



Large Put Buyer in MSC Industrial on Slowing Growth

Ticker/Price: MSM (\$70)

Analysis:

MSC Industrial (MSM) with an aggressive buyer of 2,700 December \$75 puts today from \$6.80 to \$7.80 to open, more than 30X average volume and by far the largest position in open interest. Shares have been in a weak trend since February and rebounding over the last two weeks back into YTD VPOC and the falling 50-day MA. A move lower targets \$65 and recent lows and then a measured move to \$55 and the 2015/2016 lows. The \$3.86B company trades 12.89X earnings, 1.15X sales, and 35X FCF with a 4.3% yield. MSM expects 3.5% EPS growth next year with revenue growth slowing from 5% to 3.2%. MSM is coming off a weak quarter with continued contraction in margins and organic growth slowing. Management called out weakness in July in a number of end-markets including automotive, oil and gas, and agriculture, especially in the Midwest. They also noted that recent tariff escalations came not only larger than expected but as more of a surprise than prior, so could see a multi-quarter impact on the customer side while MSM has also indicated they're pushing back price hikes which could continue to impact profitability. Analysts have an average target for shares of \$79 with 2 buy ratings and 8 hold. Northcoast downgrading to Neutral on 7-12 with a \$74 PT. The firm sees indications of higher competition in a deteriorating industrial environment weighing on shares. William Blair downgrading earlier this Summer citing the intermediate-term impact of slowing global trade volumes, durable goods orders, inventory growth, and a stronger US dollar. Short interest is 4.3% and up from around 2.8% in June. Hedge Fund ownership rose 5.67% in Q2. Vulcan Value is a top holder.

Hawk Vision:



Hawk's Perspective: MSM fits the mold for a name to be short, outside of cheap valuation, the fundamentals here are deteriorating and shares are in a firm downtrend.

Confidence Ranking: \$\$