



## Melco Calls Bought in Size as Gaming Stocks Surge

Ticker/Price: MLCO (\$22.20)

### Analysis:

**Melco Resorts (MLCO)** with buyers of 15,000 January \$23 calls for \$0.60, follows the 14,500 January \$22 calls bought recently. MLCO still has 8,000 ITM January \$18 calls in OI as well opened back in November 2018. Shares are jumping today out of a multi-week bull wedge and downtrend from the April highs and back above the 200-MA with a move over \$23 triggering a bigger sentiment shift in the laggard. MLCO has breakout potential up to \$27/\$28. The \$10.15B casino trades 16.5X earnings, 1.8X sales, and 5.8X cash with a 3.1% yield. MLCO sees 24.4% and then 19.8% EPS growth the next two years with revenues up 4.5% to 5.7%. Casino names are hot today on news that China's President Xi is set to announce new financial stimulus programs for the city as they look to diversify the city's economy and pull back from Hong Kong. MLCO is a key beneficiary of mass market gaming in the region with more table and machine exposure as well as a greater focus on resorts and non-gaming elements. They have tailwinds from the HKZM bridge as well as new light rail opening in the city in 2020 while upgrades to their Macau casinos is also expected to be a boost. MLCO could also pick up business in some of their smaller hubs like Manila as more junket operators move away from Macau next year. Short interest is 0.5%. Hedge fund ownership rose 7.8% in Q3. Tremblant Capital, Balyasny, and Indus Capital notable holders. Analysts have an average target for shares of \$24 with 10 buy ratings. JP Morgan positive on 12-4 seeing easier market-wide comps in 2020 as well as more attractive valuations for the mass-market centric names. Daiwa upgrading to Buy in July, the 'Crown Prince of Macau', given their extensive exposure to the region and tailwinds from city-wide changes to drive tourism.

### Hawk Vision:



**Hawk's Perspective:** MLCO recently screened very strong for me against peers so looking good though the group is up a ton today already and had a Spotlight trade on WYNN last night.

**Confidence Ranking:** \$\$