



Upside Calls Position in Ceridian HCM as On-Demand Pay Solution

Ticker/Price: CDAY (\$76.70)

Analysis:

Ceridian HCM (CDAY) with a large trade on 6/17 that bought 1600 December \$100 calls to open for over \$865,000 and follows an opening seller of 560 of the December \$65 puts for \$414,000 the previous day as well as an opening sale of over 3000 July \$90 calls likely be a long stock-holder willing to get called away 20% higher. CDAY typically does not see a lot of options activity. Shares hit record highs earlier this month and currently consolidating above trend support and below those highs with \$94.80 a first upside Fibonacci extension target on a breakout. The \$10.8B HCM software company trades 13.7X EV/Sales with 10-11% revenue growth in 2018/2019 seen slowing to 2.6% this year due to headwinds but reaccelerating in 2021 and 2022. CDAY is using 2020 as an investment year as it attempts to expand globally and seeing increasing adoption of its Wallet product. It is also seeing strong growth in deal size for Dayforce and it estimates just a 5% market share in the US. Dayforce Wallet offers no extra charge for customers or employees and expects to see great adoption in 2021 as funds are deposited right into a Dayforce Prepaid Mastercard, and 80% of the US population living paycheck to paycheck. It estimates every 10% of Dayforce Wallet penetration is worth \$100M in high margin revenues. The TAM is estimated at \$20B in the US and \$20B International and CDAY differentiates by having one database, one user experience and on rule engine across HCM. CDAY is also unique in that it built the system to be scalable globally. Dayforce Wallet is an innovative product allowing employees to see how much they have earned live and have immediate access to funds without waiting for a weekly or biweekly payroll. Analysts have an average target of \$68.50 and short interest is elevated at 8.6% of the float. CDAY did a 5.7M share spot secondary earlier this month at \$81.90. Cowen increased its target to \$85 recently as a leader in on-demand pay and seeing stabilization in HCM activity that likely bottomed in early May. Mizuho took its target up to \$75 on 5/7 noting the resilient model as CDAY gets paid for both active and inactive workers. Hedge Fund ownership rose 1.16% in Q1 filings, Cannae Holding and Thomas Lee still with large stakes, while Whale Rock and Select Equity notable top holders reduced positions, and Ashe Capital Mgmt. took a new stake.

Hawk Vision:



Hawk's Perspective: CDAY is a compelling opportunity longer term with its new products and a Software name that could become a star in HCM among the likes of PAYC/WDAY.

Confidence Ranking: \$\$