



Western Digital Call Buyer into Pullback

Ticker/Price: WDC (\$53.60)

Analysis:

Western Digital (WDC) with 1,175 March ITM \$50 calls opening today up to \$6.75 with shares back near the rising 200-MA and YTD VPOC after earnings this week. WDC had sellers of the December \$45 puts on 10-31, over 2000X, while the December \$62.50 calls also bought recently. The January \$55/\$65 call spread remains in OI over 24000X. WDC has a gap above \$57.50 back to \$62.50 while longer-term shares are back-testing a big area of resistance, now support, at \$50 as it forms a year-long base. The \$15.4B company trades 8.5X earnings, 0.93X sales, and 21X FCF with a 3.7% yield. WDC took estimates up a bit for FY22 this most recent quarter and now sees revenues up high-single digits to near \$19.5B. Shares fell 10% on earnings as the CEO announced his retirement and the search for a replacement commences, a potential early 2020 catalyst. They were positive on Q1 demand and a potential trough in the flash industry noting that they remain positioned well to benefit from the long-term secular growth of data usage. Analysts have an average target for shares of \$62. RBC with a \$64 PT on 10-31 noting they view the bottom in NAND memory cycle is now in the past as the company works toward gross margins of over 40%. Loop Capital raising to Buy in mid-October as flash ASPs are increasing and likely to sustain in 2020. They also see strong hyperscale HDD demand next year. Short interest is 4.3% and down from 7.2% in August. Hedge fund ownership jumped 15.5% in Q2. Maple Rock Capital a buyer of call options and stock. WDC also has a potential catalyst with Huawei licenses being approved, which Sec. Ross hinted at this week.

Hawk Vision:



Hawk's Perspective: WDC is always a play tied to memory pricing market dynamics and have to keep an eye on that, while its valuation/yield are attractive at this level with investors moving more to value, a potential outperformer in 2020.

Confidence Ranking: \$\$

