



FEATURED OPTIONS RADAR REPORT



Diamondback Energy Seen Bottoming

Ticker/Price: FANG (\$29.70)

Analysis:

Diamondback Energy (FANG) with a vote of confidence on 9/24 as a trade sold 1500 December \$30 puts to open near \$4, near where shares were trading and trying to put in a reversal candle. FANG has been attracting some bullish action in a tough E&P group, the December \$35 puts with 1000X sold to open in open interest and 1000 of the \$50 calls bought, while October \$20 deep ITM calls opened on 9/15. FANG is trying to hold support near the 9/11 low which aligns with support from April, a name that traded below \$15 in March. The \$4.7B E&P trades 9X Earnings, 5.5X EBITDA and yields a 5% dividend with EBITDA seen recovering 5% in 2021 after a 27.7% decline in 2020. FANG is a Permian pure-play with Midland and Delaware basin acreage. It has a strong balance sheet with a \$191M maturity in September 2021 and no other material debt maturities until 2024. It did a \$9.2B deal for Energen back in 2018 to expand its footprint as well as a \$1.2B deal for Ajax Resources. FANG is the best operator in a challenged industry. Analysts have an average target of \$59.50 and short interest is at 4.8% of the float. Piper upgraded shares on 7/21 noting Q2 is a likely trough for E&P operations which are sticking to reduced activity and muted longer-term growth plans. For FANG it noted “As one of the lowest cost operators in E&P we think FANG shares offer investors a good mix of leverage to a crude recovery, and relative safety with a business that we see being able to generate strong FCF in a low \$40s/bbl crude oil environment over the next several years.” CSFB on 8/4 at Outperform with a \$57 target and Seaport on 7/27 at Buy with a \$57 target noting FANG as a great operator with breadth across the most compelling parts of the Permian and sees production maintained near current levels through the end of 2021. Hedge Fund ownership is down 18% in Q2 filings, Advisory Research and Growth Fund of America concentrated positions.

Hawk Vision:



Hawk's Perspective: FANG is my preferred name in Oil E&P but overall just a tough group to have much confidence in outside of trying to find a tradable low and having a tight stop.

Confidence Ranking: \$\$