



Unusual Large Call Buy in IPG Photonics as Looks to End Downtrend

Ticker/Price: IPGP (\$133.85)

Analysis:

IPG Photonics (IPGP) buyer yesterday of 1,000 November \$135 calls for \$9 and later 370 October \$135 calls bought up to \$5.30. IPGP has some smaller December \$140 calls in OI from buyers in August. A buyer of 1500 October \$120 puts remains in OI but priced around \$1.60 not after being bought at \$8.80. Shares have pulled back to YTD VPOC at \$129.75 where it bounced yesterday after running up to \$150 in early September. IPGP is trading in a narrow channel down from the April highs and a breakout over that key \$150 level targets a move back to \$180. The \$7.33B company trades 22X earnings, 5.37X sales, and 7X cash with 23% and then 25% EPS growth forecast. IPGP sees topline growth reaccelerating back to 9.5% and then 16.5% growth as well with plenty of room for margin expansion back near historical levels. They expect to lap some tough comps as well into next year. IPGP has been under pressure with the US/China trade tensions weighing on demand. Their main market is the \$4B industrial applications side which continues to grow at a 5-10% rate and newer products like their green lasers and UV lasers seeing better traction in recent quarters. IPGP sees significant opportunity in the \$6B market for new laser applications which include those shorter wave lengths and exposes them to areas like medical, instrumentation, entertainment and other non-metal applications. Analysts have an average target for shares of \$171.50. DA Davidson with a \$175 PT on 7-31 given the company is a technology leader and low cost provider but pushing back expectations for a return to growth in the lasers market. Needham with a \$150 PT in mid-July, some concerns over China and pricing pressures from suppliers while automotive demand slows but noting that a greater diversification of its product portfolio and a more "balanced geographic distribution" should help. Short interest is 6.2%. Hedge fund ownership rose 9%.

Hawk Vision:



Hawk's Perspective: IPGP is a fairly nice value for growth name especially if China headwinds clear, and like it back over its 200 day MA.

Confidence Ranking: \$\$