



CVS Bull Spread Sees Positive Reward to Risk into Weakness

Ticker/Price: CVS (\$61.50)

Analysis:

CVS Health (CVS) with 4,400 \$65/\$55 bull risk reversals opening today for \$0.80 into weakness. CVS has seen some mixed flows recently with concerns over MCO and Bernie Sanders but fears which appear to be quashed as Joe Biden takes a firmer lead on the Democratic nomination. CVS has bullish OI in the August \$62.50 calls, May \$62.50 calls, and June \$65 calls while back around an area where put sales have been popular in the August \$65, June \$60, and May \$65 options. Shares rallied in the 2H of 2019 and the recent pullback has tested the 61.8% Fibonacci of that move back around \$61.35. Longer-term, CVS looks to be forming the right shoulder of a big weekly inverted head and shoulders bottom after years of weakness and a break above \$75 has significant upside to \$100+ and continuation of the 10-year bull trend. The \$81.91B company trades 8.25X earnings and 0.32X sales with a 3.2% yield. The company sees accelerating EPS growth in the high-single digits and upside from higher synergy target from their Aetna integration. They also see 3-4% annual revenue growth, the best in years going into FY22 as they come out of a big multi-year store revamp that focuses more on personal health and wellness. CVS is expanding their Health Hub concept throughout 2020 with a goal of 600-650 locations by year-end and expects a mid-year update on member metrics which would be a positive catalyst. They also continue to see growth in the digital strategy with app downloads, patients enrolled in text messaging programs, and Minute Clinic appointments all growing. CVS could see tailwinds to both programs from COVID-19 as more individuals seek basic check-ups and focus more on simple clinic services. Analysts have an average target for shares of \$80. Deutsche Bank recently raising their PT to \$109 as they think political risks have faded significantly. JP Morgan has CVS as a Top Pick for 2020 and best positioned to capitalize on the theme of growing consumerism in healthcare. Short interest is 1.3%. Hedge fund ownership fell 3.3% in Q4. Activist Starboard Value reportedly with a new position as reported by the WSJ in November. CVS saw a number of insiders active buying stock in March 2019 around \$52.75 to \$58.

Hawk Vision:



Hawk's Perspective: CVS is holding up better than most, a move above \$65 would spur my interest.

Confidence Ranking: \$\$