



Alliance Data Puts Bought into Rally

Ticker/Price: ADS (\$47.65)

Analysis:

Alliance Data (ADS) with nearly 1000 September \$60 deep ITM puts opening near \$16.90 into strength today and follows 500 June \$40 puts and 500 January \$60 puts bought recently. ADS does have 3,000 Sept. \$110/\$90 bull risk reversals in OI from early February, but deep underwater. Shares are rebounding from the March lows but one of the weaker bounces with shares barely above the 23.6% Fibonacci and nearing the 50-day MA with a strong negative slope. A move under the 8-EMA at \$40.50 and trend support targets a re-test of the recent lows around \$25. The \$1.93B company trades 3.27X earnings and 0.35X sales and over \$1B in cash on hand after drawing on their revolver. They have significant debt which has drawn pressure from some holders and currently carry a Net Debt / EBITDA is 17.2X. ADS provides solutions for marketing loyalty card services for merchants as well as private credit cards, and direct marketing. They specialize in retail, especially mall-based names, with two of their biggest partners Forever 21 and Pier 1 recently declaring bankruptcy while Victoria's Secret closing stores and shrinking their footprint. ADS has credit risk as more affiliates close as historically they've noted that consumer delinquency rates and net charge off rates rise when physical locations close. In March, the company had a 6% delinquency rate and 6.9% charge-off, the highest among the major credit card operators. Analysts have an average target for shares of \$100. Compass Point upgrading to Buy on 4-27 citing their proactive measures to combat the COVID-19 impact. Deutsche Bank with a \$47 PT as card revenues could be under pressure as receivables decline and gross yields come under pressure. Wells Fargo cut to Sell on 4-8 noting that ADS fundamentals will see a "limited re-acceleration" relative to better positioned peers like PYPL. Short interest is 6.3%. Hedge fund ownership rose 9% in Q4 with buys from Okumus Fund, Point72, and Azora Capital, the latter a 9% weight. ADS has seen some smaller insider buys in March around \$29.

Hawk Vision:



Hawk's Perspective: ADS is a name a lot of investors I consider smart have long-liked, but I have always disliked it and do not see the bull story here, so think it can definitely head lower and face a lot more pressure.

Confidence Ranking: \$\$

