



FEATURED OPTIONS RADAR REPORT



Bulls Position for Rally in Southwest into Year-End

Ticker/Price: LUV \$37

Analysis:

Southwest (LUV) buyers active for near 4,000 December \$37.50 calls from \$4.50 to \$4.60 on 8/25 and follows buyers in the September \$37.50 calls, October \$40 calls and over 9,000 December \$40 calls in the last week. LUV is starting to work out of a multi-week base above \$37.50 with a measured move up to \$45 and longer-term room back to \$50. The \$21.72B company trades 22.2X earnings, 1.3X sales, and 18.4X FCF. LUV has the best balance sheet in the space with tons of cash and limited near-term maturities. LUV has been volatile with concerns over reopening and travel weighing but they reports strong booking trends last week with leisure demand improving. LUV sees further opportunity to bring capacity down more into the late Summer and Fall as they continue to evaluate their fleet strategy and model overall. The company has a nice potential late-year catalyst with the Boeing (BA) 737 MAX potentially returning to service. The company lost ground in 2019/2020 given their exposure to the model but a positive update from BA would allow them to retire older planes and refresh the fleet which some analysts estimate could boost their efficiency gains by 2-3%. Analysts have an average target for shares of \$49. Goldman upgrading to Buy from Sell in late June citing an "industry-leading" balance sheet will drive a relatively faster recovery post-COVID-19 versus peers. Seaport initiating at Buy in June with a \$44 PT. They think LUV should come out of this downturn with market share gains that translate into incremental revenue and free cash flow leverage to the upside. Short interest is 2.6% and down from 3.7% in April. Hedge fund ownership rose 17.59% in Q2 and this is despite Berkshire selling 53M shares. PAR Capital, Point72, and Lansdowne all adding stock.

Hawk Vision:



Hawk's Perspective: LUV remains the top airline play given their balance sheet and optionality with the MAX and outside of DAL the only one really worth looking; think it sets up well into year-end

Confidence Ranking: \$\$