



FEATURED OPTIONS RADAR REPORT



Zynga Bulls Active into Sell-Off

Ticker/Price: ZNGA (\$9.10)

Analysis:

Zynga (ZNGA) buyer of 2,500 December \$8 calls for \$1.53 to open today and also seeing another 5,000 December \$10 calls bought where buyers opened more than 5,500 in late July. ZNGA has a lot of bullish OI out in September up at the \$10 and \$11 strikes which is a bit underwater while notable short puts recently in the January \$9 strike from 7/22, so shares back to a favorable level after the recent pullback. ZNGA is back at the 38.2% Fibonacci of the recent rally as well as the 89-MA and just above VWAP from the March lows. The \$10.4B company trades 22.3X earnings, 6.5X sales and 42X FCF with a solid cash position and limited debt. ZNGA continues to benefit from the pull forward of users due to the pandemic into mobile gaming with player engagement and monetization levels jumping in Q2. They saw user pay rise 61% with bookings up 38%, their best-ever, and expect strength in live services to continue to support further growth. ZNGA announced a \$1.8B cash and stock deal for Peak in the beginning of June, a notable transaction that adds some big titles like Toon Blast and Toy Blast to their portfolio. The Peak deal will expand their core franchises to eight strong games and expands their core DAU base by 60% with significant international reach. Analysts have an average target for shares of \$11 with 12 buy ratings, 3 hold and 2 sell. Wedbush a Street High \$13.25 PT while Piper at \$13 and they noted recently that momentum is building into the 2H as it continues to benefit from its strong live services engine. UBS positive recently noting that they see upside driven by margin expansion and further capital allocation plans. Barclays noting that the Peak deal is 'the missing piece' that will allow ZNGA to reach the level of scale needed to greatly expand margins into 2021 and beyond. Short interest is 4.7% and down from as high as 11.6% in 2019. Hedge fund ownership rose marginally in Q1, Woodline Partners and Point72 both adding notable stakes.

Hawk Vision:



Hawk's Perspective: ZNGA reward/risk is back to favorable levels and although TTWO/ATVI are favored videogame names, ZNGA has plenty of opportunity as well and consolidation a big theme in mobile games.

Confidence Ranking: \$\$