



Bulls See Opportunity in Carvana Weakness

Ticker/Price: CVNA (\$66.10)

Analysis:

Carvana (CVNA) shares have pulled back 20% over the last month off its highs but option players continued to position bullish with 2500 October \$70/\$77 call spreads bought on 9/27 and recent size buys of January 2021 \$75 calls that now have over 4000 in open interest while the \$50/\$80 call spreads for January 2021 have over 8000 in OI. The \$10.3B Company provides a platform for buying and selling used cars, part of a new wave of e-commerce solutions into the auto sales industry. CVNA sees massive opportunity to simplify the process of buying a used car and gain share in the highly fragmented \$1.2T auto market, an area they see as ripe for disruption given high levels of dissatisfaction with the current process. CVNA is looking to translate the more than 97% of used car buys in the US which start online into complete sales with a better UI, better pricing, and a wider selection of cars available than traditional dealerships. The company has deep offerings from intuitive search for vehicles, competitive trade-ins, financing, and more. They've been investing heavily on expanding their footprint in recent years, up to 109 locations in Q1 vs just 21 in 2016, while seeing 99% Y/Y growth in retail units sold. Their 'car vending machines' have also risen to 16 across the country, more than doubling in 18 months. Revenue growth has been exponential while gross margin expansion has been driven by a higher mix of wholesale vehicles sold, lower costs of funds on financing, new services, and better sourcing. According to Edmunds, the space has near-term tailwinds from rising new car prices and interest rates which should swing the pendulum back towards used cars in 2019 while tariffs are also causing a traffic uptick for the company. Analysts have an average target of \$75.70 on shares and short interest is high at nearly 40% of its float. On 9-12 Needham out positive starting coverage at Buy with a \$105 target, noting CVNA is leading the onslaught against traditional car retailing in the U.S. by leveraging a digitally native, data-centric, capital-efficient, verticalized approach that we believe is a more compelling buying experience and should lead to significant further value creation over the next several years. While the firm thinks financing concerns will remain a persistent overhang, the firm expects footprint expansion and execution to illuminate how underappreciated the company's gross profit potential is at current levels. OpCo started shares Outperform with a \$95 target on 9-20 citing "While its model remains unproven, Carvana is demonstrating an ability to capture outsized share in the decidedly large and fragmented used car marketplace and sees upside potential of more than 20% from current share levels, expects Carvana's broad-based revenues to leverage its mostly centralized expense base." Hedge Fund ownership rose 5.5% in Q2 filings. On the chart shares have pulled back to potential channel support while also retesting a former key breakout level that is now support, and also sits on YTD VPOC support into this week.

Hawk Vision:



Hawk's Perspective: CVNA remains the top player in this big disruption industry, and can eye it on a gap fill.

Confidence Ranking: \$\$