



Zynga Bullish Positions as Shares Base Post-Earnings

Ticker/Price: ZNGA (\$5.75)

Analysis:

Zynga (ZNGA) shares basing above the 200-EMA over the last month and bullish flow accumulating over the last two weeks including 10,000 January \$5 puts sold to open yesterday. ZNGA has also seeing 6,000 Oct. 25th (W) \$6 calls bought last Friday while the October and November \$6 calls also bought to open, the former with 45,000X. The December \$5 calls with over 10,000 in OI from buyers in early September. The longer-dated January, March, and January 2021 calls also have size in OI. A move above \$5.89 targets the 52-week highs at \$6.50 and then longer-term run higher to \$7.50/\$8. The \$5.18B company trades 21.4X earnings, 4.92X sales, and 24.25X FCF. They see 11.5% and then 14.25% EPS growth with revenues up 15-20% the next two years. ZNGA is seeing better mobile user pay bookings, up 83%, and raising FY guidance ahead of some key game launches. They also saw their highest mobile ad revenue for Q2, up 28%, especially around names like Words with Friends. Analysts have an average target for shares of \$6.85 with 11 buy ratings, 2 hold and 1 sell. Baird positive on 8-29 with the analyst upbeat on prospects to generate solid growth and improving margins over time, with management highlighting good visibility into bookings despite certain timing of new title launches. Wedbush adding to their Best Ideas list on 8-27 as it thinks that key titles "Empires & Puzzles" and "Merge Dragons!," along with three new releases later this year, have the potential to drive significant upside to the Street's expectations through 2021. Cowen out last week noting that recent checks showed Merge Magic having strong early results in some key markets. They expect a launch by year-end. Short interest is 8.3% and rising recently. Hedge Fund ownership rose 15% in Q2. Cadian Capital, Contour Asset Management, and Black and White Capital notable holders.

Hawk Vision:



Hawk's Perspective: ZNGA is basing nicely and think the next move above \$5.85 sticks and can see this rise back to highs.

Confidence Ranking: \$\$