



## Calls Accumulate in Delphi for Valuation Bottom

**Ticker/Price:** DLPH (\$17.20)

### Analysis:

**Delphi Automotive (DLPH)** December \$20 call open interest rose to above 7,400 today after two days of active buying in the \$1.20 to \$1.35 range for the contracts. DLPH also still has 10,000 September \$20/\$17.50 bull risk reversals in open interest, while October \$12.50 puts opened 10,000X on 8/27 in a larger trade at \$1.20 that are now trading at \$0.25. DLPH shares put in a strong weekly reversal candle last week and this week seeing continuation, and clearing out of a five month downtrend. The \$1.5B auto parts company trades 5.6X Earnings, 5.1X EV/EBITDA and has a ton of debt with a 4.1 Debt/Equity ratio. DLPH sees revenues returning to growth in FY20 and EPS rising 14% after a serious contraction of 38% in FY19. DLPH has struggled with lower global production as well as FX and tariff headwinds. It is positive on the longer term outlook with more stringent government regulations, a shift to GDi from PC diesel, and an accelerating OEM commitment to electrified vehicles with the market tipping point seen in 2023-2024. DLPH has the industry leading 800V silicon carbide inverter with launch expected in 2022 and has booked \$2.7B. Analysts have an average target near \$22 and short interest at 7% of the float has risen up near record highs. On 8-5 CSFB lowered its target to \$19 but noted the new CEO is a welcomed change and DLPH aiming to improve its cost disadvantage with final plans expected in Q3. Barclays in early September noted DLPH as one of the names that screened as a LBO candidate after deals for Magnetti Marelli and Tower this year. BAML raised shares to Buy with a \$30 target back in April seeing earnings/EBITDA inflection late 2019 or early 2020, stabilization in the Macro backdrop, a solid balance sheet and cheap valuation. It also notes “DLPH’s product portfolio remains one of the more attractive among suppliers in our view, operating in high-growth systems like engine and electronics, and serving a critical role in helping OEMs meet regulatory push and consumer pull for more advanced/efficient powertrains/vehicles.” Hedge Fund ownership rose nearly 15% in Q2 filings, Masters Capital a new notable position.

### Hawk Vision:



**Hawk’s Perspective:** DLPH has made a big move in the past week and see more opportunity on a retest back near the \$16 level, and the LBO potential is enticing.

**Confidence Ranking:** \$\$