



Corteva Spreads See Worst Over for SpinCo

Ticker/Price: CTVA \$26.25

Analysis:

Corteva (CTVA) interesting spread today sells 2,500 January 2021 \$40/\$20 strangles for \$2 and buys 5,000 of the \$32 calls for \$1.90, bullish long-term trade and willing to own stock on a move lower. CTVA recently had 7,000 December \$23 puts sold to open as well while the December \$22 puts sold 3500X on 10-18. The December \$27 and \$28 calls with notable open interest from buyers in early October. CTVA has been mixed since its spin-off from DowDuPont and looking to form a small base around the \$25 level and break a downtrend from the August highs. A move above \$27 and the 50-MA targets a VPOC at \$29.50 and then new highs. The \$19.73B company trades 17.3X earnings, 1.45X sales, and 9.5X cash with a 2% yield. They see 20% EPS growth in each of the next two years with plenty of upside from further cost synergies in 2020. CTVA saw NA sales up in Q3 due to a late planting season while continuing to gain share in EMEA as they introduce new products. CTVA would be a big beneficiary of any concrete agricultural language in Phase 1 of the US/China trade agreement as it would help bring some normalcy back to many sectors of the ag markets. Analysts have an average target for shares of \$31.50. JP Morgan cutting to Neutral on 11-1 with a \$27 PT noting that domestic corn yields are coming in lower in 2019 than in 2018, and may further decrease, but yields have not been sufficiently low to either lift grain prices or seed prices. They also don't believe CTVA has been strongly cash generative year to date. Citi upgrading to Buy in August with a \$34.50 PT. They think 2020 should be a turnaround year with several products in the pipeline, strong growth outside the U.S. and multiple productivity programs as a new company on top of merger-related synergies. Short interest is 1.3%. Maverick Capital, Laurion, and Barrow Hanley notable buyers of stock. CTVA has seen insiders active since June and buyers this week on 11-6 with the EVP of Business Platforms buying \$183k at \$26.21 and the CCO buying \$134k at \$26.20.

Hawk Vision:



Hawk's Perspective: CTVA have put in three nice weekly hammers in the last five weeks and providing a strong level to trade against with a lot of potential upside in 2020.

Confidence Ranking: \$\$