



## Bearish Positioning in Hormel Accumulates

Ticker/Price: HRL (\$43.25)

### Analysis:

**Hormel Foods (HRL)** with buyers of 2,000 December \$42.50 puts today for \$1.75 to \$1.80 and follows the November \$42.50 puts bought 2,000X to open yesterday. HRL had 1,000 of those November puts in OI already and a buyer opened 5,000 December \$45 puts on 9-12 for more than \$1.3M which remains in OI. Some December and March OTM puts are still in OI from August as well. Shares are forming a big rising wedge back into the early-year double-top around \$45 and forming a lower-high. A move under \$42.50 has downside to \$40 and then back to \$38 and a prior breakout level. The \$23B meat processor trades 24.9X earnings, 2.4X sales, and 40X cash with a 1.92% yield. HRL has taken down estimates all year and now sees low-single digit EPS growth and revenue growth under 2% in FY20. Margins have been relatively flat over the last year but risk to longer-term guidance as pork prices rise due to supply constraints from the Swine Flu. Peer Tyson (TSN) recently said the impact will be a 'multi-year' event and could get worse with ASF cases in Europe now as well. HRL will host an Analyst Day this Thursday, 10/10, and could outline the potential impact. They could also address potential impact from retaliatory tariffs on the EU which are set to go into effect on 10-18. Analysts have an average target for shares of \$39.50. Stephens out on 8-12 noting that HRL may underperform while they navigate ASF issues. They note the company, "risks losing more volume share if it doesn't walk back price increases, but if it does cut prices it may have a harder time raising them when inflation requires." Short interest is 6.9% and down from its recent peak near 8%. Hedge fund ownership rose 3.65% in Q2. Mairs and Powers with a 5.7M share position.

### Hawk Vision:



**Hawk's Perspective:** HRL looks like a nice near-term put play into the Analyst Meeting where we could see a guide lower, options fairly cheap to play downside.

**Confidence Ranking:** \$\$