



Bulls Stick with Netflix Momentum

Ticker/Price: NFLX (\$430)

Analysis:

Netflix (NFLX) with massive activity on 6/9 as 8000 November \$360 calls opened at \$91.63 for nearly \$75M and then September \$400 and \$410 calls opened 3,800X and 2,000X for around \$20M and \$10M. On 5/27 the August \$400 calls opened for \$5.3M in stock replacements and near-term the July 10th (W) \$400 and \$410 calls each with 200X bought to open on 6/5. NFLX shares recently pulled back with many of the stay at home related names but put in a strong reversal candle on the rising 55 day moving average support and on 6/9 broke out of a small base with momentum picking up for a potential move above the May highs that likely targets a move to \$500. NFLX will next report on 7/21 and coming off a quarter with 15.7M net subscriber additions and guided for 7.5M in Q2. NFLX has been able to extend its leadership and sale over streaming competitors and the profitability picture becoming more positive as it nears FCF break-even while still releasing a full slate of content. The \$182B streaming content leader trades 49X Earnings and 8.5X Sales with revenues growing 35% in 2018, 27% in 2019 and seen rising 23% in 2020 while EPS has entered a major growth cycle with strong operating leverage. Analysts have an average target of \$455 and short interest at 3% of the float has been coming down all year. Pivotal on 4/22 raised its target to \$580 for the end of 2020 and also adjusted the long-term EBITDA margin forecast to 35% from 30%. It also cited "Subscriber growth is the flywheel that drives a virtuous cycle for NFLX as the larger their subscriber base grows the more they can invest in original content which increases the target market for their service (and reduces existing subscriber churn) + enhances their ability to take future price increases and dramatically increases barriers to entry, boosted by continued material increases in broadband availability/speeds globally and the fact that on most of earth net neutrality regulations allow NFLX to piggy back for nearly free on the substantial investment to increase broadband speeds made by telecom companies." On 5/21 Citi raised its target to \$450 and cites challenges in generating material operating leverage with its cash content spending while valuation leaves little room for error. On 5/14 Jefferies started NFLX at Buy with a \$520 target and cited three reasons to own the stock, for one the addressable market is vastly underappreciated, improving margins will lead to sustainable free cash flow growth, and a proven value creator in a changing landscape, expectations for 285M subscribers by 2023. Loop Capital sees 350M subscribers by 2023 and 500M within ten years due to the large content slate and production of new original content. Hedge Fund ownership rose 3.6% in Q1 filings, plenty of notable concentrated holders including Lone Pine, Viking Global, Matrix Capital, and Edgewood.

Hawk Vision:



Hawk's Perspective: NFLX sets up nicely versus the 55 MA and remains a top long-term own.

Confidence Ranking: \$\$