



Zynga Bulls Active as Shares Break Higher

Ticker/Price: ZNGA (\$7.73)

Analysis:

Zynga (ZNGA) buyers active on 4/27 for 12,000 May \$7.50 calls up to \$0.65, adding to the over 4,500 in OI, and follows buyers in the September \$8 and \$9 calls last week. The June options have significant open interest with over 10,000 each in the \$6, \$7, and \$8 calls while the January \$10 calls have near 40,000 in OI from accumulation in 2019. ZNGA has been riding its 8-EMA higher since early April and consolidating in a small flag above the recent range breakout. Shares have held up well recently and inverted head-and-shoulders from Feb/March targets a move to \$8.95. The \$7.43B company trades 23.9X earnings, 5.62X sales, and 5.4X cash with a 3% FCF yield. They have a clean balance sheet with little long-term debt and a 2X Current Ratio. ZNGA is a leader on the mobile gaming platform with a number of the fastest growing games and legacy titles like Words with Friends. The company is coming off a record quarter with bookings up 62% as new titles like Merge Magic! saw strong adoption and they continue to execute on a multi-year plan to build out live services. Engagement numbers should be higher due to the Stay at Home policy, especially more of their 'social' games, which will in turn help drive services revenue and in-game purchases. WWF2 has consistently been in the top 50 app downloads list in March and April, according to AppAnnie data, and #13 a week ago. Analysts have an average target for shares of \$7.90 with 12 buy ratings, 3 hold and 1 sell. BAML cutting to Sell on 4-22 citing valuation. They also cite risks of potential for a sharp deceleration in mobile advertising booking. Jefferies positive on 4-9 seeing \$8+ as shares benefit from the Stay at Home. The firm thinks the Stay at Home policy will help drive near-term engagement, while Zynga's "healthy" new game pipeline and "opportunistic" cash position will drive long-term performance. Short interest is 4% and down from 6.5% in mid-March. Hedge fund ownership fell 3% in Q4. Point72, KCL Capital, and Greenhouse Funds notable buyers. ZNGA reports on 5-6, shares higher five of the last six.

Hawk Vision:



Hawk's Perspective: ZNGA has been a favorite under the radar story in gaming and should do well in this environment, earnings coming up on 5/6 and could look for better entry between now and then.

Confidence Ranking: \$\$

