



FEATURED OPTIONS RADAR REPORT



American Water Bulls See Outperformance Continuing

Ticker/Price: AWK \$148.75

Analysis:

American Water (AWK) with 925 March \$145 calls being bought today between \$14.00 and \$14.20 to open, sizable trade in the name that is just shy of new highs. AWK has seen some buyers recently in the Aug. \$130 and \$135 calls while the Sept. \$135 calls have around 300 in OI from buyers in February, not a name that draws a lot of size flows. AWK shares are in a narrow flag with the rising 8-EMA just below today's lows and breakout targets \$160+. The utility has traded well since mid-June and just above the February highs with the wider weekly range measuring out to \$175-\$180. The \$26.5B company trades 34.8X earnings and 4.26X book with a 1.5% yield and steady returns with high-single digit base rate growth. AWK focuses on water and waste-water services to both municipalities as well as commercial entities like food and beverage providers, fire service providers, and industrials like mining companies. AWK noted yesterday they have seen little impact from COVID and continue to see their near-term and long-term acquisition and spending strategy on target (expected to spend \$20B over 10 years). Analysts have an average target for shares of \$136.50 with Janney a Street High \$153. Barclays recently noting that water valuations are extended among the group but there are few near-term headwinds to earnings even if expectations are high. Seaport starting coverage at Buy in May noting that, "the water/wastewater industry remains highly fragmented with 90% of the U.S. population getting services from municipally-owned systems and the current work-from-home arrangements inflate "higher-margin" residential water volumes, with at least some of the volume uptick likely to persist beyond 2020, benefiting American Water." Short interest is 1.4% and down from 2.5% in January and near 5-year lows. Hedge fund ownership rose 7.5% in Q1, Magellan Asset Management a buyer of shares. AWK saw a director buy \$231K in stock in May at \$116.

Hawk Vision:



Hawk's Perspective: AWK is one we dug into back in early April and still like the overall fundamental story with AWK a great operator and the spread between water utilities and electric utilities likely staying wide given the secular backdrop and drivers

Confidence Ranking: \$\$