



## CVS Calls Continue to See Upside in Strong Name

Ticker/Price: CVS \$75.50

### Analysis:

**CVS Health (CVS)** with 7650 February \$75 calls opening \$3.61 this morning the \$72.5 calls adjust into strength. CVS has recently seen buyers in the May \$90 calls and January 2022 \$65 and May \$65 short puts while the January 2021 \$90 calls still are over 140,000 although coming down since 10-30. CVS has been nearly vertical since mid-October and back at a big VPOC from the 2018 range around \$75, so some potential for a consolidation in the near-term. Shares cleared a major downtrend from the 2015 highs last week and longer-term trend has room back to \$100. The \$97.57B company trades 10.5X earnings, 0.40X sales, and 12.6X FCF with a 2.67% yield. CVS is coming off a strong quarter while the Aetna deal continues to show strong ROI. CVS sees EPS and revenue both accelerating in FY20 and FY21 while the synergy program is ahead of schedule in 2019 with nearly \$8B in deleveraging since the deal closed. They also continue to execute well on their Transformation Plan that includes opening 1500 Health Hubs to focus on services, adding new product categories, digital tools, on demand health kiosks, and other personalized care. Short interest is 1.7%. Hedge fund ownership fell 3% in Q3. Masters Capital a buyer of call options while Silvercrest and Balyasny also buyers. Vulcan Value remains a top holder with 8.75M shares. Analysts have an average target for shares of \$78. Mizuho with an \$82 PT citing strong execution last quarter while Sun Trust an \$85 PT citing solid core trends, strong script growth, and robust free cash flows, along with progress in the integration synergies and cost savings from the Aetna merger. Raymond James with an \$80 PT noting that while retail pharma and PBM may face headline issues in 2020, the bar is low and beatable.

### Hawk Vision:



**Hawk's Perspective:** CVS is one that Joe dove into near the lows for the year and remains a top name to keep on watch even if it is far too elevated at this level to initiate a new position without a specific catalyst. Shares are cheap given the strength of their core business and initiatives into the hot and growing personal care space.

**Confidence Ranking:** \$\$