



Arconic Calls Hot into Separation Event

Ticker/Price: ARNC (\$33.35)

Analysis:

Arconic (ARNC) with a big breakout last week of a consolidation flag to new highs with a measured move target to \$40. ARNC has seen some unusual call buying recently with the Feb. 28th (W) \$31 calls having 2,990X remaining in OI and last week the \$34 calls opened 9000X while 4500 of the \$35 calls traded Friday. ARNC also has 1,100 April \$30 and 1,500 April \$31 calls bought in OI as well as 1250 July \$28 calls. The \$14.55B maker of lightweight metals saw the CEO as an active buyer of shares last year and a Director bought 5000 shares at \$29.50 in November. ARNC is trading 7.8X EV/EBITDA, 12.35X Earnings and 1X Sales. Forecasts are calling for revenue growth to return in 2021 with 2020 a flat year as it reshuffles the portfolio and sees an impact from the 737 while EBITDA growth seen at 3% and 6.3% respectively for 2020 and 2021. ARNC presented at the Cowen Aerospace conference last week after the Board recently approved the separation of the company. Analysts have an average target of \$36 and short interest is low at 1.3% of the float. CSFB raised its target to \$34 back in October and then to \$43 on 1/28 seeing the Q2 separation as a positive catalyst, and notes 2020 EBITDA growth will be driven by acceleration in narrow-body build rates as 737 Max recovers, jet engine growth is supported by two new plant ramp ups and spares restock cycle / JSF demand. GRP should see strong volume growth on new auto wins and ARNC gets full annualized benefit of \$260mm cost down /repricing gains further support the growth trajectory. As major aerospace contracts reset starting 2022 ARNC should be uniquely positioned for margin upside, adding another leg to the growth story. Argus upgraded shares to Buy this morning with a \$38 target, saying management has done a good job in setting and meeting expectations over the past two years and also sees its balance sheet as improved, adding that the current valuation on the stock of only 12-times its projected 2021 earnings undervalues its prospects. Hedge Fund ownership fell 4.66% in latest quarterly filings, Elliott a large concentrated holder and Kensico added to a large stake, now its 5th largest.

Hawk Vision:



Hawk's Perspective: ARNC has major momentum and most of the positioning is very short-term so one to keep an eye on next two weeks while the valuation story is worth a longer term view.

Confidence Ranking: \$\$