



FEATURED OPTIONS RADAR REPORT



Unusual Call Buying in Equity Residential

Ticker/Price: EQR (\$53.5)

Analysis:

Equity Residential (EQR) with 7000 September \$52.50 calls opening \$2.75 in a block trade on 8/4 and over 8500 traded through early afternoon, a name that saw buyers in August \$60 and September \$65 OTM calls 2000X each on 7/30 and has 3500 September \$47.50 short puts in OI. EQR shares have slipped back near March lows and working on an outside reversal day candle. The \$19.6B REIT is focused on rental apartments in urban and high-density sub-urban communities with Boston, NY, Washington DC, Seattle, San Francisco, and Denver key markets. EQR has sold off on the notion people are flocking out of cities due to COVID while rental payment collection also an issue. EQR beat FFO estimates in the latest quarter, while revenue slipped 2.4% Y/Y and missed estimates. EQR currently trades 16X FFO with a 4.6% dividend yield. EQR had been redeploying capital from selling old assets into newer properties with higher expected returns. EQR is historically a strong operator with a 3.9% 10-year same store revenue CAGR and 4.8% NOI and was founded and Chaired by Sam Zell. It also has one the healthiest balance sheets in the industry. Analysts have an average target of \$61 and short interest low at 1.7% of the float. BMO downgraded shares this week to Underperform noting “estimates the company has the multifamily portfolio with the highest average rent and rent-to-income ratios, as well as the highest average daytime populations surrounding its communities. This warrants a premium valuation under normal circumstances, but COVID-19 has shifted renter priorities.” Argus lowered its target to \$70 on 7/7 noting earnings should benefit from above-average rental pricing, employment growth, the high cost of home ownership relative to income, and the flexibility of rentals, but also warns that the impact of COVID-19 on demand for dense city living and a recent spike in urban crime pose headwinds. Also, new supply and rent control measures in New York and California are challenges for Equity Residential. Hedge Fund ownership rose 3.8% in Q1 filings.

Hawk Vision:



Hawk's Perspective: EQR is in a tough group but offers a nice yield and valuation pricing in a lot of the fears, giving one of those nice candles to trade against on this reversal outside day.

Confidence Ranking: \$\$