Union Pacific Bulls Active into Steep Sell-Off

Ticker/Price: UNP ($128.3)

Analysis:

Union Pacific (UNP) seeing a lot of options activity in March and almost all skewed bullish, on 3/17 the January $130 calls opened 1500X at $19 in a large trade, on 3/12 the April $150 calls bought 2000X and the June $130 puts sold 1000X to open, and UNP has seen put sales on 3/6 of 2000 May $145 and 10,000 April $135. It also has blocks of 5000 April and June $160 calls bought in open interest. UNP shares this week are retesting a 2015 high that could act as support and shares now off more than 30% from highs earlier this year. The volume profile shows stronger support back near $112. The $95B best-in-class rail now trades 12.35X Earnings, 10X EBITDA and 37.2X FCF with a 3.02% dividend yield, though estimates could come down with the slowing economy and many of its key areas likely facing volume headwinds including sharp cuts in Energy output. UNP has been a story focused on its transition to precision rail resulting in record operating ratios. Forecasts currently see 6-8% EBITDA growth each of the next two years. Analysts have an average target of $200 and short interest is low at 1.6% of the float but did jump 67% Q/Q as of the latest reading. In early March the COO bought 3200 shares at $155.91/share for $500K, the first insider purchase since last May when a Director bought $870K in stock at $174.06/share. On 3/9 Wells Fargo cut its target modestly to $200 from $205 noting the virus causing likely weakness with Intermodal volumes. Deutsche Bank raised its target to $215 in January citing the strong operating ratio expansion, though this came well before the COVID-19 concerns. Hedge Fund ownership fell 4.7% in Q4 filings, notable concentrated holders included Soroban Capital Egerton, Lone Pine and Mawer.

Hawk Vision:

Hawk's Perspective: UNP is a high quality name but with Rails tied so closely with the economy it is real hard to have confidence here, a move above its 8 EMA would be a start.

Confidence Ranking: $$