



Zscaler Bulls Stepping Back into High-Growth Security Name

Ticker/Price: ZS \$44.50

Analysis:

Zscaler (ZS) with 1,800 January \$47 calls opening for \$3.40 this morning and name that has draw a lot of bullish flow recently including 400 Jan. 2021 \$50/\$75 call spreads on 11-6, sellers of 1,000 December \$42 puts over 1000X, and buyers in the Feb. \$55 OTM calls over 1500X. ZS has also seen sellers in the January, December, and May puts while the OTM \$55 and \$60 calls in January have size open interest from buyers earlier this year. Shares are basing in a multi-week range and trying to break a downtrend from the July highs. We got a bullish 8-/20- EMA crossover this week and above \$48 has room up to fill a gap from September earnings around \$60. ZS has retraced the entire run higher from December up to \$90. The \$5.44B software company trades 15X cash and 17.4X EV/sales with expectations for 27-28% revenue growth the next two years. ZS expects to ramp profitability as well up to \$0.45 from \$0.15. ZS has been hit with the major shift away from high-multiple software names while guidance came in light in September. The company continues to have a huge addressable market in cloud security with a secular shift for enterprise use to the cloud and growth in connected devices. Short interest is 9.7% and up from 5% in September, a cautious signal. Hedge fund ownership fell 10% in Q2. Analysts have an average target for shares of \$62.50 with 8 buy ratings, 9 hold, and 2 sell. Goldman started at Neutral today seeing the company well positioned to take advantage of a shift in security spending but the multiple is still elevated. Citi with a Neutral rating and \$50 PT on 10-14 seeing a lot of market opportunity up for grabs as identity management becomes more strategic as companies move to cloud. Berenberg upgrading to Buy on 9-24 with a \$60 PT. The firm notes checks have shown ZS has superior technology relative to legacy competition and can continue to win business and grow into their multiple.

Hawk Vision:



Hawk's Perspective: ZS is an attractive long-term story and giving a nice risk/reward spot here to trade against but can keep it smaller until more confidence returns to these high-multiple software names. They'll have earnings on 12-3 and a mixed history.

Confidence Ranking: \$\$