



## Switch Calls See Opportunity Amid Share Gains

**Ticker/Price:** SWCH \$15.70

### Analysis:

**Switch (SWCH)** with a big jump in open interest for the February \$16 calls as nearly 3,000 bought yesterday up to \$1.15 and pushing OI over 6,389. SWCH had the May \$16/\$14 bull risk reversal open 1500X on 11-11 and the Feb. \$17 calls with over 2000 in OI from previous buyers. There's also some notable Nov. \$15 and \$16 calls in OI that may roll this week. Shares have been on a big run in 2019 up from around \$6 to its peak in August at \$17 and pulling back recently to the August breakout level at \$14 as well as the high-end of YTD value. Shares are moving out of a downtrend this week and room back to re-test the highs with MACD crossing over bullish and a measured target to \$20. The \$3.95B company trades 9X sales and 12.75X EV/EBITDA with estimates for a big jump in profitability through FY21 (\$0.12 to \$0.34). Revenue growth has been steady at 11-12% annually. SWCH is a provider of co-location space and services for tech, cloud, financial institutions, IT, government agencies and digital media companies with data centers in NV and MI. They have been growing at a fast rate and adding some sizable new contracts in recent quarters as their ability to offer low power rates and pass through tax incentives has helped them win share. In Michigan, SWCH is currently backing legislation that would provide additional tax breaks that would exempt it from property taxes. They have a massive long-term opportunity driven by cloud adoption as well as a robust patent portfolio. IHS Markit estimates the multi-tenant data center market will be \$21B by 2021 and growing at a 9% CAGR. SWCH estimates they can grow at twice the market rate given their focus on less expensive markets, better EBITDA margins than peers, and low customer churn. Short interest is 8.1% but down from around 19% in early 2019. Hedge fund ownership fell modestly in Q2. Tiger Global a notable holder with 2.47M shares. Analysts have an average target for shares of \$15. Credit Suisse at Street High \$19 target and in an 11-11 note raising estimates as recent earnings beats underscore their belief that last year's weakness was transitory and they expect strong lease demand into 2020.

### Hawk Vision:



**Hawk's Perspective:** SWCH is a very interesting way to play cloud growth and some of the massive tech themes emerging for 2020+ and certainly one to keep an eye on with the MI legislation a potential catalyst.

**Confidence Ranking:** \$\$