



## FEATURED OPTIONS RADAR REPORT



### Large Bull Trade in PennyMac Positions for Further Upside on Mortgage Market Boom

Ticker/Price: PFSI (\$66)

#### Analysis:

**PennyMac Financial Services (PFSI)** with 4500 December \$70 calls bought on 10/16 to open in a \$1.4M trade as November \$60 calls adjusted. PFSI also has more than 6500 February \$65 calls in open interest as part of a buy-write. PFSI shares have quadrupled since March lows and riding the rising 21 day moving average high since August, a recent flag breakout targets a move up to \$70. PFSI is a specialty financial services firm with a comprehensive mortgage platform and integrated business primarily focused on the production and servicing of U.S. residential mortgage loans and the management of investments related to the U.S. mortgage market. The U.S. residential mortgage market is one of the largest financial markets in the world, with approximately \$11.0 trillion of outstanding debt as of December 31, 2019. According to Inside Mortgage Finance, first lien mortgage loan origination volume was approximately \$2.4 trillion in 2019. PFSI is the 3<sup>rd</sup> largest mortgage producer, 8<sup>th</sup> largest services and the largest government-insured producer. Economic forecasts for total originations in 2020 have increased to over \$3 trillion, the highest level since 2003 supported by all-time low rates and higher demand in suburban areas. PFSI's consumer direct lending channel has an outsized impact on earnings as 21% of its production volume in Q2 but 60% of its pretax income. PFSI estimates just a 1% market share in the consumer direct market. Analysts have an average target of \$70 and short interest at 5% of the float is down 27% Q/Q. Piper out positive on the group on 8/7 saying the recent **RKT** IPO will draw attention to the group. PFSI trades just 5.75X Earnings and 2.07X Book. Barclays raised its target to \$75 on 10/9 seeing continued upside to the refinance wave well into 2021. Wells Fargo raising its target to \$70 on robust Q3 mortgage origination volumes. JMP noting PFSI's strong balance sheet and highly efficient operational capabilities positions it well in a favorable mortgage banking environment. Hedge Fund ownership fell 11.6% in Q2 filings.

#### Hawk Vision:



**Hawk's Perspective:** PFSI is in a great situation and I also like **RKT** recently from a write-up, PFSI could use a dip back to \$61 for ideal entry into these calls.

**Confidence Ranking:** \$\$