



Western Digital Bulls Pile in As Cycle Seen Near Trough

Ticker/Price: WDC (\$56.35)

Analysis:

Western Digital (WDC) setting up well below recent highs and buyers active yesterday for 1800 September \$58.50 calls in the afternoon up to \$1.85. WDC had seen bullish flow recently in the September \$55 and \$60 calls, January \$52.50 calls, and February \$55 calls with put sales across the September \$45, February \$52.50, and January \$52.50 strikes. The \$16.13B company trades 8.36X earnings, 0.97X sales, and 10.37X FCF with a 3.56% yield. WDC expects to earn more than \$7/share in FY21 and up over \$9.65 in FY22 with 11.5% sales growth and then 5.1%. WDC has been under pressure recently with poor pricing trends for NAND but management seeing some signs of a trough in Q4. "We are seeing signs of improving conditions in the flash market and believe that it has reached a cyclical trough. With continuing expectations for a positive demand environment, a robust product portfolio and expanding customer engagements, we expect to deliver improving financial results as we move through fiscal 2020." WDC continues to have a strong product portfolio in enterprise and 3D flash as they focus on higher-growth and higher-margin opportunities. End-market trends remain in weak Y/Y but a ramp in high-capacity enterprise drives as well as market share gains in mid-range capacity air-based drives notable positives. They're also seeing continued growth in external SSDs. Analysts have an average target for shares of \$60. Goldman positive on 8-8 after talks with industry participants reinforced their outlook that NAND pricing is already showing signs of improvement and increased his confidence that blended NAND pricing will be up sequentially in the fourth quarter. Mizuho with a \$61 PT citing improving seasonal demand, lower inventory and lower capex should position Western Digital better into 2020. Longbow with a \$70 PT. The firm thinks the flash industry has reached a cyclical trough and is entering a period of demand recovery and price stability. As excess inventory is worked through, pricing will likely remain on the soft side, but following this Todorov estimates NAND gross margins recovering into the high 20% range by the end of FY20. Short interest is 5.5% and down from 7% recently. Hedge Fund ownership rose 15.4% in Q2 holdings. Lyrical Asset Management, Maple Rock Capital, and Carlson Capital notable holders.

Hawk Vision:



Hawk's Perspective: WDC is setting up well after a strong run, alert set for a move above \$58.

Confidence Ranking: \$\$