



## McKesson Calls Bought as Relative Strength Continues

Ticker/Price: MCK (\$148)

### Analysis:

**McKesson (MCK)** with buyers this morning of 1,000 October 11<sup>th</sup> (W) \$146 calls up to \$5.10 and then 1,900 November \$155 calls bought up to \$4.90 to open, sizable trades in the name. Shares are setting up in a nice bull flag under 2019 highs at \$150 with a breakout targeting \$165 with MACD crossing over bullish today and RSI back above 60, ready to run. MCK held weekly cloud support on the recent pullback and working out of a downtrend from the 2015 highs. The \$26.85B company trades 9.2X earnings, 0.12X sales, and 6.2X FCF with a 1.15% yield. MCK sees accelerating EPS growth, up 7.75% and 10.75%, while revenues growth 3.5% to 4% the next two years. MCK is coming off strong quarter and raising their outlook behind contributions from their largest national pharma customers and their spec. business. They also monetized part of their stake in Change Healthcare (CHNG) which recently IPO'd and still own 58.5% of their JV. MCK has held up well recently after proposing to settle opioid claims as JNJ's recent verdict in OK a bit of a relief given the actual claims vs what state's are seeking. Analysts have an average target for shares of \$150 with 3 buy ratings and 8 hold. Cleveland Research positive in August noting that MCK likely won a major spec. pharma account from Cardinal (CAH) for over \$1B in annualized sales. JP Morgan starting at Overweight on 7-22 with a \$164 PT. The firm thinks MCK's core U.S. pharma distribution business appear to be stabilizing, while many of the prior company-specific headwinds have now cycled and they should benefit from ongoing cost management efforts. Short interest is 3.1%. Hedge Fund ownership fell 11.8% in Q2. Glenview, Vulcan Value, and Baupost notable top holders.

### Hawk Vision:



**Hawk's Perspective:** MCK fits the mode of a value name with recent market shifts to favoring these types but still see earnings headwinds, so not a favorite name to play.

Confidence Ranking: \$\$