



Pepsi Calls Bought into Pullback

Ticker/Price: PEP (\$135)

Analysis:

Pepsi (PEP) with buyers of 3,500 December \$136 calls up to \$1.20 today to open and follows 1450 March \$135 calls last week, adding to OI that now tops 2800X, while the \$145 calls have 1300 in OI from buyers. PEP also had 7500 June \$120 calls bought for \$15.50 on 11-13 as a large position from earlier this year adjusted. Shares are setting up strong after a pullback to the low-end of cloud support and the 50% retracement of the run from the July lows. A move out of this small base and 20-MA above \$135.50 targets \$138 and then a breakout to new highs. The \$186.4B company trades 22.5X earnings and 2.8X sales with a 2.85% yield. PEP is targeting 7-8% EPS growth the next two years with revenues up 4-5%. PEP continues to dominate the snack aisle, especially Internationally, with Frito-Lay gaining share in Q3 and investments in product and go-to-market helping lift Doritos, Cheetos, and Ruffles. And despite some macro volatility they continue to see strong demand with double-digit growth in China, Russia, and Mexico. PEP is focusing on a 2020 turnaround for their marquee soda lines like Mountain Dew as well as productivity programs which are nearing \$1B in savings. Analysts have an average target for shares of \$135. Jefferies with positive checks on 11-1 for EU sports and energy drinks while salty snacks continue to post strong growth, per Nielsen. MSCO positive on 10-21 noting the company offers high growth potential and better visibility than peers with lower risk. Short interest is 0.7%. Hedge fund ownership fell 1.5% in Q3. AQR and Millennium Management two notable buyers.

Hawk Vision:



Hawk's Perspective: PEP has a nice recent low to trade against and like the flow profile out through June, but when comparing to peers in the beverage space it is not my preferred name.

Confidence Ranking: \$\$