



Unusual Calls and IV Surge in Air Transport

Ticker/Price: ATSG (\$23.75)

Analysis:

Air Transport (ATSG) with 1,850 January \$25 calls bought up to \$1 to open early and volumes now over 2,700 in the first half hour. **ATSG** also seeing 1,500 June \$25 calls bought up to \$2.50. Shares have been on a strong run recently back to the June highs around \$24.50 and pulling back this week to the rising 13-EMA. A move over the recent highs clears a downtrend from the 2017 peak around \$26.50 and sets up for a big long-term run with weekly MACD crossing over bullish recently and RSI just above 55, ready to run. The \$1.41B air delivery and freight services company trades 15X earnings, 1X sales, and 30.2X cash. They see mid-teens EPS growth and high-single digit revenue growth each of the next two years, a big acceleration over 2019. The company is coming off a strong quarter and raising their outlook for Q4 flight schedules due to higher-than-expected demand from e-commerce during the holidays. They see tailwinds from a greater mix shift towards express-package services. ATSG operates in the freight and logistics market with a fleet of nearly 100 aircraft with operations across delivery, forwarding, and with the US military. Their biggest area for revenue is ACMI at 52% of their mix with dry-leasing cargo at 22%, and MRO services at 19%. The company has an agreement with Amazon with multi-year leases for nearly 30 by the end of 2020. AMZN also owns an equity stake. In September, it was announced that they were pulling service from two 767 planes from peer Atlas (AAWW) and shifting the business to ATSG. Analysts have an average target for shares of \$29.25 with limited coverage, although 4 buy ratings. Stephens with a \$32 PT citing strong customer demand, cash flow generation and visibility into stable long-term earnings. Short interest is 3.6% and down from around 4.6% last month. Hedge fund ownership rose 3% in Q3. ATSG has seen a lot of insider buying this year including a \$200K purchase from a director in August and a \$540K buy in May.

Hawk Vision:



Hawk's Perspective: ATSG trades very cheap for its growth and the Amazon relationship and potential major monthly breakout set-up make it a compelling small cap.

Confidence Ranking: \$\$