



FEATURED OPTIONS RADAR REPORT



Put Sales Sees Limited Downside in Beaten Up Industrial Engine Company

Ticker/Price: CMI (\$231)

Analysis:

Cummins (CMI) a name that has pulled back and an interesting trade on 8/4 sold 600 March \$230 puts to open for \$19.50 to \$18.80 and this follows 400 December \$260 short puts opened 6/9. CMI has pulled back to its lower weekly Bollinger Band while VWAP off the March 2020 lows is down at \$213.50. CMI is now below its 200-day moving average and in an ugly trend while a move above \$241 can start a nice volume pocket recovery to \$255. Cummins is a global power leader that designs, manufactures, distributes and services diesel, natural gas, electric and hybrid powertrains and powertrain-related components including filtration, aftertreatment, turbochargers, fuel systems, controls systems, air handling systems, automated transmissions, electric power generation systems, batteries, electrified power systems, hydrogen production and fuel cell products. It was reported this week that the company is seeking to explore alternatives for the Filtration business and Cummins has been focusing on some opportunities in Hydrogen including a recent partnership with Chevron. The \$34B industrial now trades 12.45X Earnings, 9.3X EBITDA, and 25X FCF with a 2.3% yield and forecasts see revenues rising 22% in 2021 and 7% in 2022 with EBITDA up 21.8% and 11.2% respectively, a cheap valuation name. Analysts have an average target of \$290 with short interest at 2.2% of the float. CSFB raised its target to \$307 seeing a better set-up for next year. Vertical upgraded to Buy on 7/26 with a \$280 target while Cowen on 7/16 upgraded to Outperform with a \$284 target on a higher Class 8 forecast. BAML sees more internal combustion engine wins and hydrogen wins boosting shares with \$20 EPS likely through the next cycle. Goldman is at Buy and sees upside from share gain opportunities across diesel power trains and scope for accelerating electrolyzer orders but notes the trucking market spot indicators have peaked. Hedge Fund ownership fell 3.7% in the latest quarter.

Hawk Vision:



Hawk's Perspective: CMI valuation is looking quite attractive from a longer term perspective but with a potential peaking truck cycle and ugly trend it has a lot of work to do before coming back into favor.

Confidence Ranking: \$