



Aecom Call Spread Sees Near-Term Upside with Activist Starboard Involved

Ticker/Price: ACM \$47.7

Analysis:

Aecom (ACM) with buyers of 2,000 March \$50 calls yesterday and later 10,000 March \$50/\$55 call spreads opening around \$1, sizable trade in the name. ACM also had 500 March \$47.50 calls bought while the March \$45 calls remain in OI from buyers on 1-15, over 1200X. ACM has seen put buying in the February \$47.50 and June \$45 strikes, but likely hedging with the recently rally. Shares have pulled back to the low-end of January value around \$46 and the 38.2% Fibonacci of the rally since early January. A move above the 20-day MA at \$48.50 has room up to recent highs around \$50 and then a measured move to \$56. The \$7.71B company trades 12.89X earnings, 0.38X sales, and 11.4X FCF with low-double digit growth. ACM is guiding to low-single digit revenue growth. ACM is an activist situation with Starboard reaching a deal with the company on 11/22 and subsequently leading to the departure of their CEO. ACM announced the sales of their Management Services business for \$2.4B in October in a bid to unlock value, drive margin expansion and reduce its debt.

ACM is now a pure-play professional services firm with a focus on design, planning, architecture, engineering, and construction management. The slimmed down company is also more attractive as a deal target. On 1-13, Bloomberg reported that WSP had approached Aecom about a potential deal. Analysts have an average target for shares of \$49.50. Deutsche Bank raising their PT to \$56 while Citi moving to 'Positive Catalyst Watch' on 1-28 given the potential acquisition-related benefits. They see continued margin expansion, growth visibility, and cash "optionality," which should continue to drive shareholder value. Baird believes the ongoing deal talk is credible as the cost synergy potential could be significant, and the recent share price move higher has been inexplicable on a fundamental basis. They see a deal in the high \$50s. Short interest is 4% and up slightly from 2.8% in November. Hedge fund ownership rose 29.85% in Q3, Starboard Value with a 5.47M share position while Lyrical Asset Management, Engine Capital, and Interval Partners notable. On 11-26, a director bought \$8.5M shares on the open market at \$42.56 on behalf of Starboard.

Hawk Vision:



Hawk's Perspective: ACM is an interesting situation with all of the moving parts lately and quality trend for all of 2019. I have an alert set for \$48.75 out of this wedge.

Confidence Ranking: \$\$