



L-3 Harris Bull Sees Underperformance as Opportunity

Ticker/Price: LHX (\$160)

Analysis:

L3 Harris (LHX) spread sells the October \$135 puts and buys the \$165/\$190 call spread for a net \$3.35 around 1625X and follows buyers in the September \$170 calls, August \$210 and \$230 calls, and sellers in the August \$145 puts which have accumulated over 2500X. LHX has been a laggard and back near the March lows with today's spreads targeting a run back to the 200-MA. L3 and Harris were both strong, long-term trending names since 2016 with the rest of the defense space. The \$34.5B company trades 12.7X earnings and 2.2X sales. LHX is targeting with \$500M in annual synergies with \$3B in FCF by year three. On 6/11, the CEO was on CNBC noting they're starting to see revenue synergies coming through and they're evaluating the entire portfolio to determine where best to invest to drive high-margin, high-growth value. He notes that LHX views themselves now as a tech company which sells into the defense market and their customer base is more diverse than before with 56% of sales to the DoD and global reach with near a quarter of their sales Internationally. LHX expects to see long-term revenue growth as they focus on key DoD areas like IMS, space systems, communications and aviation. Analysts have an average target for shares of \$245. Cowen positive on 6-26 while RBC started coverage at Buy in May calling LHX a "best-in-class" name given fundamentals and upside potential from a rapidly growing book of new business. Seaport started at Buy as well, "the top pick in defense" as it has a product portfolio growing faster than the overall Defense budget. Short interest is 1%. Hedge fund ownership fell 0.30%. Soroban Capital a top buyer of 1.29M shares. LHX has seen some small insider buys including a \$86K purchase in mid-June. In August 2019, a director bought \$2M in stock at \$203.34.

Hawk Vision:



Hawk's Perspective: LHX has always been a favored Defense name due to its Electronic/Intelligence exposure, but clearly in a weak trend right now and need to see some bullish price-action.

Confidence Ranking: \$\$