



OptionsHawk



Kratos Draws Long Term Bullish View

Ticker/Price: KTOS (\$15.60)

Analysis:

Kratos (KTOS) strong small-cap defense name that has pulled back to the 61.8% retracement of the recent rally from the 2018 lows and on 3/9 two notable long-term trades opening 2,500X January 2022 \$22.50 calls for \$3.90 and 2,500 of the \$25 calls for \$3. Shares have run from sub-\$3 in 2016 up to \$24 recently and plenty of momentum with their business verticals lining up in the sweet spot of next-gen aerospace and defense. KTOS is back now at VPOC from early 2019 and a move back above \$17 has a vacuum back to \$20. Longer-term, shares have upside to \$27. The \$1.67B company trades 27.4X earnings, 2.33X sales, and 9.7X cash with mid-30% EPS growth. They see revenues accelerating the next two years, up 12.5% and then 18%, as they win more share of the DoD budget and favorable contracts. KTOS recently did a fourth test of their Valykrie stealth unmanned aircraft system and KTOS CEO Eric DeMarco has said that they expect the program to be a significant part of upcoming DoD appropriations. It could also be included in upcoming tests with the F-35 and F-22 which would greatly expand its market within the department. Analysts have an average target for shares of \$23. Jefferies upgrading to Buy in late February seeing their softer FY20 guidance is evidence of the risk from timing, but the analyst expects continued outperformance for the Unmanned segment and also cites the company's high value exposure to the Space segment of the defense market. Short interest is 7.2% and down from around 14% in late 2018. Hedge fund ownership fell 3% in Q4, notable holders include Sandler Capital and Peregrine Capital.

Hawk Vision:



Hawk's Perspective: KTOS is an interesting small cap growth name in a group lacking a lot of these, the others being AJRD/AVAV. This looks like a good spot for shares to hold.

Confidence Ranking: \$\$