



## FEATURED OPTIONS RADAR REPORT



### Advanced Auto Calls Adjust, See Eventual Upside Potential

Ticker/Price: AAP (\$136)

#### Analysis:

**Advanced Auto (AAP)** buyer of 12,500 January \$140 calls for \$16.40 yesterday, over \$20.5M, as some September \$140 calls from late May close at a small loss and adjust for more time. AAP also had some August \$140/\$150 call spreads bought 750X yesterday while the Jan. \$125 puts sold to open 450X around \$14.50. Yesterday's flows follow a big insider buy from its CEO on 6/15 when he bought 7,285 shares at \$136.13, a near \$1M purchase. AAP also has some notable OI including the Aug. \$150/\$165 call spread and Sept. \$155/\$170 call spread from June. Shares have rebounded back to the 200-MA and put in a nice reversal candle yesterday off of the rising 55-MA with a move back above \$150 setting up a re-test of the 2020 highs. The \$9.44B company trades 16.12X earnings, 1X sales, and 26.85X FCF with a small yield and well-capitalized balance sheet. AAP is calling for mid-teens EPS growth and accelerating topline growth through FY22. AAP has seen comps improve sequentially, especially as the re-opening has gotten steam, and driven by a strong DIY channel which has been a priority. AAP launched their mobile app in Q1 as part of a broader omni-channel initiative and accelerating their BOPIS strategy for mitigating traffic losses during the pandemic. Another big step forward for DIY is the upcoming relaunch of the Diehard brand which is expected to be a high-return program and help them gain share versus peers. AAP could benefit significantly this summer from a renewed interest in auto travel, especially for vacations, as personal transportation options will outweigh public options. Analysts have an average target for shares of \$145. RBC with a \$155 PT in May noting that auto part sales will continue to accelerate as the U.S. economy reopens. Jefferies sees margins snapping back in Q2 from trough levels as recent trends are driven by strong "do-it-yourself" trends, while "do-it-for-me" demand is expected to improve as travel restrictions are eased. Short interest is 2.8% and near 6-year lows. Hedge fund ownership rose marginally in Q1. Melvin Capital a top holder with 3.3M shares as well as call options.

#### Hawk Vision:



**Hawk's Perspective:** AAP is a solid story and think this is clearly a Melvin Capital position, the 55 MA supportive into weakness and giving a good level to trade against, also the Insider buying increases confidence this works.

**Confidence Ranking:** \$\$