



Advanced Auto Large Call Buy Adds to Size Open Interest

Ticker/Price: AAP (\$137.60)

Analysis:

Advanced Auto (AAP) massive trade late on 2/25 with 4000 January \$145 calls bought to open up to \$15 for nearly \$7M, and still has 2000 June \$140 calls, 2500 June \$145 calls, and 5000 June \$155 calls bought in open interest. AAP shares are back-filling the recent earnings gap and held up well this week, sitting above a key 50% retracement level near \$131 and looking to work higher. The \$9.65B retailer of auto parts trades cheap at 13.9X Earnings, 9.2X EBITDA and 16.66X FCF with a 0.73% yield. Forecasts see revenues growing 2.5% in 2020 with EPS seen growing 8-10% each of the next two years. AAP has been undergoing a turnaround under its new CEO with supply chain improvements, reducing organizational complexity, and implementing a cohesive strategy. AAP has been expanding margins under this plan and sees more room for improvement. Last quarter, Professional business led the growth rate, highlighted by Worldpac Canada and its Carquest Independent businesses. DIY online business continued to grow traffic and transactions, resulting in double-digit e-commerce growth in both Q4 and the full year. AAP is also launching a new mobile app in Q1 for its loyalty program Speed Perks. Analysts have an average target of \$165 and short interest hitting a three-year low at 3.2% of the float. Morgan Stanley out positive on 12/24 on AAP's \$200M deal for DieHard and has an Overweight rating and \$185 target. JP Morgan cut shares to Neutral on 1/13 with concerns on Macro factors. Hedge Fund ownership fell 4.2% in Q4 filings, Melvin Capital a top holder as its 3rd largest position and likely behind these call options while Starboard also a top holder with AAP at 9.92% of its portfolio.

Hawk Vision:



Hawk's Perspective: AAP sets up here and put in \$141 alert, a group that tends to outperform when Macro weakens, and some notable concentrated investors see value here.

Confidence Ranking: \$\$