



Call Buyers Position for Longer Term Upside in Wex

Ticker/Price: WEX (\$205)

Analysis:

Wex (WEX) options have been active recently with 360 February \$210 calls opening yesterday \$12.10 to \$13.10, the \$220 calls already with 400 bought in open interest and the February \$200 calls bought 1000X to open over the past week. WEX has also seen the November \$240 calls sold to buy the \$200/\$170 put spreads in a likely protective collar. Shares recently pulled back and held support above the 200 day MA and now back above its 8 MA and YTD VPOC levels, and recent resistance highs up at \$222. The \$8.85B provider of corporate card payment solutions is trading 19X Earnings, 28.3X FCF and 15.4X EV/EBITDA. WEX has grown revenues 18-23% per year the past three and sees 16% growth in 2019 with double digit EPS growth seen continuing as well. It is coming off a quarter where it narrowly beat estimates and reaffirmed its outlook. The company now receives 35% of revenues in high growth markets and fuel price exposure is now approximately 20% of revenues and has moved into new markets and geographies as it pivots to a broader fin-tech company. It is targeting a \$10B Fleet TAM, a \$9.1B Corporate/Travel Payments TAM and \$2.4B Health TAM and the company aims to double its size within the next five years and continues to reduce exposure to fuel prices. It also sees a longer term opportunity in Electrification. The Health Solutions segment is targeting HRA, HAS and FSA accounts. Analysts have an average target of \$235 on shares and short interest near a five-year low at 2.8% of the float. BAML started shares at Buy in early June citing a robust product set and large addressable market with sustained mid-to-high teens earnings growth. Recent deal wins in the Fuel Cards segment demonstrate WEX is a share taker, and we view WEX as well positioned to benefit from both a growing pie and a larger share in both Travel & Corporate Payments and Health Solutions. It notes "We expect growth for the remainder of the year will benefit from: 1) a more significant contribution from new Fleet Solutions deal wins (ie, Shell/Chevron), 2) a full quarter benefit from recent M&A (Discovery and Noventis), 3) ramping of new travel related wins that should accelerate Travel and Corporate Payments volume growth, 4) anniversarying Brazil business transition headwinds in 3Q, and 5) easier FX comps." Goldman Sachs upgraded to Buy on 6/5 with a \$225 target seeing improving organic growth as well as a secular market opportunity in B2B. Hedge Fund ownership fell 0.6% in Q1 filings, notable top concentrated holders include Atlanta Capital, Frontier Capital, Time-Square Capital, Echo Street, and Par Capital.

Hawk Vision:



Hawk's Perspective: WEX is one of these high quality names we hardly ever hear about but the story remains strong for a double digit EPS grower at undemanding valuation.

Confidence Ranking: \$\$