



Western Digital Bulls See Support Holding, Upside in 2020

Ticker/Price: WDC (\$49.75)

Analysis:

Western Digital (WDC) bullish activity on 3/10 with 3500 June \$55 calls bought aggressively as well as an opening sale of 750 October \$45 puts for \$590K. WDC has seen a steady flow of bullish positioning with June expiration drawing much of the activity. WDC shares put in a double bottom in 2018-2019 and rallied to start 2020 after putting in a higher low, a level now being retested with market weakness and started the year strong on prospects for higher memory pricing. Shares have lost trend support off those lows but potential to hold above a key volume node at \$46.50 and start a new trend move higher after pricing in COVID-19 disruptions. The \$15.75B storage tech company trades 6.5X Earnings, 6.6X EBITDA and 1.6X Book with a 4% dividend yield. Forecasts are looking for strong double digit Y/Y revenue growth the next four quarters and EPS seen rising 140% in 2021 with EBITDA +14% in 2020 and +47% in 2021. The company named a new CEO on 3/6. At the 3-5 Morgan Stanley Conference the company noted some weakness in handsets, mobile and PC but normal to stronger business in data center. WDC has been seeing margins improve at the hard drive business though could face some headwinds from China demand of surveillance. The company has discussed getting NAND margins back to the high 30's from the current high teens. Analysts have an average target of \$80 and short interest low at 2.8% of the float and down 22% Q/Q. RW Baird recently upgraded to Outperform with a \$75 target seeing the positive pricing outlook for NAND unchanged and seeing resilient pricing in 2020 with strong server demand as well. Stifel raised shares to Buy on 3/1 with a \$73 target seeing an attractive entry point with structural demand intact. Argus upped its target to \$82 in February. Hedge Fund ownership rose 1.52% in Q4 filings, Lyrical a top concentrated holder that added to its position.

Hawk Vision:



Hawk's Perspective: WDC has been overly punished and looks quite attractive on valuation at these levels for a company seeing improving fundamentals that will boost margins and earnings.

Confidence Ranking: \$\$