J&J Large Call Spread Sees Momentum Continuing Higher

Ticker/Price: JNJ ($141.90)

Analysis:

J&J (JNJ) with 10,000 February $145/$155 call spreads bought today for $2.57, some December calls adjusting out for more upside, and follows sellers in the February $135 puts on 12-6. JNJ shares are back near the high-end of a multi-year range around $145/$150 and recently moved above the YTD value area at $138.50, a key spot to watch on a pullback. The monthly bull flag has a measured target up to $180 with MACD near a bull crossover and RSI improving as well from reset levels, potential for an extended run in 2020. The $372B healthcare giant trades 15.5X earnings, 4.5X sales, and 20.7X cash with a 2.7% yield and estimates calling for accelerating top and bottom line growth through 2021. JNJ has seemingly put a lot of headline issues behind them recently including the talc claims and opioid settlements. The company raised their outlook in 2020 seeing double-digit growth in their top pharma brands, multiple new product launches in med-tech, and expanded profitability in their consumer business as their leading beauty brands win more shelf space. Analysts have an average target for shares of $153.25. Cantor starting at Overweight on 11-20 with a $160 PT. They see upside to earnings estimates from J&J's Pharma business while 2020 can be a year of multiple expansion as their overall liabilities diminish. CSFB positive on 11-13 with a $163 PT. Their checks show that October script trends are positive for late January earnings with a good lift from Darzalex, Tremfya and Invokana. Short interest is 0.7%. Hedge fund ownership rose 7% in Q3. Senator Investment Group a notable new buyer of shares. In June, a director bought $419k in stock at $139.68 and not far from current levels.

Hawk Vision:

Hawk's Perspective: JNJ may be on the verge of a major breakout and the call spreads targeting a move past the double top resistance near $150. It's a quality company though there are better names in both Pharma and Med-Tech in my view.

Confidence Ranking: $$