



Unusual Calls Bought in Trex into New Highs

Ticker/Price: TREX (\$92)

Analysis:

Trex (TREX) strong name lately seeing unusual trading today with 445 January \$90 calls trading to open near \$10 and also trading 130 of the \$110 calls to open. TREX shares broke out of a downtrend in late July after a strong earnings report and have seen post-earnings drift carry shares to record highs. The \$5.3B maker of outdoor products with a focus on composite decking trades 31.5X Earnings, 26.5X EBITDA and 36X FCF. TREX will next report in late October and estimates looking for 10% revenue growth this year and 13% in 2020 with EBITDA growth seen accelerating to 23% in 2020. TREX ran into some issues earlier this year with manufacturing slowdowns but demand remains very strong and margin issues set to improve the next few quarters. TREX is focused on increasing conversion from wood to composites and continues to launch more outdoor focused products. Outdoor captures 34% of home improvement spending and TREX sales track closely to remodeling estimates. As of 2016 Wood composed 83% of decks and every 1% market share rise for composite equals \$50M in annual sales for TREX. Analysts have an average target of \$81 and short interest is near new highs at 32.5% of the float. DA Davidson raised its target to \$96 on 8/29 seeing more growth and margin runway seeing a strong repair & remodel industry backdrop. Blair started shares Outperform back on 8-22. Hedge Fund ownership soared 150% in Q2 filings, BAMCO adding to its position.

Hawk Vision:



Hawk's Perspective: TREX has long been a favorite name of mine for the Remodeling theme and I continue to see a long runway for composite decking, a name to own for the long haul though the elevated short interest calls for owning protection as well.

Confidence Ranking: \$\$