



Bullish Trades in UPS as Shares Base

Ticker/Price: UPS (\$93.85)

Analysis:

United Parcel (UPS) bullish spread today sells the May \$85 puts to buy the October \$105/\$125 call spread 1,000X for a small net debit. UPS has seen nearly 3,000 June \$95 calls bought to open into recent weakness, more than \$1.5M in premium, while the January \$80 calls bought for \$1.1M on 3/10 and the May \$95 calls active with buyers last week. UPS also has a number of notable short puts in OI in October down to the \$80 strike. Shares have pulled back to the 2016 lows and key breakout spot from 2013 around \$87.50/\$90 where it has based for the last six weeks. UPS with a positive RSI divergence into the recent re-test of that low and a move above has two small gaps to focus on including one back to the February VPOC at \$103.50 and another to \$117.50 from early 2020. The \$79.87B company trades 11X FY21 EPS estimates and 0.82X FY21 sales. UPS will undoubtedly take down estimates and report a big Y/Y drop later this month with about half their overall volumes dependent on B2B but likely a bigger buffer than others due to expanding B2C shipments and e-commerce ramp from both existing and new entrants into the space. They also benefit from AMZN's recent demand surge with the e-commerce leader around 20% of UPS overall volumes. The company has exposure to Europe and Asia as well, the latter already seeing a rebound in volumes with peer DHL noting two weeks ago they're back to near full capacity. UPS is well-capitalized with \$5.2B in cash on hand and a revolver of \$4.5B that they have yet to draw on. They could also halt their dividend (~4% yield) and buyback (\$1B) to give themselves more liquidity flexibility. Analysts have an average target for shares of \$120. Stifel upgrading to Buy on 3-10 as one of the names most interesting names in the group due to its "healthy" cash generation, steadier earnings and cash flow profile than peers. Short interest is 1.6%. Hedge fund ownership fell 4% in Q4. Twin Tree Management a buyer of call options while Boston Partners and Clearbridge notable holders.

Hawk Vision:



Hawk's Perspective: UPS is a high quality operator and would like to see it move through the \$96 level, a name that can withstand an economic drought.

Confidence Ranking: \$\$