



Bulls Position in Synopsys as Top Chip Complexity Theme Play

Ticker/Price: SNPS (\$188)

Analysis:

Synopsys (SNPS) buyers today of 500 September \$210 calls early around \$5 and volumes now running over 2,500X on the day. SNPS has seen some OTM call accumulation lately with buyers in the Sept. \$220 calls 600X yesterday, buyers of 500 December \$200 calls on 5/28, and 1,000 June \$200 calls bought last week. Shares have been very strong since the mid-March dip with just three closes below the 8-EMA in the last 56 trading days. SNPS has support lower around the 20-day MA at \$173.50 which also aligns with the February highs while longer-term the measured target implies around \$230. The \$28.5B EDA and IP company trades 31.5X earnings and 8.4X sales with strong FCF, a growing recurring revenue base and little-to-no debt. SNPS also has a \$4.8B non-cancelable backlog which gives them strong visibility despite any market turmoil. SNPS is coming off a strong quarter as advanced chip design activity remained strong driven by Work-from-Home trends. They also expanded their market share lead with key wins from a leading Asian 5G edge computing supplier, Nvidia (NVDA) for advanced gaming GPUs, and more including key automotive IoT players. SNPS expects strong growth in the 2H and 2021 from their new DSO.ai product which combines AI/machine learning as well as cloud-based computation to help design teams complete more projects efficiently. SNPS set long-term targets in Q2 of high-single digit revenue growth and software growth of 15-20% while ideally using their cash for M&A and buybacks. They continue to see a huge opportunity across semiconductor design, systems companies, and software developers, the latter targeting 20M+ users. Short interest is 1.3% and down from 2.2% in March. Hedge fund ownership rose 7.5% in Q1. Analysts have an average target for shares of \$187.50. UBS starting at Buy on 5-27 with a \$209 PT, a “market leader” with a fully entrenched position delivering mission-critical design software with major long-term tailwinds from 5G, AI, and cloud computing. Benchmark with a \$190 PT noting that they expect design activity to remain strong even with the macro uncertainty as data center and 5G will be big drivers.

Hawk Vision:



Hawk's Perspective: SNPS and recently written CDNS in my opinion are the best way to play Semiconductors, they come with all the upside qualities and less downside variability.

Confidence Ranking: \$\$