



FEATURED OPTIONS RADAR REPORT



Large Bull Positioning in China Tech Leader Sees Stronger 2H from Trough Valuation

Ticker/Price: BABA (\$88)

Analysis:

Alibaba (BABA) will next report earnings on 5-26 and has seen a strong uptick in bullish options activity the past week starting with 25,000 September \$70 ITM calls bought for \$56.5M on 5/9 and since has also seen a large opening sale of 2000 October \$80 puts, a buyer of 6000 December \$90 calls for \$8.7M and June 24th (W) \$85 synthetic long position opened 6000X. BABA also still has a buyer of 10,000 July \$85 calls in open interest from a trade 4/29. BABA shares are looking to put in a double bottom near the \$75 level and bounced last week after filling that gap from March when shares jumped sharply. The double bottom is also exhibiting notable bullish weekly RSI divergence and this multi-year downward channel has potential to break to the upside in coming weeks with clearing the \$125 level the major inflection point. BABA continues to invest to build a more diverse app and business matrix, including Taobao Deals, TaoCaiCai, Freshippo Neighborhood, and Local services as it diversifies away from the core ecommerce business and Alibaba Cloud has been a standout performer. BABA held an Analyst Day in December noting the three key drivers of future growth are user growth, wallet share expansion across new categories and value creation for merchants. BABA currently has a market cap of \$217B and trades 10.7X EBITDA and 2X EV/Sales with a 4.6% FCF yield and revenues seen rising 25% this year before slowing to 5.8% growth in FY23 and then reaccelerating. BABA will likely have to reduce near-term forecasts due to the COVID lockdowns but longer-term expects a number of its initiatives to have better monetization and efficiency in the coming year as they have gone through the first stage of ramping up users and expanding geographical coverage. There is also some ongoing optimism that China is pulling back from its escalating regulatory threats to Tech companies. BABA upsized its buyback to \$25B in March that demonstrates management's confidence in the company's long-term, sustainable growth potential and value creation, and its commitment in returning capital to shareholders amidst compressed valuation. Analysts have an average target of \$175 with short interest low at 1.4% of the float. Benchmark lowered its target to \$220 and thinks the market has written off the value in key Alibaba assets in cloud, logistics, and international and local services.

Hawk Vision:



Hawk's Perspective: BABA July \$85 calls look attractive versus the \$80 level for one of the few China names one can trust due to valuation support.

Confidence Ranking: \$\$