



Lamb Weston Spreads See Disruptions Transitory

Ticker/Price: LW (\$64.90)

Analysis:

Lamb Weston (LW) with 800 of the October \$65/\$50 bullish risk reversals opening at a net debit on both 4/28 and 4/29, seeing positive reward/risk. LW shares are down 30% YTD despite bouncing well off its March lows, and moving out of an ascending triangle bottom this week that targets a move back to \$80. The \$8.7B packaged foods distributor with a focus on potatoes has come under pressure due to its many agreements with restaurants and educational institutions, exposure that saw an abrupt slowdown. However, its retail segment that distributes to grocers likely has seen a boost. LW shares trade 18.6X trailing earnings, 2.2X Sales and 19.8X FCF with a 1.53% dividend yield. Normally, about 65% of all fries are purchased at a quick-serve restaurant, with another 20% purchased at a full-serve restaurant. The remaining 15% is purchased at retail. LW in early April commented “We have a strong balance sheet with about \$2.2 billion of total debt at the end of the quarter. Our maturity profile is also attractive. We have an approximately \$280 million balance on a term loan facility that matures in November of 2021 and an approximately \$290 million balance on another facility that matures in June 2024. We're also in good shape with respect to our financial covenants. Our first covenant is to maintain debt-to-EBITDA, including joint ventures, leverage ratio of less than 4.5x. At the end of the third quarter, we were at 2.4x. Our second covenant is in EBITDA, including joint ventures to interest expense ratio of at least 2.75x. At the end of the quarter, we were at nearly 9x.” Analysts have an average target of \$59.50 on shares with short interest at 3.5% of the float rising 29% Q/Q. A Director bought 18,000 shares at \$92.01 on January 8th. Stifel lowered its target to \$57 on 4/2 expecting Q4 to be hit hard from volatility in restaurant sales. Jefferies on 1/22 started shares Hold with a \$96 target highlighting impressive pricing power, limited competition and large scale. Hedge Fund ownership fell 11.6% in Q4 filings, Copper Rock a concentrated holder along with Champlain Investment Partners.

Hawk Vision:



Hawk's Perspective: LW has always been a favorite name in the space and like the pattern here, the impact should start to wane soon and allow for growth to resume.

Confidence Ranking: \$\$

