

## FEATURED OPTIONS RADAR REPORT



## Abercrombie Bulls Position for Earnings Strength on Back-to-School, E-Commerce

Ticker/Price: ANF \$15.55

## **Analysis:**

**Abercrombie & Fitch (ANF)** with 10,000 December \$16 calls bought this morning up to \$1.65 to open, hot action in the name that has 3,800 November \$16 calls in OI. Shares in a strong trend since rebounding from the Summer lows and consolidating in a bull flag above the breakout level at \$14 with the rising 55-MA supportive this week. ANF has big resistance above at \$17.25 and a run above has open space from a gap in April 2019 back to \$25. The \$960M apparel company trades 19X earnings, 0.30X sales, and 4.55X FCF with a lot of cash on the balance sheet and very limited debt. ANF sees mid-double digit revenue growth in FY22 with margins continuing to improve as they execute on a number of key initiatives. ANF is coming off a strong quarter as they reduce square footage, invest in digital and omnichannel, update their supply chain and build out best-in-class customer engagement programs. They did over \$1B in digital sales last year and seeing a big pull-forward in 2020 as they see double-digit gains in mobile traffic every month since April while conversion and AUR both increase. ANF has been conservative on inventories into the 2H as they move more to warehousing and also cutting back on Fall marketing as they see better ROI through their digital channels. They expect back-to-school to be a driver this quarter as it likely extends into October given the more seasonal weather patterns and overall buying shifts with more schooling from home. ANF has a unique position with their Hollister brand significantly outperforming the core brand and now more than 50% of their overall mix, and a situation where we've seen other apparel names pursue a split or spin to drive value. Analysts have an average target for shares of \$15.50 and Citi a Street High \$20. B Riley raising estimates on 10/14 noting that ANF is likely a winner in the post-COVID world as they can use their healthy balance sheet and demand trends to capitalize on lower rents and store rationalizations while competitors fold. Short interest is 16.9% but steadily lower from its 5-year high around 35%. Hedge fund ownership rose 11% in Q2, Prentice Capital a top holder with 3.8M shares and their second largest position. The CT-based fund runs a smaller book and mostly concentrated in consumer names. ANF has seen some notable insider buying this year as well with the CEO buying over \$480K in stock in March around \$11.

## **Hawk Vision:**



**Hawk's Perspective:** Retail is not an attractive space overall but ANF performing well and positioned in omnichannel better than some peers, so could see upside into earnings on 11/24; the Hollister spin an interesting idea as well, although long rumored and hasn't gained much traction