



Mohawk Bears Step in at 200-MA as Competition, Margins Weigh

Ticker/Price: MHK \$112.50

Analysis:

Mohawk (MHK) with buyers of 2000 August \$120 puts this morning up to \$13.90 to open, sizable trade in the name which has seen some August call sales and July put spreads bought recently. Shares have rallied recently after forming a multi-month base and back at the 200-day today which is proving to be early resistance. MHK led the broader market down in January and has lagged the recovery so far with the long-term downtrend remaining intact under \$115. The \$7.75B company trades 16.5X earnings, 0.8X sales, and 8.5X FCF with expectations for low-single digit revenue growth in FY21 and little to no growth in FY22. MHK was facing issues before COVID-19 with greater competition, years of elevated spending and a lack of pricing power weighing on margins. Late in 2019, they introduced new products like click ceramic tile which have seen lackluster adoption, especially by DIY, as their high-price point continues to be a barrier to alternatives. Analysts have an average target for shares of \$108. CSFB started coverage at Underperform last month with a \$62 PT as they expect luxury vinyl tile to cannibalize sales of their legacy portfolio. They also note that channel checks have been weak so far in their new products like ceramics. RBC Capital moving to Underperform on 5-6 citing headwinds to big ticket discretionary buys as well as ongoing structural challenges. Short interest is 5.4%. Hedge fund ownership fell 7.85% in Q1. MHK has seen some insider activity with buyers at \$117.50 late last year and \$93 in March.

Hawk Vision:



Hawk's Perspective: MHK is an ideal short with plenty of better plays in the residential remodel space but as with anything short lately patience is key and would look for it to consolidate under this 200-day and crack lower

Confidence Ranking: \$\$