE shares have underperformed since 1Q earnings, as tariff fears weigh on the stock. Management previously detailed a new pricing strategy, which is being tested this summer, to mitigate prior tariffs with some prices increasing above $5. We think the latest 10% tariff on the remaining $300B in Chinese imports will apply to most of FIVE's products. However, given strong vendor relationships, and the potential order volume growth working with FIVE (22% sales CAGR through F21), we think FIVE will have a greater ability to offset the impact than competitors." Hedge Fund ownership rose 2.8% in Q1 filings, Winslow Capital taking a notable new position.

Hawk Vision:

Hawk's Perspective: FIVE remains one of my favorite growth stories in the overall weak area of brick and mortar retail, and think it's a buying opportunity at these levels, though would like to see it reclaim its 200 MA.

Confidence Ranking: $$