Large Calls Accumulate in Knight-Swift

Ticker/Price: KNX ($35.60)

Analysis:

Knight Swift Transportation (KNX) with a large purchase of 8000 June $40 calls on 9/17 that follows 5000 that opened on 9/4 and paying $3.55 this time. KNX still has over 30,000 September $35 calls sitting in open interest and the November $40/$35 strangle bought 10,000X to open back on 5/3. Truckers are expected to be under some pressure today after the Fed-Ex quarter but the LTL segment showed strong pricing and margin gains which should be a tailwind for Trucking plays moving forward. KNX has shown some relative strength this year with shares +42% YTD, and on the weekly carved out a long bottoming pattern that measures back to $50 from early 2018, with $37.75 near-term resistance. The $6.1B company trades 14.5X Earnings, 1.1X Book, and 7X EV/EBITDA with EBITDA seen returning to growth in FY20. KNX receives 80% of revenues from Trucking, 10% from Logistics, and 10% from Intermodal. Last quarter it saw improvement in the operating ratio and revenue per loaded mile. It continues to see benefits of the merger with Swift and has posted 17%+ ROA last two years while maintaining its target leverage ratio. Analysts have an average target of $42 on shares while short interest is now nearly 40% of its float and at a five-year high. On 9-5 SIG started coverage at Positive with a $40 target seeing less risk to 2H19 guidance on the shift away from spot to steadier contract freight, upside from buybacks and M&A, and valuation set to rise as Swift margins close the gap with legacy KNX. Morgan Stanley raised its target to $50 last quarter. Hedge Fund ownership fell more than 28% in Q2 filings.

Hawk Vision:

Hawk's Perspective: KNX price-action has offset the concern with this massive short float and can trade tight versus recent lows with potential for a squeeze higher.

Confidence Ranking: $$