



Aptiva Call Buyer as Best In Class Auto Parts Name

Ticker/Price: APTV (\$31)

Analysis:

Aptiva (APTV) large trade on 3/18 bought 4200 May \$50 calls to open up to \$3, a name with 4500 March \$75 short puts in open interest that are underwater with little other open interest. APTV shares are down 65% YTD with auto production grinding to a halt and back to a breakout level from 2012 with \$24/\$27 a potential zone of support. Shares are extremely oversold with weekly RSI at 16. The \$9.7B maker of vehicle components with a focus on electronic and safety solutions trades 6X Earnings, 5.2X EBITDA and 15.7X FCF though estimates due to decline. APTV has a 2.6% dividend yield and 11% FCF yield with Debt/EBITDA at 1.9X and an average ROIC around 15% the last three years, a quality name. APTV is expecting to close a 50/50 joint venture with Hyundai in Q1 to advance the design and development of L4/5 AV Technology. APTV sees the Active Safety addressable market expanding at a 20% CAGR through 2022 from a \$6.5B base in 2019. It also sees a 35% CAGR in the high voltage electrification market. Analysts have an average target of \$98 and short interest low at 1.3% of the float and down 15% Q/Q. CSFB out on 3/17 noting it is a top auto name to own into weakness as a lead quality name with exposure to secular growth opportunities. BAML upgraded shares to Buy on 3/18 noting “We view Aptiv as one of the best-positioned suppliers over the longer run, due to its leverage to industry mega-trends (autonomy, electrification, connectivity, etc.), which should drive outsized revenue and earnings growth versus peers. We also view APTV as one of the highest quality companies in our coverage, in terms of revenue growth, execution, margins, and cash flow, and believe the company will outperform even in a deteriorating cycle/macro environment. It has a \$63 target based on 10X 2021/2022 EBITDA estimates. On a takeout valuation it cites the Samsung deal for Harmon in 2017 was at 10.6X EV/EBITDA. Benchmark out in January at Buy with a \$110 target as a top industrial tech play in auto offering solutions to manufacturers that satisfy more strict regulations for emissions, safety and fuel economy. Hedge Fund ownership rose 1.25% in Q4 filings, Generation Investment, Sands Capital and Impax notable concentrated holders.

Hawk Vision:



Hawk's Perspective: APTV upside May calls seem pricey requiring a 70% move for break-even with option prices wild, and rather be looking to own this stock longer term at this valuation as a top name along with **GNTX**, though clearly a tough industry for the next few quarters.

Confidence Ranking: \$\$