



MSG Spreads See Upside into Split, Activist Pressure

Ticker/Price: MSG \$278.65

Analysis:

Medison Square Garden (MSG) with 1,100 February \$260/\$230 bull risk reversals opening for \$24.25 today and follows buyers of 500 May \$330 calls on 10-29. MSG has some notable December risk reversals in smaller size from earlier this year, the \$300/\$260 and \$310/\$270 strikes. Shares are working out of a narrow multi-month base ahead of earnings tomorrow and back into the 200-day at \$285. MSG is also clearing a downtrend from the April highs (~\$310) that has room up to a July VPOC at \$290 and then another around \$305 from May. The \$6.47B company trades 4X sales and 5.4X cash with mid-teens growth that is expected to ramp into FY22 as they expand their venue reach. MSG is set to open a Las Vegas venue in 2021 the 'MSG Sphere' which is expected to be a transformative venue that will house concerts, sports, and more. MSG is moving forward with plans to split the company into two entities, one that will house their sports franchises (Knicks and Rangers) and one their entertainment venues. And, they were in the headlines this week with Silver Lake reportedly seeking to buy stakes in the two sports teams. Activist Blue Harbour also out this morning seeing valuation for shares around \$400 as the two team are valued closer to \$7.2B vs \$5.5B. Analysts have an average target for shares of \$344 with limited coverage. Macquarie at Outperform on 8-22 seeing plenty of catalysts on the horizon including sees catalysts on the horizon including the Sports spin, eSports, Spheres and growth in Entertainment. Short interest is 4.5%. Hedge fund ownership has risen recently, up 5.4%. Blue Harbour is the top holder with a \$189M stake while Mason Capital and KKR also notable.

Hawk Vision:



Hawk's Perspective: MSG has earnings tomorrow and remains an interesting event-driven trade with a lot of value in the two entities that feels under-represented but I am hesitant to see a near-term scenario where James Dolan sells a stake in either team.

Confidence Ranking: \$\$