



AutoZone Large Call Buy into Weakness

Ticker/Price: AZO (\$1022.60)

Analysis:

Autozone (AZO) size buyer yesterday of 1,000 June \$1,040 calls from \$66.90 up to \$78, a more than \$7.5M buy, and biggest trade in the name in some time. AZO has seen some smaller, high-dollar trades throughout 2019 that remain in OI including 100 Jan. \$1,100 short puts at \$126 and call buys across the January \$980, \$1,020, \$1,260, \$1,360, \$1,460, and \$1,580 strikes. Shares have been one of the steadiest names in the market since mid-2018 trading up from around \$500 to \$1,300 and pulling back over the last three months to the 38.2% Fibonacci. AZO has been in a downtrend since December but a move above \$1,075 and the 20-MA sets up for a nice trend shift and target above at \$1,150 and then \$1,225. The \$25B auto parts retailer trades 14.47X earnings, 2.1X sales, and 15.3X FCF. AZO is guiding to accelerating EPS growth in the low-double digits with revenue growth in the mid-single digits, better than peers like AAP and ORLY. AZO noted some weakness yesterday due to weather-related issues but issues that have been largely priced in given commentary from peers and DIY tends to perform better in the warmer months. Inventory levels also rose a bit but longer-term should improve with their ongoing management efforts and implementation of their digital/commercial system. AZO has shifted a big focus to their megahub stores which are now around 39 opened on the path to 70-90. The megahub strategy will expand the availability of parts at certain stores in an effort to boost DIY and commercial sales in certain areas and shorten lead times to give them an 'on the ground' advantage over peers. Short interest is 2.8%. Hedge fund ownership fell less than 1% in Q4. Armistice Capital, Element Capital, and Interval Partners all top buyers. Analysts have an average target for shares of \$1,280. CFRA positive yesterday with a Strong Buy noting that "We continue to regard the record-high U.S. vehicle age (11.8 years) as a powerful secular demand driver, noting AZO's history of outperformance during economic downturns, and long history of aggressive and EPS-supportive share repurchases."

Hawk Vision:



Hawk's Perspective: AZO share count has been reduced 20% since 2015 and remains a solid fundamental name. I would like to see shares above \$1070 and close above its 21 MA to move out of this pullback trend.

Confidence Ranking: \$\$\$