



Cisco Bulls See Value, Upside Through Year End

Ticker/Price: CSCO (\$45.3)

Analysis:

Cisco (CSCO) is seeing a lot of bullish options activity with a recent popularity in opening put sales, the January \$49 sold 4000X to open for over \$2.1M, the October \$41 3000X for \$630K, and 7500 of the July \$47.50 puts sold to open 5/15 for \$3.4M. CSCO also with 2500 October \$47.5/\$36 bull risk reversals opening last week and a 6/5 trade bought 16,000 October \$50/\$60 call spreads while selling the \$37.5 puts to open. The July \$50 puts sold 4000X to open yesterday near \$5.30 CSCO recently broke out of a long downtrend that started in early 2019 and last week pulled back to retest the breakout and the rising 55 day moving average seen supportive at \$43.20. Shares are stuck under YTD VPOC and above \$48.60 can run back towards \$55. The \$185.5B Tech giant trades 14.4X Earnings, 3.67X Sales and 21X FCF with a 3.18% dividend yield and cash-rich balance sheet. Cisco did a key optical deal for Acacia last year and in May announced a \$1B deal for ThousandEyes which boosts its Software business, a networking monitoring company. The Acacia deal is expected to close 2H20 and apparently has drawn some concerns from China which is worth watching. Analysts have an average target of \$48 and short interest low at 0.8% of the float. BAML out positive on 6/16 upgrading shares to Buy with a \$55 target seeing multiple upcoming product cycles and Q420 will be the trough for numbers with easier comps moving forward. It notes 5G driving better growth in routing after multiple years of secular declines, Optical and Ethernet 400G a \$4B opportunity to drive data center switching and routing growth, and WiFi 6 upgrade cycle all resulting in \$1.5B in incremental revenues by 2022. WiFi 6 is the latest WiFi technology that leverages Multiuser, Multiple-Input, Multiple Output (MU-MIMO), Orthogonal Frequency Division Multiple Access (OFDMA), and 1024 QAM, offering speeds +35% faster than WiFi 5, reduced latency, and a better experience in dense environments. CSCO also is enhancing its growth/margin profile with the move to Software, now 30% of revenues with 50% from subscription/recurring. Cisco is the incumbent vendor in the \$12B data center switching market with 41% share, versus 17% for Arista, the second largest vendor. The Data Center switching market has slowed in the last few quarters, mainly due to relative maturity of the 100G cycle and slowdown in purchases of hyperscale players but 400G cycle should reinvigorate growth. JPM maintained an Overweight rating and \$50 target after the latest quarter, and Wells Fargo raised its target to \$55 increasingly positive on its competitive positioning for key growth trends. Hedge Fund ownership rose 3.34% in Q1 filings,

Hawk Vision:



Hawk's Perspective: CSCO does look attractively set-up for a more patient investor and offers cheap options, though tend to prefer the stronger growth names that are more pure-plays to key secular trends.

Confidence Ranking: \$\$