



## Advanced Auto Size Calls Bought into Multi-Month Low

**Ticker/Price:** AAP (\$156)

### Analysis:

**Advance Auto (AAP)** near 900 June \$155 calls bought up to \$14.40 to open and now volumes running over 2,850 with buyers at \$16. AAP has recently seen buyers in the December \$155 calls as well and some ITM Dec. \$135 calls remain in OI. Shares have pulled back following earnings to the low-end of cloud support as well as the 50% retracement of the rally from the July lows. A move above the \$158 area and cluster of moving averages targets the October VPOC at \$165. Longer-term, AAP remains coiled in a multi-month range under \$175 with a continuation of the rally from the 2017 lows targeting \$220+. The \$10.99B auto parts retailer trades 17.3X earnings, 1.13X sales, and 19.5X FCF with a small yield. AAP is targeting mid-teens EPS growth and low-single digit revenue growth with margins starting to inflect higher and plenty of room for margin expansion as they lap a big investment cycle and shrink the footprint by closing under-performing stores. They're also improving their inventory management and cutting supply chain expenses. AAP delivered their best two-year stack on comps in Q3 at 5.8%. Analysts have an average target for shares of \$179. BAML positive on 12-11 calling AAP their top pick in the group given its more compelling margin opportunity and discount to peers AZO and ORLY. They think AAP has a more favorable customer mix skewed towards professional repair shops. Short interest is 4% and down from 6.6% in September. Hedge fund ownership rose 11.65% in Q3. Starboard Value, Melvin Capital, and Tensile Capital notable large holders. AAP last saw insider buying in 2018 around \$159.70 when a director bought \$200k in stock.

### Hawk Vision:



**Hawk's Perspective:** AAP is an attractive value considering this industry remains in healthy shape though AZO/ORLY the better quality companies, this is a large trade and one easily manageable against recent support.

**Confidence Ranking:** \$\$