



## FEATURED OPTIONS RADAR REPORT



### WR Grace Bull Risk Reversal into Bottoming Pattern Breakout

Ticker/Price: GRA (\$46)

#### Analysis:

**W.R. Grace (GRA)** smaller but notable trade today with the March \$45/\$40 bull risk reversal bought 1,000X for \$2.73, name without much other notable open interest but does have 1,000 September \$47.50 short puts expiring this week, so value at these levels. GRA has seen a lot of insider buying into weakness this year with the CEO adding \$231K in stock in May at \$46.37 and two others buying in May and August. Activist 40 North Latitude has also been adding to their stake, now nearly 15% of shares outstanding. Shares have underperformed since May but back at the 50% retracement of the initial rally off the March lows and working out of a downtrend and small rounded base today. GRA has upside to \$55 and then a low-volume gap back to \$75. The \$2.9B company trades 11X earnings, 1.6X sales, and 17.3X FCF with a 2.7% yield and estimates for high-single-digit growth in FY21. GRA expects to see strong expansion in earnings power as well driven by operations improvements and better pricing. GRA is at the CSFB conference today and highlighting opportunities to grow within specialty catalysts and materials driven by major secular tailwinds from demand for high-value plastics and cleaner transportation fuels. They continue to invest in capacity expansions and building out a leading polyolefin catalysts franchise through smaller bolt-on deals globally. GRA also highlighted opportunities in July to improve FCF in 2020 as they reduce operating costs. Demand also sets up well for the 2H and 2021 from a customer viewpoint as inventory levels have reset for many customers that are seeing activity pick back up. Analysts have an average target for shares of \$65.50 with CSFB at a Street High \$83. Monness Crespi calling GRA one of the best ideas in chemicals on 9/8 noting that there shouldn't be any permanent impairment to long-term demand in their end-markets while they continue to have superior margins and FCF. Short interest is 1.1% and down from around 2% earlier this year. Hedge fund ownership fell 0.11% in Q2, Soroban has a 2.7M share stake and Lyrical also a top holder.

#### Hawk Vision:



**Hawk's Perspective:** GRA joins a number of Chemical names with bullish options positioning, and also a name long rumored as a M&A target, potential for HON, looks good versus the bullish MA cross just below.

**Confidence Ranking:** \$\$