



CSX Call Buyer Sees Bottom Holding

Ticker/Price: CSX (\$61)

Analysis:

CSX Corp (CSX) closed strong on 4/6 higher by nearly 8% and earlier in the session with buyers of the August \$67.50 calls \$3.05 to \$3.50 with more than 2500X trading on the day. CSX is one of the early reporters traditionally and will announce results on 4/22. Shares pulled back and held a familiar support zone from 2017/2018 in March, rebounding off the \$47 level and now into a volume pocket with room up to \$68.50 near-term. The \$43.8B Rail trades 12.65X Earnings, 10X EBITDA, and 18X FCF with a 1.83% dividend yield. CSX is certain to face volume headwinds with the recent economic slowdown but has been an industry leader in FCF (FCF Yield 6.6%) and one of the first movers to precision rail with it reaching all-time record low in operating ratio recently. CSX's network reaches most of the Midwest and East Coast and Chemicals/Coal account for its largest revenue source followed by Intermodal, Auto and Ag, so some exposure to weak end-markets. Analysts have an average target of \$71.50 on shares and short interest low at 1% of the float near a multi-year low. Stifel is resuming shares at Buy with a \$71 target citing strong cash flows and a health balance sheet enabling it to weather the current storm, and having a no-nonsense management team. Wolfe upgraded shares to Outperform on 3/27 with a \$70 target and Evercore the same on 3/26 with a \$68 target. Hedge Fund ownership fell 11% in Q4 filings, a concentrated holding for Steadfast Capital, Soroban Capital and Edgepoint.

Hawk Vision:



Hawk's Perspective: CSX has made a strong move off lows and tough for me to see a strong bull case for Rails right now, so not overly interested in tailing this one.

Confidence Ranking: \$\$