



OptionsHawk



Southwest Air Call Buyers into Pullback

Ticker/Price: LUV (\$54)

Analysis:

Southwest Air (LUV) on 9/30 with unusual activity as 3000 November \$55 calls were bought to open \$1.80 to \$2. LUV has previously seen buyers in December calls and on 8/2 the March \$52.50 puts sold to open 1000X and another 2800X on 9/11. The \$29.2B airliner trades 10.55X Earnings, 6.7X EV/EBITDA and 8.2X FCF with a 1.33% dividend yield. LUV forecasts call for 7.5% topline growth and 21% EPS growth in 2020, which would be its best year in a long while. LUV remains a leader in the industry with a strong profitability record due to its cost discipline while having a very strong balance sheet. ROIC is impressive though coming down since 2015 at 32.7%, 30.9%, 27.6%, and 23.6% the last few years driven by AirTran integration, Rapid Rewards, International expansion and new reservation system and revenue enhancements. Analysts have an average target of \$61 and short interest low at 1.5% of the float. In July Cowen called 2019 a lost year for LUV due to the MAX grounding at Boeing, though resulting in stronger pricing for the industry. Macquarie upgraded shares to Outperform in September seeing Southwest able to fully utilize its new revenue management system and more efficiently schedule aircraft as the MAX is reintroduced into its system, and likes the move to join Travelport and Amadeus Travel Platforms. Hedge Fund ownership rose 11.85% in Q2 filings, Berkshire Hathaway a top holder. On the chart shares have pulled back to the 21 day moving average and retesting a recent breakout level, shares coming out of a downtrend in 2H19 and room to make a run back towards \$60.

Hawk Vision:



Hawk's Perspective: LUV looks healthy against its 33 day EMA with these upside calls a fairly cheap bet as shares have room back to \$60, a name that likely is revalued ahead of the anticipated strong 2020 year.

Confidence Ranking: \$\$