



Chegg Traders See Opportunity into Earnings Sell-Off

Ticker/Price: CHGG (\$40)

Analysis:

Chegg (CHGG) a quality name selling off after earnings this week, despite strong numbers, and back at the 55-MA with bullish flow the last two days. Yesterday, the April \$40 calls bought over 1,000X and adding to OI and today 400 July ATM \$40 puts sold to open for \$3.90. CHGG has some OTM February, March and April calls as well in OI. Shares are in a strong trend from the September/October lows and pulling back to the 38.2% retracement this week as well. The longer-term weekly has resistance back up at \$45 with a move higher targeting \$60. The \$4.86B company trades 41X earnings and 6.1X cash with strong growth projected with sales up 21.5% in FY21 and EPS up 25%+. The company continues to see wide adoption with 15M unique visitors per month and a growing, high-margin services business that added 2.5M members and 31% revenue growth. CHGG is a disruptive force in the direct-to-student learning market with a massive market opportunity. They're in the early stages of International Expansion with 18M potential students in the UK, Canada, and Australia vs 36M in the US. Analysts have an average target for shares of \$47.50 with 11 buy ratings and 1 hold. JP Morgan raising their PT to \$46 on 2-11 seeing the early results of Study Pack as promising. MSCO starting at Buy in November noting that the company's efficient customer acquisition should offset investor concerns about limited lifetime value of Chegg subscribers. Citi with a \$50 PT and positive on the long-term metrics seeing revenue CAGR of 20% through 2023. Short interest is 13.9% and down from around 17% in November. Hedge fund ownership rose 2.5% in Q3. Baillie Gifford a top holder with 14.4M shares.

Hawk Vision:



Hawk's Perspective: CHGG is an intriguing growth name and see no good reason why it is down and expect it to base and move higher from here.

Confidence Ranking: \$\$