



Norfolk Southern Bullish Positioning Through Year-End

Ticker/Price: NSC (\$188.40)

Analysis:

Norfolk Southern (NSC) buyers of more than 1,950 January \$190 calls on Friday for than \$1.35M in premium, sizable trade in the name which has traded flat since earnings. NSC has seen some iron condors open in December and some smaller, but high-dollar, call buys in the Jan. 2021 \$160 and June 2020 \$170 calls open and remain in open interest. On 7-29, a director bought \$100,546 in stock at \$191.52, the first open market buy in the name in over four years. Shares are working out of a multiweek flag after pulling back to trend and cloud support with upside targets of \$197.50 and the new highs above \$210. MACD is crossing over bullish on the weekly for the first time since early Feb. The \$49B company trades 16.5X earnings, 4.27X sales, and 61.5X FCF with a 2% yield, a slight discount to peers like KSU/UNP. NSC is guiding to 11.75% and 13.65% EPS growth with revenues of 2% and 4%. NSC posted a record operating ratio in Q3 but slower than peers and taking down their 2019 goals, a slight disappointment. Terminal dwell fell 32%, a big improvement, while train speed increase 16% which is also a record showing that NSC is starting to put the pieces together for long-term improvement once the economy turns. NSC continues to see headwinds from trade uncertainty and manufacturing declines. For now, they plan on focusing on cost-savings. Analysts have an average target for shares of \$205. BAML downgrading last week to Neutral with a \$198 PT, unchanged. They are positive on hitting the 60% OR by 2021, however, which remains on track. CSFB with a \$199 PT and Outperform rating on 10-23. The firm was also disappointed by the pace of OR improvement but the potential remains for outsized gains. They are also optimistic with former CN CEO Claude Mongeau now sitting on the Board (they view as a highly significant event) and one way or another a meaningful improvement is forthcoming. Short interest is 1.3%. Hedge fund ownership rose 5% in Q2. Balyasny a notable buyer of shares while Soroban Capital and Palestra Capital remain top holders.

Hawk Vision:



Hawk's Perspective: NSC has rallied sharply off major trend support on the weekly and tough to chase here considering fundamentals of Rails have weakened significantly with slowing Macro, and would prefer to await more clarity on rail volumes inflecting.

Confidence Ranking: \$\$