

## SPOTLIGHT OPTION TRADE



### Caterpillar Shakes Off Weak December Data, Expecting Improving Sentiment to Lift Shares

#### TRADE SNAPSHOT

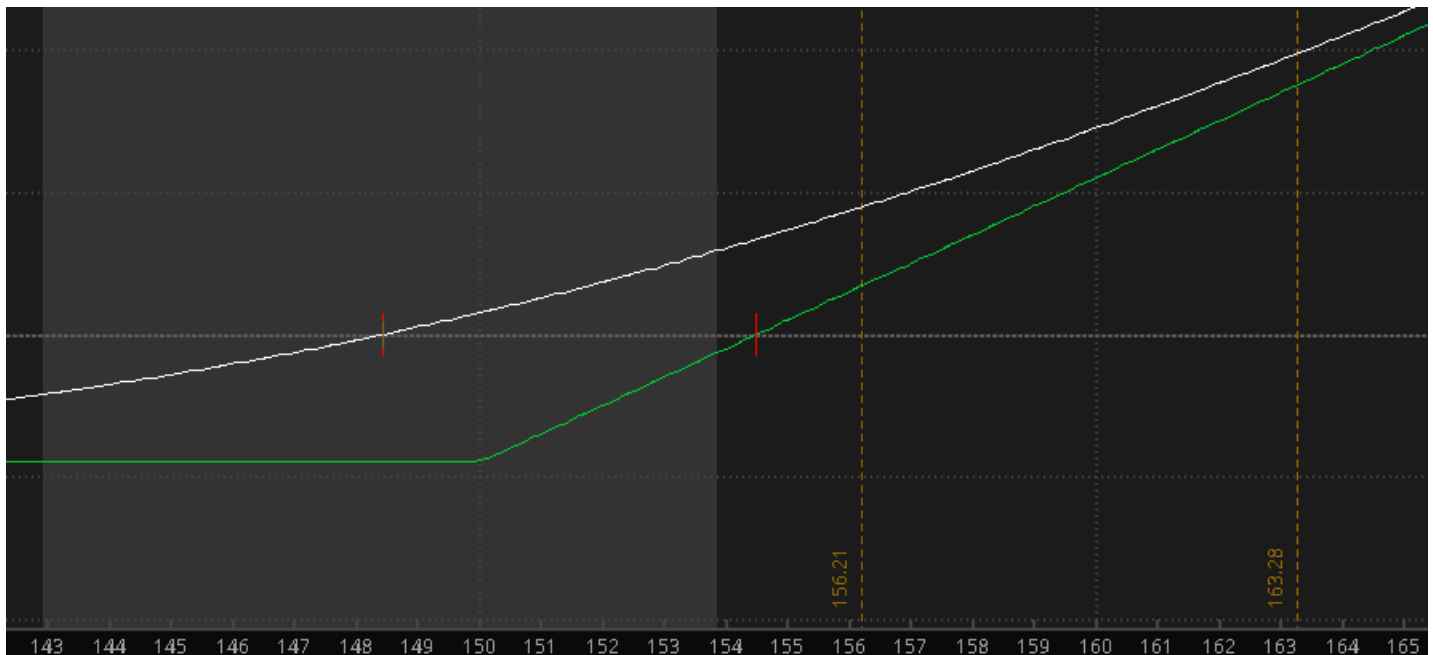
TICKER	CAT
SECURITY	Caterpillar
SECTOR	Industrial – Farm & Construction Machinery
CURRENT PRICE	\$148.44
LONG/SHORT	Long
TARGET	\$162
STOP	\$143
TIMEFRAME	6 Weeks

**Trading Strategy:** Long the CAT February \$150 Calls at \$4.50 Debit

**Net Debit/Credit:** Debit \$4.50

**Profitability Zone:** CAT Shares Above \$154.50 on February OpEx

**Options Volatility / Trade Simulator View:**





**Technical Analysis:** CAT shares emerged out of a long downtrend in October 2019 and shares stalled near 150 before consolidating for a few weeks and look ready to emerge higher out of its building bull flag pattern. All the key moving averages are rising supporting shares and weekly RSI in a healthy bull range while monthly MACD experienced a bull crossover for the first time since 2016 which preceded a big run higher in shares.



