



FEATURED OPTIONS RADAR REPORT



Bulls Accumulate Positions in Aerospace Supplier

Ticker/Price: HWM (\$25.25)

Analysis:

Howmet Aerospace (HWM) with 2,000 January 2022 \$35 calls bought to open today for \$2.45 to \$2.55, positive long-term view in a name that has rallied sharply lately and already has 6,600 May \$30 calls in open interest from buyers. HWM is clearing a bull flag today after an upgrade and room short-term to \$27-\$28. The \$10.38B company trades 27.33X earnings, 1.4X sales, and 7.6X cash. HWM is an leading manufacturer that was spun out of Arconic earlier this year and focuses on jet engines, fasteners, and titanium structures for aerospace. They also make aluminum wheels for light-body autos, industrial gas turbines, and more, a well-diversified company without a heavy concentration on commercial aerospace. HWM thinks the low-point for the pandemic is behind them with 42% sequential growth in Q3 and healthy demand expected in 2021 as Boeing and Airbus return to full production and look to bolster inventories. HWM is a share leader in the airfoil market with 49% in 2019 and now up to around 60% between both hot section foils and cold. They expect their market-leading position to give them nice pricing power into 2022 and 2023 and commented at their Analyst Day earlier this year they capacity to handle higher volumes in each of the next three years without adding costs which will boost cash flows. Analysts have an average target for shares of \$27 with a Street High \$30 from Cowen and Argus. The latter this morning noting they expect earnings to double in the next 3-4 years with the worst of the pandemic behind them. Cowen thinks HWM is a credible turnaround story with strong cost controls and pricing power. They admit that the upgrade into strength isn't an optimal entry but the vaccine news should provide a nice floor for multiples in the space and their relative valuation is attractive. Short interest is 1.8% and down from around 4% in July. Hedge fund ownership rose 4.5% in Q3, Farallon Capital and Baupost both big buyers of stock, the latter a new 4.6M share position.

Hawk Vision:



Hawk's Perspective: HWM is a new Aerospace name to be looking at and definitely looks to be a strong story moving forward.

Confidence Ranking: \$\$