



## Unusual Upside Calls Bought in Cardinal Health

**Ticker/Price:** CAH (\$58.50)

### Analysis:

**Cardinal Health (CAH)** with a sizable buyer of 6,500 July \$60 calls this morning up to \$1.45 offer and only real notable open interest in the name lately. Shares are back near the February highs after a strong run and setting up under \$60 for a two-year base breakout. Longer-term, CAH has room up to \$70 which was a key pivot from 2018 as it bases and breaks a multi-year downtrend. The \$16.72B company trades 10.35X earnings and 0.11X sales with strong FCF, and a 3.4% yield. CAH got a big boost to their cash position in late May after naviHealth – which they owned 44% stake -- was sold to United/Optum for \$2.5B. Their after-tax proceeds are expected to be around \$650M and CAH said on their latest call they'll use any additional cash strategically across debt paydown, added buybacks, and potentially small-scale M&A. CAH is coming off a strong quarter and maintained their FY outlook with mid-to-high single digit growth despite the pressures of COVID-19. They also continue to see improvement in the core business with growth driven by their largest customer CVS Health. Analysts have an average target for shares of \$57 with 3 buy ratings and 8 hold. UBS upgraded to Buy on 5-15 while BAML upgraded to Buy from Sell in March citing an "undemanding valuation" for the stock and an "appealing" risk/reward. The firm also expects their medical distribution business to remain strong given the heightened need for basic supplies and PPE from hospitals and may see a pull-forward of buying as they look to stock up into an expected Fall 'second wave' of COVID-19. Hedge fund ownership rose 9.55% in Q1. Short interest is 1.4% and down sharply from October when it was 7%.

### Hawk Vision:



**Hawk's Perspective:** CAH shares are up 9 straight days so want to see it and a lot of names settle near-term, but a name of some interest if value continues to see more popularity.

**Confidence Ranking:** \$\$