**Fundamental Analysis:** The \$83.2B company is trading 13.8X Earnings, 10.8X EBITDA, and 24.4X FCF with a 2.78% dividend yield. CAT's topline is seen contracting 3.3% in FY20 while EPS seen around flat Y/Y after 2017/2018 were mega-growth years coming out of a cycle low. CAT is looking to double its services growth between 2016 and 2026 from \$14B to \$28B with digital a key driver. CAT leading indicators such as past due rates and quoting activity are indicating a positive outlook. CAT can be a big beneficiary in 2020 as trade fears subside and manufacturing/construction activity is expected to pick back up while a focus in Infrastructure investments in the US into the Elections can also be a positive driver for shares. Analysts have an average target of \$145 on shares and short interest is low at 1.6% of the float. On 12-20 JP Morgan added it to the Focus List as a top machinery pick in 2020 and raised its target to \$178 from \$155 as CAT is most leveraged to an improving global economy. Goldman upped its target to \$156 in November on improving US construction machinery leading indicators. UBS and Deutsche Bank each out negative in October with concerns about dealer destocking and further earnings pressure continuing through 2020. Hedge Fund ownership fell 3.75% in Q3 filings.

### Options Activity:

Date	Description	Volume	Open.Int	Price	Delta	Impl Vol	Prob.ITM	Premium Paid	Symbol
1/2/2020	CAT 100 19 JUN 20 125 PUT	1,602	1,813	\$2.89	-0.16	29.29%	21.14%	\$446,958	.CAT200619P125
12/23/2019	CAT 100 21 FEB 20 135 PUT	5,363	1,922	\$1.92	-0.19	27.67%	22.55%	\$1,029,696	.CAT200221P135
12/12/2019	CAT 100 (Weeklys) 3 JAN 20 142 PUT	887	26	\$1.56	-0.31	20.84%	33.08%	\$141,033	.CAT200103P142
12/9/2019	CAT 100 21 JAN 22 145 PUT	350	1	\$25.50	-0.44	28.27%	62.47%	\$892,500	.CAT220121P145
10/31/2019	CAT 100 21 FEB 20 145 CALL	2,033	1,000	\$4.60	0.37	26.15%	31.58%	\$965,675	.CAT200221C145
10/31/2019	CAT 100 21 FEB 20 155 CALL	2,054	217	\$1.91	0.2	24.71%	16.40%	\$392,314	.CAT200221C155
10/31/2019	CAT 100 21 FEB 20 160 CALL	2,021	409	\$1.15	0.14	24.18%	10.91%	\$232,415	.CAT200221C160
10/25/2019	CAT 100 18 JUN 21 170 CALL	500	0	\$8.50	0.319	27.32%	21.46%	\$425,000	.CAT210618C170
10/3/2019	CAT 100 17 JAN 20 105 CALL	602	436	\$17.10	0.79	33.17%	73.27%	\$1,038,450	.CAT200117C105
8/28/2019	CAT 100 19 JUN 20 115 CALL	514	192	\$11.40	0.527	30.31%	42.53%	\$585,960	.CAT200619C115
8/16/2019	CAT 100 15 JAN 21 100 PUT	1,071	1,664	\$9.75	-0.28	31.95%	43.94%	\$1,076,355	.CAT210115P100
8/7/2019	CAT 100 17 JAN 20 100 PUT	2,471	3,274	\$3.45	-0.2	34.77%	27.15%	\$851,460	.CAT200117P100
7/16/2019	CAT 100 17 JAN 20 140 CALL	1,242	2,943	\$9.20	0.52	24.46%	45.01%	\$1,138,960	.CAT200117C140
7/5/2019	CAT 100 19 JUN 20 180 CALL	1,175	37	\$1.65	0.12	23.61%	7.98%	\$203,275	.CAT200619C180
5/15/2019	CAT 100 17 JAN 20 150 CALL	10,035	2,625	\$3.64	0.25	26.18%	18.95%	\$3,763,125	.CAT200117C150
5/15/2019	CAT 100 17 JAN 20 155 CALL	10,013	1,806	\$2.70	0.2	25.80%	14.83%	\$2,783,614	.CAT200117C155
5/1/2019	CAT 100 17 JAN 20 160 CALL	1,502	1,692	\$4.54	0.27	25.01%	20.96%	\$681,908	.CAT200117C160

**Potential Catalysts:** Earnings 1-31-20

**Disclaimer:****Not Investment Advice or Recommendation**

*Any descriptions "to buy", "to sell", "long", "short" or any other trade related terminology should not be seen as a recommendation. The Author may or may not take positions in any of the names mentioned, and is not obligated to disclose positions, nor position sizes.*

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