Spotify LEAPS Position for Long Term Upside

Ticker/Price: SPOT ($125)

Analysis:

Spotify (SPOT) unusual activity this morning with 1300 January 2022 $200 calls opening at $13.22 with shares at $125. SPOT shares showing relative strength all week working on a strong reversal candle at a higher low from its two prior post-IPO bottoms. SPOT is a name that screened healthy earlier this week for balance sheet, cash flows, and minimal impact from COVID-19. It has seen some prior bullish positioning with smaller activity. The company announced a deal to acquire The Ringer earlier this year and has made a massive push into the quick growing Podcast space, an area likely to see strong demand from consumers stuck at home. The $25B streaming music leader trades 2.4X EV/Sales though not yet profitable expecting to be positive EBITDA in FY21. SPOT also has extensive growth potential left with geographic expansion. Analysts have an average target of $167 on shares with short interest at 4.7% of the float, fairly low for a growth name. Barclays lowered its target to $180 on 2/11 noting healthy trends in MAUs while uncertainty with label deals remains the overhang while new initiatives are in early stages. Raymond James out positive recently seeing little disruption to service. Many see the margin expansion story as a key one moving forward as it moves out of an investment phase. Hedge Fund ownership fell 7.6% in Q4 filings, Tencent has a large stake, while Tiger Global, Cadian Capital and Tremblant Cpaital notable top holders.

Hawk Vision:

Hawk's Perspective: SPOT hit the top 25 list in the special report last night and like seeing this longer term confidence, a name that could be a big long-term winners.

Confidence Ranking: $$