



## FEATURED OPTIONS RADAR REPORT



### Kroger Size Puts Bought as Q1/Q2 Comps Tough

Ticker/Price: KR (\$32.20)

#### Analysis:

**Kroger (KR)** size buyer of 10,000 April ITM \$35 puts for \$4.30 to \$4.40 to open and follows buyers of 2,500 April \$33 puts in mid-October which remain in OI. KR shares fell below recent support and the 200-day on Monday and the two-day bounce here back into resistance and the declining 21-day as well. KR has been in a strong trend since late last year but momentum broken on the weekly timeframe and has room back to \$28 and a big volume node from December. The \$24.38B company trades 11.85X earnings, 0.2X sales, and 7.2X FCF with a 2.25% yield. KR faces tough comps in 2021 and less likely to see sustained momentum than club-model peers like **Costco (COST)** or big-box retailers like **Target (TGT)** and **Walmart (WMT)** that have sunk huge investments into frictionless e-commerce. KR has also seen some mixed margin performance recently given lower relative sales of deli and bakery which could be exacerbated this Winter if foot-traffic slows again. KR is forecasting a 17.5% decline in EPS in FY22 and revenues down 3.5% against tough comps. Analysts have an average target for shares of \$35. Evercore downgrading to Neutral on 10/23 seeing little upside as their turnaround has played out. Wells Fargo cutting to Neutral as well noting that the market has stopped buying earnings upside and the other side of COVID could be a slippery slope and valuation no longer compensates investors for the risk of owning a unionized grocer. Short interest is 7.5% and near 10-year highs. Hedge fund ownership rose 25% in Q2 but smart fund Melvin Capital a buyer of nearly \$35M in put options.

#### Hawk Vision:



**Hawk's Perspective:** KR shares undercutting the broken 200 MA does set up for a potential short entry manageable versus the recent \$33 high.

**Confidence Ranking:** \$\$