



Unusual Call Buying in Conn's as Rental/Leasing Economy Gains Share

Ticker/Price: CONN (\$25.80)

Analysis:

Conn's (CONN) trading 18.5X average call volume this morning with more than 4,500 December OTM \$30 calls bought up to \$1.05 and also 750 April \$28 calls bought \$3.10 to \$3.20. CONN has 1,000 January \$26 calls in OI as well from buyers in September. Shares are consolidating in a multi-week bull flag under \$27.50 and just above daily cloud with a breakout targeting \$32.50. MACD is nearing a bull crossover and RSI remains above 55, ready to run. Longer-term, CONN broke a big downtrend in September and move above the early-year highs has room to re-test the 2018 peak near \$42.50. The \$753M specialty retailer with a focus on furniture, home appliances, and electronics trades 8X earnings, 0.48X sales, and 23.8X FCF with mid-teens EPS growth. They see 3.9% and then 7.2% revenue growth the next two years. CONN is coming off a strong quarter with credit stabilizing and sales improvement across nearly every category. RTO through Progressive Leasing remains strong and CONN's is seeing early traction in their e-commerce platform which launched last quarter, a big milestone in their multi-year growth initiatives launched with new management in 2016. They're also actively expanding into Florida, a market they see with significant potential. Analysts have an average target for shares of \$33.50. Stifel raising their PT to \$31 in early Sept. after earnings. The firm sees material acceleration in new applications processed and sequential decline in the rate of active customers as early signs that the company's growth initiatives are beginning to bear fruit. Short interest has been rising this year and elevated, 21.3%, but down from its recent peak around 24.5%. Hedge fund ownership fell 11.5% in Q2. SG Capital, Interval Partners, and Hodges Capital notable holders. CONN has seen a number of insider buys this year including a \$453k purchase from a director in June at \$17. Last year, the CHRO and CAO both bought stock around \$28.

Hawk Vision:



Hawk's Perspective: CONN feels a bit riskier than peer Aaron's (AAN) with the high short float though on a technical view a nice easy trade to manage against Oct. lows.

Confidence Ranking: \$\$