



FEATURED OPTIONS RADAR REPORT



Bulls Position in SunRun after Sell-off

Ticker/Price: MCK (\$151.50)

Analysis:

McKesson (MCK) with 1,000 January \$170/\$135 bull risk reversals opening at zero cost earlier this morning and now up to 2,000 on the day. MCK has seen some smaller, high-dollar buying lately across the November, January 2021 and January 2022 calls since mid-July seeing upside as far as \$200+. Shares are in a very narrow weekly bull wedge above the 200-day with a run above \$155 measuring out to \$190 and move out of a four-year base. MACD has crossed over bullish recently on the daily while RSI back above 50 with plenty of room to run. The \$24.87B company trades 8.85X earning, 0.11X sales, and 9X FCF with a 1.1% yield and low-double digit growth. MCK has been a bit of a value-trap given the opioid overhang but indications recently that a final framework for settlement could be determined by year-end and more favorably for the defendants (which also include CAH, ABC, TEVA, and JNJ). Meanwhile, the company continues to improve their core business while overall trends have improved significantly since March/April. The company has seen higher volumes throughout the Summer as re-opening occurred, especially in their primary care business where patient visits have expanded beyond the most critical cases. And, the company has tailwinds into 2021 from COVID given higher demand for PPE which is boosting their Medical Group results while on 8/14 they signed a deal with the Federal Government to be the lead distributor for an approved vaccine under Operation Warp Speed. In the UK, they're seeing better volumes despite lower foot traffic after a timely buy in 2019 for Echo which gave them a big digital fulfillment business and expanded their digital and omnichannel strategy. Analysts have an average target for shares of \$179 with 10 buy ratings and 3 hold. MSCO with a Street High \$204. Deutsche Bank upgrading to Buy in August noting that demand for personal protective equipment and improving customer mix in response to the COVID crisis increased sharply last quarter while the negatives weren't nearly as bad as feared. Short interest is 1.3% and near decade lows. Hedge fund ownership fell 12% in Q2. Baupost remains a top holder while Glenview also a top 20 holder.

Hawk Vision:



Hawk's Perspective: MCK is the highest quality name in the small drug distributor group, but overall one that lacks much compelling growth. Its purely a longer term value play type name, a group that has not been in favor.

Confidence Ranking: \$\$