



## FEATURED OPTIONS RADAR REPORT



### Specialty Finance Asset Manager Sees Large Put Buyer

**Ticker/Price: ARCC (\$18.17)**

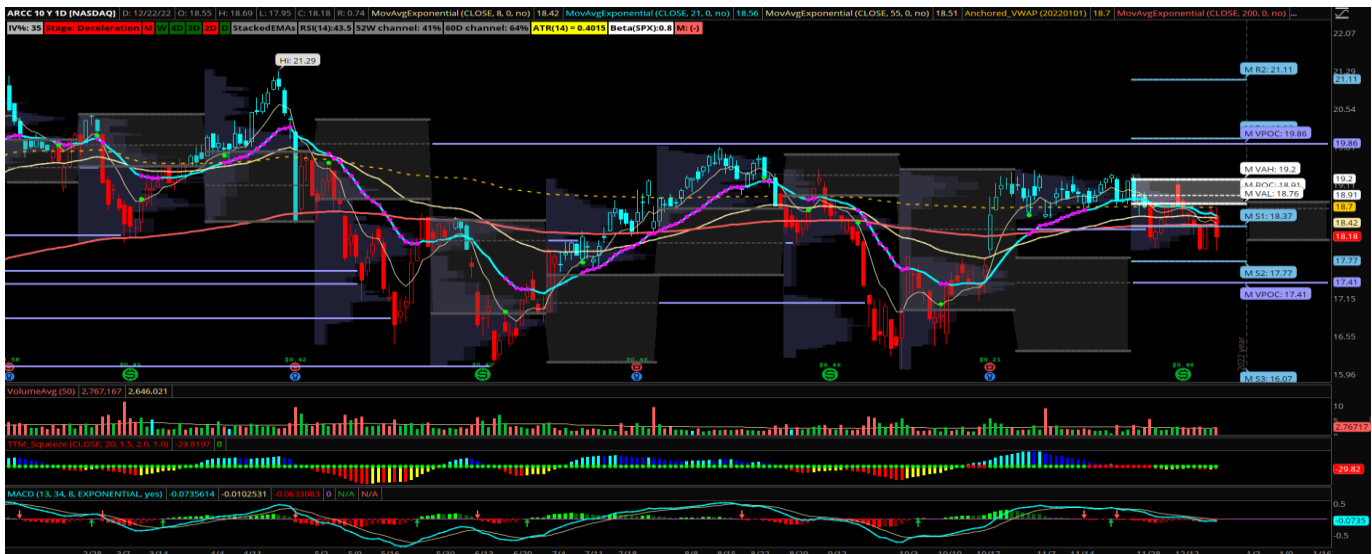
#### Analysis:

**Ares Capital (ARCC)** on 12/22 saw a large, unusual buyer of 15,000 February \$18 puts at \$0.55 and about \$900k in total. This follows buyers the past month in April \$17 puts at \$0.90 and 4000 Jan 2024 \$13 puts bought at \$0.83 while also buyers in March \$20 puts and June \$19 puts still in open interest. ARES also saw a small amount of opening put sales for 1500 June \$20 puts sold at \$2.45. Shares have been sluggish in this range between 18 and 19 the past two months but now slipping under the 200 EMA this week with some risk down to 17.40 where an untested VPOC sits.

Below that level does not have much support until the October lows at 16 and then a volume pocket down to 14.50. ARCC has held up decent this year with some asset management firms getting sold much harder so its interesting to see put buyers now start to look at ARCC. The \$9.4B company trades at 8.4x earnings, 9.0x sales, and a dividend yield at 10.4% while revenue is expected to grow +11% in FY22 and +17% growth estimated in FY23. ARCC is a specialty finance company, which is a closed-end, non-diversified management investment company. Its investment objective is to generate both current income and capital appreciation through debt and equity investments. It invests primarily in

United States middle-market companies. Its investment activities are focused on industries such as software and services, health care services, commercial and professional services, diversified financials. Average analyst target is \$21. Citi lowered its price target recently to \$21 from \$24 and keeps a Buy rating saying Ares reported better than expected origination activities in a volatile market and credit remained stable with its non-accrual ratio flat. However, the analyst dropped the price target to reflect increased risk of recession in 2023. ARCC commenced on a 8M share offering back in early November and expects to use the net proceeds to repay certain outstanding debts. With interest rates still relatively high it likely continues to cause pressure into 2023 on specialty finance managers like ARCC. Wells Fargo lowered their target to \$19 and still has an Overweight while Raymond James lowered to \$20.50. Short interest is at 4.0%. Hedge fund ownership rose 12.9% last quarter. Back in June, ARCC's EVP bought 300,000 shares at \$17.71-\$17.89 worth about \$5.3M.

#### Hawk Vision:



**Hawk's Perspective:** ARCC is a slower moving name but one with risks if rates continue to ascend or even plateau. Using the February \$18 puts for \$0.50 is a nice cheap way to play a move lower.

**Confidence Ranking: \$\$**