



FEATURED OPTIONS RADAR REPORT



VMware Bull Sees Upside in Event Driven Play

Ticker/Price: VMW (\$152.73)

Analysis:

VMware (VMW) large adjustment trade on 6/24 as July \$140 calls that opened on 2/28 closed as well as the \$160 calls from 4/20 that legged into a call spread and opened a large position in October, selling 4,405 of the \$130 puts for \$5.85 and buying 4,405 of the \$160/\$180 call spreads for \$6.35, net \$0.50 debit for the new spread and willing to own shares back at \$130. VMW also saw buyers on 6/17 and 6/18 in April \$150 and \$180 calls for around \$1M net. It also still has the 2500 January \$180/\$100 bull risk reversals from 9/10/2019 trade in open interest. VMW shares recently broke out of an 18 month downtrend and weekly RSI at the highest level in nearly two years. Shares should have strong support near \$140 on a pullback with the rising 55 day MA just below. The action this week comes after the WSJ report that Sell is mulling options on its 80.6% economic (97.4%) voting stake in VMW, potential to acquire the remaining stake, sell the stake, or spin-off the stake. The \$59.5B Tech infrastructure play trades 20.9X Earnings, 5.7X FY21 EV/Sales and 16.75X FCF. VMW sees plenty of runway for long-term growth through DevOps, networking and security. VMW is also transitioning more to a recurring/subscription model with around 35% of revenues in 2020 leaving plenty of room for a further mix shift. VMW has a core asset in NSX Data Center which delivers a complete L2-L7 networking and security virtualization platform, while also being one of the few true hybrid cloud plays. VMW continues to evolve and sees itself in the early innings and is focused on five key areas: application modernization, multi-cloud, networking, security and end user computing. VMW noted earlier this month at the William Blair Conference "Today, our SaaS and subscription business is around 21% of revenue, but it's growing very rapidly at about 40%." Analysts have an average target of \$170 and short interest is elevated at 9.6% of the float. Piper sees a sale of the stake removing a governance overhang allowing for 25%+ multiple expansion and also could open an acquisition by a hyperscaler. Piper sees VMW valued \$200-\$220 in a stake sale. Stifel upgraded VMW to Buy with a \$196 target seeing the likely outcome being Dell (DELL) buying the remaining 19% stake. Hedge Fund ownership dropped 14% in Q1 filings.

Hawk Vision:



Hawk's Perspective: VMW takeaway here is there is good value in the \$130-\$140 zone and this story could take a year to fully play out, so one to be patient, while upside is likely \$180-\$200.

Confidence Ranking: \$\$