



FEATURED OPTIONS RADAR REPORT



Marathon Petro Spreads Position for Speedway Deal

Ticker/Price: MPC (\$36.15)

Analysis:

Marathon Petroleum (MPC) with another 10,000 August / January \$50 call calendar spreads trading today for \$1.75, an interesting strategy that has been put on 20,000 already in the last week. MPC also has seen buyers of the Aug. \$45/\$32.50 bull risk reversal and over 2,500 October \$40 calls and 10,000 October \$50 calls bought within the last week. Shares are pulling back just above the rising 50-MA this week with a small wedge forming under \$40. The 200-day above is a big initial target above at \$47.75 while the February breakout area is around \$52. The recent flows come with reports that the company has revived plans to sell their Speedway business with a potential \$18B to \$19B price tag. In March, they had reportedly reached a deal with Seven & I at a \$22B valuation but COVID-19 led talks to be scrapped. The process could be drawn out as there are concerns about price but clear positive as they would get a massive infusion of cash to delever the balance sheet, unlock significant value from the retail operations of their Andeavor deal and add to their shareholder-friendly capital return plan with a new buyback. The \$23.5B company trades 16X earnings and 0.20X sales with a 6.4% yield. The core business has been under pressure due to demand issues around COVID-19 but likely a big summer for driving as more people opt for 'close by' or 'drive-to' vacations in lieu of mass transit which is a tailwind for MPC. Analysts have an average target for shares of \$53. CSFB on 6/19 noting that a price-tag of \$18B for Speedway would unlock \$16/share in value for MPC. They still think, however, a spinoff is the best case scenario for shareholders as it would allow MPC holders to continue to benefit from the strong FCF from the retail business. Short interest is 3.9% and up from around 2.4% in January. Hedge fund ownership fell 2.5% in Q1. Ceredex Value, Eminence Capital, and Elliott all notable holders, the latter a long-time activist in the name with 9.6M shares. MPC saw insiders active in 2019 around \$48/\$50 with a director buying \$600,000 in stock.

Hawk Vision:



Hawk's Perspective: MPC a clear event-driven play now and this structure interesting and in a large enough size to make you think the traders has a good idea how to play it, worth tailing.

Confidence Ranking: \$\$