



Axalta Calls Accumulate into Multi-Month Lows with Strategic Review Ongoing

Ticker/Price: AXTA (\$26.75)

Analysis:

Axalta Coating (AXTA) shares are now back near August 2019 lows and the last two days have seen 10,000 March \$29 calls and 5000 March \$28 calls bought, a name already with significant call open interest and also has 3000 January \$35/\$25 bull risk reversals in open interest with the \$37 calls sold against. The \$6.43B maker of performance coatings trades 13X Earnings, 14X FCF and 9.4X EBITDA. AXTA has long been undergoing a strategic review and on 2/3 BMO with a \$35 target noting risk/reward is now positive and still sees the strategic review likely ongoing after management did not call it off during the Q4 report. Berkshire Hathaway has a \$737M stake as the largest holder. Axalta's outperformance versus the market rates benefited from new product introductions. In the fourth quarter, this included launching new vehicle wheel related products to expand its presence in that market and the launch of a new high-performance top coat for the agriculture and construction market. In terms of capital allocation on the latest call it notes "goal is to continue to pay down debt, to opportunistically repurchase shares and then to destine an appropriate amount of capital to M&A. And as I mentioned, we've been focused more on medium-sized to larger-sized M&A targets that can really move the needle for the company during the course of this year and as we come into 2020." JP Morgan upgraded shares to Overweight back in October noting it sees a 25% probability of a bid for the company.

Hawk Vision:



Hawk's Perspective: AXTA has long been a tease but back at attractive level and one could see Jan. \$25 puts to own upside calls as a nice reward/risk strategy.

Confidence Ranking: \$\$