



Taylor Morrison Calls Active After William Lyon Deal

Ticker/Price: TMHC \$22.80

Analysis:

Taylor Morrison Homes (TMHC) with buyers yesterday of 1,600 April \$22.50 calls up to \$2.50 to open, trading 15X average volume, and follows the 2,900 January \$22.50 calls bought earlier in the week. TMHC shares are back just above the 200-day MA and the 50% retracement of the run from the December 2018 lows. A move above \$23 into the recent gap targets the declining 50-MA above at \$25. The \$2.43B homebuilder trades 7.33X earnings, 0.51X sales, and 11.65X FCF with high-single digit EPS growth. TMHC is largely focused on the Southwest and Southeastern US with steady growth in active communities that is behind only peers Tri Pointe and Pulte since 2016. TMHC announced a cash-and-stock deal this week for William Lyon (WLH) that greatly expands their reach into some key West coast markets like Seattle and Portland. It also balances out their portfolio with more entry-level exposure, a spot that has been hot for buyers over the last two years. They expect the deal to close by Q2 with \$80M in annual synergies and accretive to EPS and sales. Short interest is 1.9% and near three-year lows. Institutional ownership rose 17.5% in Q2. Millennium Management, Kennedy Capital, and Gillson Capital notable buyers. Analysts have an average target for shares of \$25. B Riley upgrading to Buy in August citing better demand in their high-impact markets that is following through from the 1H. RBC has a Buy rating and \$25 PT for shares. They think gross margin targets are more achievable with less price reductions on the horizon. The firm also thinks comps get easier in the 2H as they start to realize the benefits from its combination with AV Homes.

Hawk Vision:



Hawk's Perspective: The recent dip back to the 200-day gives a nice spot to trade against and the **WLH** deal looks like a good one from a business perspective adding scale in better regions and price points.

Confidence Ranking: \$\$