



## ON Semi Bulls See Long-Term Recovery

**Ticker/Price:** ON (\$20.25)

### Analysis:

**ON Semi (ON)** buyers of 30,000 April \$25 calls up to \$1.03 today with stock and IV rising. ON has some notable October call open interest including 5,000 of the \$21 strike bought in mid-July. Shares are strong this week and out of a multi-week base with longer-term downtrend resistance above at \$22. A move out of a big weekly range targets the 2018 highs near \$27 and then continuation up to \$35+. MACD is near a bullish crossover on the weekly with RSI climbing as well. The \$8.12B company trades 11.56X earnings, 1.4X sales, and 14.3X FCF with mid-teens EPS growth and revenues expected up 5-6%. Margins are back near 2011 highs. ON fell recently on a weaker outlook. ON has been integrating their recent deal for Quantenna which added notable size to their connectivity portfolio and industry-leading WiFi tech business. Analysts have an average target for shares of \$24 with 13 buy ratings, 3 hold, and 1 sell. Raymond James upgrading to Strong Buy on 8-19 with a \$21 PT citing reset expectations and a reasonable valuation despite macro concerns. MSCO cautious on 9-3 citing cyclical pressures and lower expectations for gross margins. Needham positive on 9-9 after meetings with management. The firm thinks management has done a good job reaffirming its continued focus on the industrial and automotive end markets, which they expect to benefit from multiple key secular growth drivers, including industrial automation, increased proliferation of industrial IoT, ADAS, and vehicle electrification. The company is also positive on 5G shipments resuming to Huawei and remains a long-term catalyst for the comm's business. The firm thinks the inventory correction which has dragged on peers will clear for ON in end of Q3 or early Q4 giving more clarity to longer-term guidance. Short interest is 6.4%. Hedge Fund ownership fell 19%. Activist Blue Harbour with 4.3M shares, their eighth largest position, and adding in Q2. ArrowMark, Simcoe Capital, and AQR all notable holders. ON will be at the Deutsche Bank Leveraged Finance conference in late Sept.

### Hawk Vision:



**Hawk's Perspective:** Given the positioning (April exp.) and the recent run, ON will remain one to keep on watch for now. Still prefer other semi's like NXPI and TXN.

**Confidence Ranking:** \$\$