Large Lumtentum Call Buyer Sees Weakness Overdone

Ticker/Price: LITE ($75.50)

Analysis:

Lumentum (LITE) with one of the more notable bullish trades on 9/21 as 1500 November $75 calls were bought $6.80 to $7 to open and shares with a strong day moving up 5%. LITE lacks a lot of notable open interest but does have 1150 January $80 calls remaining in OI and 1000 October $85 calls that are underwater. LITE shares are down 17% in a month with China concerns weighing on Semiconductors and testing one-year uptrend support. The $5.3B Company now trades just 11.1X Earnings, 3.2X Sales and 10.25X FCF with a lot of cash. LITE is coming off a strong beat quarter with demand being driven for new products and technologies. They continue to see growth in 3D sensing, especially in industrial. LITE is benefitting from expanded bandwidth and scale of data centers while COVID is pulling forward a big shift towards digital work, commerce, and education which will be a long-term driver. LITE will speak at the SENSOR China Expo on 9/23. Analysts have an average target of $105 with short interest at 9.8% of the float remaining elevated. LITE has seen concerns with Huawei as well as weaker numbers from Ciena (CIEN) recently but could see upside on the new iPhone. SIG out on 9/14 saying to buy shares on weakness and has a $115 target. Northland with an interesting note saying concerns are fully priced into shares and sees upside potential in next generation ROADMs. Craig Hallum with a $120 target notes LITE continues to execute well in a favorable demand environment and a continued need for bandwidth in cloud and wireless networks with a portfolio of high-end products and little competition make LITE attractive. Hedge Fund ownership rose 3% in Q2 filings, Hood River holding it as its fifth largest position.

Hawk Vision:

Hawk's Perspective: LITE is an attractive value buy the dip candidate, a very strong candle to start the week and a dip back to the 8 EMA likely a good entry.

Confidence Ranking: $$