



FEATURED OPTIONS RADAR REPORT



Borg Warner Size Calls Position for Strong Auto Recovery

Ticker/Price: BWA (\$40.25)

Analysis:

BorgWarner (BWA) with 5,000 April \$37.50 calls bought on 11/23 from \$4 in the morning up to \$4.60 in the afternoon, trading 75X average with IV30 up 11.5% and the only notable open interest in the name. Shares traded well off the March lows and orderly channel back to the top end of YTD value where they're basing nicely. A run above \$39 sets up for a re-test of \$42-\$43 and longer-term measured move out to \$51 and clearing a 2-year base. The \$9.22B auto parts manufacturer trades 10X earnings, 1.05 sales and 13X FCF with a 1.8% yield and mid-single digit growth. BWA recently closed on their deal for Delphi Tech (DLPH) and now positioned for EPS over \$4.50/share in FY22 and revenues of \$15.7B. The deal gave them a much broader portfolio of propulsion products with a focus clean, efficient technology for combustion, hybrid and electric vehicles. BWA sees their broader TAM now about \$100B and their content opportunity doubling in hybrid and more-than-doubling in EV by 2025. The NewCo boasts an industry-best lineup of inverters, on-board chargers, and battery management systems and they continue to win content share in new builds with their 800-volt silicon carbide inverter and e-Turbo. BWA is coming off a strong quarter with China rebounding, margins expanding due to better cost controls, and FCF accelerating. Analysts have an average target for shares of \$44 and Street High \$55 from JP Morgan. MSCO cutting to Underweight recently as the firm sees challenging trade-offs of growth-over-market versus margins as highly profitable ICE solutions are replaced by more commoditized, solid state e-solutions. Short interest is 4% and down from around 10% recently. Hedge fund ownership fell 6.6% in Q3. An interesting catalyst upcoming is the SPAC-deal for EV battery maker Romeo Systems as BWA owns a stake in the company.

Hawk Vision:



Hawk's Perspective: BWA is one of the better positioned and better managed auto parts company, and looks to be inflecting into a trend higher, a name to consider at these levels.

Confidence Ranking: \$\$