



Large Call Buyer in Schwab as Shares Work Out of Base

Ticker/Price: SCHW (\$36.50)

Analysis:

Charles Schwab (SCHW) with 4,500 September \$36 calls bought to open \$3.70 to \$3.80 and follows a number of put sales recently in the December \$25, January \$25, January \$35, and September \$30 strikes. SCHW does also have 4,000 January \$45 calls in OI from buyers in mid-April. Shares are higher this week with the move in yields lifting financials and out of a downtrend from the late April high near \$38.50. SCHW has been in a steady rising channel from the March lows that now targets \$41 and a test of the 200-MA with longer-term upside to \$47 as it fills the low-volume gap from earlier this year. The \$45B company trades 18.9X earnings and 3.9X sales with strong FCF, a 2% yield and a ton of cash on hand. SCHW has been posting strong ADV numbers over the last three months while new client assets rose 42% in Q1, both offsetting some of the pressures from the move to zero commissions. They likely continue to see strong growth in new assets as retail trading volumes pick up with Bloomberg noting financial app downloads and traffic to sites has surged in April/May during the shutdown. SCHW announced a transformative \$26B all-stock deal for TD Ameritrade in December that gives it both a scale and tech advantage in the changing retail trading landscape. They estimate it will generate between \$3.5B and \$4B in synergies over 36 months. Analysts have an average target for shares of \$42. Compass Point downgrading on 5-20, positive on the long-term story, their asset accumulation, and scale advantages but headwinds in the next 12 months from low-rates. BAML cutting to Neutral on 5-21 citing rates but also noting that SCHW remains a high-quality company with a ton of anticipated synergies from the TDA deal. Short interest is 5.8% but rising since December with the deal announcement. Hedge fund ownership rose 13.3% in Q1 and insiders also active with two directors buying stock in April around \$36.75.

Hawk Vision:



Hawk's Perspective: SCHW is looking healthier though a big move the last two days and prefer it to pull in and base properly before looking for a trade.

Confidence Ranking: \$\$