

FEATURED OPTIONS RADAR REPORT



## Bullish Spread Buys into Industrial Services Company at the Heart of the Energy Transition

Ticker/Price: BKR (\$24.35)

## Analysis:

Baker Hughes (BKR) bullish spread on 11/11 sold 5000 November \$24 puts for \$0.35 and bought the January \$26 calls for \$1.05. BKR has seen buyers in size for the December \$28 calls this week as well as the January 2023 \$32/\$22 bull risk reversal and the April \$30/\$22 bull risk reversal both 2000X in mid-October. BKR has pulled back off of 52-week highs recently and back to year-to-date VPOC. The 50% retracement of the rally from July is down near \$23.50 and the low-end of a small volume node while the 200-day is at \$23.15. The \$25.25B company trades 20X earnings, 1.23X sales, and 5.8X cash with a 3% yield. BKR is coming off a strong quarter with their backlog hitting \$16B in aftermarket services and strong demand across subsea wellheads and flexible pipe systems. BKR has outperformed recently as they sharpen their focus growth within their industrial technology business which is being supported by LNG, energy transition, and industrial asset management demand. The business focuses on optimization tech for compression processes around CO2 and their pumping tech which is being used in water, desalination, and mining. The move also comes at a time when they see their core oilfield services and equipment business slowing down. BKR CEO piqued some interest in September when he acknowledged speculation that the company could be broken up in the future. He spoke at the Barclays conference early in the month and said that he continues to see the company best suited for now as one entity but would "continue to evaluate the best corporate structure for Baker Hughes as we execute on our strategy. Analysts have an average target for shares of \$30 with a Street High \$36. Northland positive on 10/15 into weakness while Cowen keeps shares as a top pick. The firm like their recent \$2B buyback announcement and while results may not drive much upside in the 2H, they'll continue to be strong. RBC starting at Outperform on 9/8 noting Baker provides investors with diversified exposure across the oil and gas value chain and its core compression competency provides growing exposure to an eventual energy transition. The firm also thinks BKR is positioned to generate improved levels of free cash flow through margin expansion. Hedge fund ownership rose 6% last quarter. Short interest is 9.25%.

## Hawk Vision:



Hawk's Perspective: BKR looks destined to test that 200-day at \$23.15 and think it sets up well for a reversal around the \$22-\$23 zone, a name that should continue to see positive flows with their investments and role in the energy transition story in 2022

## **Confidence Ranking:** \$\$