



Unusual Large Put Buy in Heico as Aerospace Concerns Mount

Ticker/Price: HEI (\$69)

Analysis:

Heico (HEI) trading 17X average puts yesterday with buyers of 1,000 May \$70 puts up to \$7.60. HEI doesn't have a lot of other notable open interest. Shares have moved back under the 8-EMA this week and rolling back over from the recent bounce back to the declining 20-MA. A move lower targets \$55 but major support not until around \$35/\$40. The \$9.16B company trades 27.4X earnings, 4.37X sales, and 143X cash with a small yield. HEI sees 7% EPS growth and 7.5% revenue growth in 2021, but guidance in December was at the low-end of expectations before COVID-19. HEI has long been one of the best operators in the space but big questions outstanding as they have been largely reliant on both M&A as well as a strong aerospace market, both of which are in question in the current environment. The majority of their revenue comes from the commercial aftermarket with replacement parts 55%, repair and overhaul 25% and specialty products 20%. They have a solid footing with PMA parts, especially given FAA limits, but in the near-term their advantage is likely moot given how tied they are to passenger miles flown. Ascend Aircraft data shows parked aircraft at 39% currently vs 9% in 2019. Analysts have an average target for shares of \$122. Jefferies downgrading to Hold this week noting the company has 48% exposure to aftermarket sales which may fall 20-50% in 2020. The company thinks organic growth could fall 8% in 2020. They note that the overall market likely remains under pressure for longer as airlines have grounded fleets which equates to less demand for upkeep and more airlines may designate more of their older fleet into early retirement given the big capacity cuts. Short interest is 1.8%. Hedge fund ownership rose 11.7% in Q4. Point72 a buyer of shares. HEI saw a lot of small insider buying in October at \$120.70.

Hawk Vision:



Hawk's Perspective: HEI clearly is at risk, although considered a best-in-class operator, the Aerospace group is a tough one to model any return to normalcy.

Confidence Ranking: \$\$