



Adient Spreads Position for Upside in 2020

Ticker/Price: ADNT (\$17.80)

Analysis:

Adient (ADNT) spread today is selling the Jan. \$13 puts to buy the \$25/\$35 call spread, 1000X, and third straight session for the bullish position which has accumulated over 5000X in open interest so far. Shares have been largely range-bound since early 2019 and back near support at \$16. ADNT needs to rebound off this area and position itself for a move back above the 8-EMA to gain some momentum but the range high targets \$26 and breakout measures to a double from current levels. The \$1.89B auto parts company trades 8X earnings, 0.12X sales, and 7.27X FCF with guidance looking for 30% and then 20.94% EPS growth the next two years. ADNT has been focused on deleveraging after restructuring their China JV and selling a stake while recently announcing a \$175M deal to sell their auto fabric business to Sage Automotive. Both moves are part of a 'back to basics' plan that will focus the company on launching new products, cost reduction, and a leaner operational structure. They announced a number of new contract wins recently including the much-anticipated Ford Mach E and the Tesla Model 3 in China and a number of exciting new products at CES that should drive further deals. Analysts have an average target for shares of \$25.50. Morgan Stanley upgrading to Neutral in February citing gradual improvement in Seat Structures & Mechanisms, the company's lower leverage and the fact that production data is stabilizing in China excluding the coronavirus. They also think the recent Yanfeng deal raises the multiple for the entire business in China. BAML upgrading to Buy after Q1 showed the first real indication of inflection in performance. Short interest is 6.1% and down from around 8% in February and 12% in July. Hedge fund ownership rose 2% in Q4 with Lyrical Asset Management and Point72 buyers. Last year, Barclays with an interesting note seeing more potential for LBOs within the auto space after Magnetti Marelli and Tower deals. They think ADNT is one of a few that screen well to go private.

Hawk Vision:



Hawk's Perspective: ADNT has a levered balance sheet which makes it tough to trust in this environment, though see clear value and potential for it to be a LBO.

Confidence Ranking: \$\$