Infinera Calls Accumulate in Size Lot Buys

Ticker/Price: INFN ($9.70)

Analysis:

Infinera (INFN) buyers opening the April $10 calls for $1.40, over 1350X and now also with 5,000 July $10 calls bought $1.90 to $2.05. INFN has seen a lot of bull flow lately including buyers on 12/10 for 3,000 July $10 calls, buyers on 12/3 for more than 2,000 April $9 calls, and buyers on 12/2 for 3,500 January 2022 $10 calls. INFN also has the April $8/$5 bull risk reversal in OI 10,000X from September. Shares have rallied sharply recently and breaking out of a two-year base and downtrend from the 2015 highs. INFN has a measured move to $12.50 but a lot of longer-term upside out of a huge volume shelf and room to $15.50. The $1.74B company trades 78X earnings and 1.25X sales with accelerating top and bottom-line growth through FY22 as they benefit from Huawei displacement, roll out their 800G products and gain further market share. INFN sees long-term benefits as well as more coherent optical networks shift from point-to-point builds to point-to-multipoint which will boost demand for their XR pluggable. Analysts have an average target for shares of $8 with a Street High $15 from Needham. The firm speculated in July that INFN was place to win a contract with Verizon (VZ) to upgrade their long-haul backbone using their 800G ICE6 tech. MKM upgraded to Buy on 11/18 citing increased adoption of coherent optical technology across multiple markets and long-term tailwinds as one of the principal beneficiaries of the ongoing digitization of our society. Short interest is 12.25% and down from 16% in August. Hedge fund ownership fell 2.5% in Q3, Gilder Gagnon and Howe and Park West both notable new buyers, the former over 9M shares.

Hawk Vision:

Hawk's Perspective: INFN has long been a low-quality name in a group with much better growth names and has made a strong move the last few weeks. There looks to be a potential recovery story here but one I have trouble chasing into this move.

Confidence Ranking: $$