



Unusual Call Buys in Huntington Ingalls

Ticker/Price: HII (\$212)

Analysis:

Huntington Ingalls (HII) a real quiet options name but seeing 2,000 December \$230 calls bought to open today from \$2.60 to \$2.80. Today's action is running around 40X average with the only other notable open interest some small put sales in the December \$210 strike. Shares are moving back above their 8- and 20-MA today with a short-term downtrend just above at \$215. HII has been building a bullish wedge on the weekly since early 2018 and tightening around this \$220-level for much of the last nine months. A move higher has long-term potential up to \$375. The \$8.79B defense contractor trades 12.5X earnings and 1X sales with a 1.6% yield. HII focuses on the design, build, and repair of ships in the US, and the Navy earlier this year saying they'll boost spending in the upcoming budgets to \$5B to accommodate new programs like Columbia (~up from \$2.3B). HII sees 20% EPS growth in FY20 and 3% revenue growth and has been raising estimates all year. HII is seeing better volumes in their Newport News business (focus on aircraft carriers and Navy nuclear support) while technical services are growing due to recent M&A deals. Analysts have an average target for shares of \$246. CSFB out previewing earnings on 10-17 noting they are expecting some mild margin improvement while Q4 sets up strong with a better slate of retirement events including the launch of John Kennedy (CVN 79). Short interest is 2.2% and the lowest in 18-months. Insiders were active in May 2018 around current prices with three different people buying over \$600k cumulatively at \$215-\$220. HII will report on 11-7.

Hawk Vision:



Hawk's Perspective: HII setting up with a nice reward/risk and Sherwin Williams cited some strength in Marine this morning, potentially the catalyst for these calls to be bought. I think it is a name with \$15 downside versus \$85 of upside.

Confidence Ranking: \$\$