



## Large Put Seller Sees an Attractive Level for Southwest Air

**Ticker/Price:** LUV (\$30.1)

### Analysis:

**Southwest Air (LUV)** with a vote of confidence on 4/21 as 10,000 January \$20 puts were sold to open for \$2.60 and comes a week ahead of its quarterly earnings report. LUV has plenty of open interest as Airlines have been actively traded but mostly mixed flows and this trade stands out among the rest, outside of 3000 September \$55 puts that bought on 1/24/2020 and remain in OI. Shares are attempting to base above the \$30 level and showing some bullish RSI divergences. The \$16.9B regional airliner trades 7.35X trailing earnings, 1.65X Book and has likely the healthiest balance sheet in the industry as well as a 2.32% yield. Analysts have an average target of \$44.50 and short interest is low at 1.9% of the float and down 48% Q/Q. Cowen upgraded shares to Outperform on 3/25 while significantly reducing 2020 and 2021 estimates to account for traffic declines from COVID-19. It notes “Southwest is arguably the most successful airline of all time and has survived through other crises and come out stronger. With many airlines retreating in the near-term, Southwest will be in a position to drive outsized share shift and growth once the coronavirus passes.” SIG upgraded shares to Positive recently with a \$41 target as a reflection of the solid balance sheet and favorable travel mix though sees it being a few years before travel fully returns to 2019 levels. Hedge Fund ownership fell 3.6% in Q4 filings, Berkshire announced a sale of shares recently.

### Hawk Vision:



**Hawk's Perspective:** LUV feels like the safest own among the airlines, while DAL the top operator, the focus on balance sheet strength currently. This strategy leaves potential for shares to fall another 35% so clearly not an indication to buy the stock, but gives us a level of note, or for those interested in put sales, a contract to target.

**Confidence Ranking:** \$\$