



Alcoa Call Buyers See Post-Earnings Momentum

Ticker/Price: AA (\$20.70)

Analysis:

Alcoa (AA) buyers active yesterday for more than 10,000 November \$22 calls yesterday, same spot where 10,000 bought on 10-18 and follows buyers of 2,000 Jan. 2021 \$25 calls on Monday around \$2.80. AA has seen accumulation in the November \$21.50 calls recently as well. AA has been in a steady downtrend since hitting \$60 but nice basing action lately under \$24.25 and the 200-MA with a move higher targeting \$32. The \$3.86B company trades 19.67X earnings, 0.34X sales, and 4.6X cash. AA is targeting a return to profitability in FY20 and then 59.6% growth in FY21 with revenues up low single digits. AA affirmed their outlook for alumina/aluminum and bauxite last week expecting benefits from higher volumes and lower costs. They continue to see an overhang from the global trade issues which is causing manufacturing activity to contract. The company did announce another portfolio review to reduce costs and targeting up to \$1B in non-core asset sales. AA also has tailwinds from a secular shift in the food/beverage industry away from plastic containers towards cans, a market which has potential to be massive. Analysts have an average target for shares of \$28.25. Gabelli downgrading to Neutral on 10-21 seeing aluminum as "challenged" amid increased Chinese scrap and against 1%-2% "capacity creep." Argus cautious noting that slowing global growth is impacting profitability. They see a strong long-term case as management works on costs. Short interest is 4.7%. Hedge fund ownership fell 5.5% in Q2. Elliott Management adding 2.5M share equivalent in call options.

Hawk Vision:



Hawk's Perspective: AA looks to be bottoming longer term and a move above its 21 week EMA would be a positive signal, a close above \$21.55 this week can see shares move back to \$26-\$28 zone.

Confidence Ranking: \$\$