Large Bull Spread in HR Services Leaders

Ticker/Price: ADP ($198.8)

Automatic Data (ADP) late day trade sold 2000 January $200/$170 put spreads to buy 2000 of the January $195 calls to open. ADP is not a very active name in the options market though saw January 2023 $185 and $155 puts open earlier this month 1275X and 1100X. ADP shares have been steadily pulling back since making new highs on 8/10 and sit on lower YTD value while just above a 38.2% retracement off the January 2021 lows and retesting a former breakout, also VWAP off the January lows comes into play at $190.50. ADP is one of the world's leading providers of cloud-based human capital management (HCM) solutions to employers, offering solutions to businesses of all sizes, whether they have simple or complex needs. ADP offers complete management solutions for HR administration, payroll administration, talent management, employee benefits, benefits administration, employer liability management, and other HCM and employee benefits functions. ADP is addressing the $150B global HCM market growing at 5-6% with secular trends including the gig economy, real-time payment, globalization of the workforce, and public cloud. ADP has market cap of $84B and trades 27.2X Earnings, 5.6X Sales and 62.7X FCF with a 1.87% yield. Forecasts see revenue growth of 6-7% annually the next three years with 9-10% EPS growth. ADP noted on its latest earnings call several secular growth drivers in HR services coming out of the pandemic including the hybrid work environment and regulatory related HCM solutions. Analysts have an average target of $215 with short interest low at 1% of the float. JPM cut shares to Underweight on 8/17 with a $224 target on valuation. Mizuho raised its target to $230 in early August after better than expected results. Hedge Fund ownership fell 4% in the latest quarterly filings, Fundsmith a notable concentrated holder.

Hawk Vision:

Hawk's Perspective: ADP is a solid growth name with valuation fair at a level on the chart that should hold.

Confidence Ranking: $$