



RH Bulls See Limited Downside After 250% Rally

Ticker/Price: RH \$229.50

Analysis:

RH (RH) two bullish trades yesterday for 200 July \$200 ITM calls for \$40 and 1,000 January 2022 \$210 puts sold to open for \$57.50, stock replacement for \$6M in premium. RH has notable bullish flows in OI including 1000 November \$200 short puts from 6/2. RH has outperformed the broader retail sector since March, up almost 250% from the lows, and YTD VPOC and the rising 20-MA just below at \$212. The 200-day is down around \$180 which also aligns near the 50% retracement of the run. Longer-term, a continuation of the long-term trend above \$250 has a measured move to \$350. The \$4.75B company trades 19X earnings and 1.8X sales with strong FCF and a solid balance sheet. RH has been a solid margin expansion story in recent years with 700 bps of growth since 2017 and clear path to 20% overall operating margin. RH has seen a strong rebound in overall sales during the shutdown and expected to see an acceleration as more of their stores re-open. They also see revenue growth to jump in the 2H as manufacturing recovers and inventory receipts catch up to demand. Long-term, RH is looking at opening more gallery spaces in major urban markets as they target \$5B to \$6B in overall North American sales and potentially a \$20B global brand. They also are expanding into new areas like hospitality experiences, interior design and landscape architecture, and housing called RH Residences. Short interest is 25% and down from around 32% in January. Hedge fund ownership was flat in Q1. Analysts have an average target for shares of \$215.50. Loop Capital with a \$250 PT on 6-8 while JPM with a \$310 PT citing sales growth and margin expansion. Guggenheim positive on sales trends in April/May and the firm expects underlying demand to accelerate even further once RH fully re-opens.

Hawk Vision:



Hawk's Perspective: RH has nice support just below at the confluence of those key levels and would prefer to see it carve out of a nice base and reversal candle to trade against. The long-term story is one of the best in retail and the newer ventures are interesting as they build into a global, multi-faceted luxury brand. Short interest is a concern but it has been 25% to 35% since shares were trading \$35.

Confidence Ranking: \$\$