



## Lear ITM Calls Position for Base Breakout

Ticker/Price: LEA (\$101.45)

### Analysis:

**Lear (LEA)** with 1000 September \$85 calls opening on Friday for \$22.24, a sizable trade and only notable open interest in the name. Shares are near a cup-and-handle breakout after consolidating above the March/April range for the last two weeks. LEA is also looking to move back above cloud resistance for the first time since early January with a run above \$103 targeting \$112 and the 200-MA initially through a low volume node. The \$6.13B company has a strong balance sheet with the lowest leverage of the sector with Net Debt / EBITDA of 0.5X and no significant near-term maturities. Shares trade at 8.6X earnings, 0.3X sales, and 9X FCF. LEA is one of the most dominant global auto suppliers by revenue, eighth in the world, and number two in seating where they have nearly 75% of their exposure. Seating is considered widely to be one of the more defensive areas for suppliers due to its low capital intensity and less risk from EVs than something like powertrains. The company is coming off a strong quarter with FCF positive despite all of the coronavirus headwinds and one of the best quarters ever for outgrowth. The company was positive on production resuming soon in both North America and Europe while sales have likely bottomed and China is normalizing as the CPCA said this morning that overall trends are showing a quick recovery. They also noted that long-term megatrends remain intact. LEA is being proactive about potential opportunities emerging from the COVID-19 crisis and announced on Friday a strategic group to evaluate potential changes in the landscape including tech trends and how they impact their business. Analysts have an average target for shares of \$119. Goldman starting at Neutral on 4-12 noting that the shift toward SUVs/CUVs and away from sedans can help LEA to expand content per vehicle, but near-term is questionable due to COVID. Credit Suisse upgrading to Buy on 4-27 with a \$120 PT. They think LEA benefits from a strong balance sheet, leading stable share position, healthy free cash flow generation and less required spend on future technology/product exposures largely agnostic to AV/EV. Short interest is 3.8%. Hedge fund ownership fell 3% in Q4. Impala Partners, Carillon Tower, and Twin Tree are notable holders.

### Hawk Vision:



**Hawk's Perspective:** LEA is one of the more stable and high quality names in Auto, though a tough group and APTV the preferred name. It would be more attractive back near \$93 and can trade versus \$89.

**Confidence Ranking:** \$\$