



FEATURED OPTIONS RADAR REPORT



Railroad Leader Sees Bullish Positioning Ahead of Earnings

Ticker/Price: CP (\$77.11)

Analysis:

Canadian Pacific Railway (CP) on 1/26 saw buyers for 1000 March \$77.50 calls at \$2.15 and 2000 of the February \$77.50 calls bought for \$1.45 while also a buyer for 1500 OTM Feb \$80 calls at \$0.50 and all in total about \$600K in call premium bought ahead of earnings next week on 1/31 after the market closes. CP also still has Jan 2024 \$72.50 short puts in open interest from sellers at \$4.60 last month and 700 June \$75 short puts in OI sold at \$4.70. Shares have been rangebound to start the year but holding above 200 day EMA support at 75 and potential to work above 80 which is top of monthly value area. The stock built up a large coiled weekly consolidation the past year and was quite resilient last year during the bear market actually closing 2022 slightly positive. CP has its all-time highs at 84 which would be a first target on upside then the 100 level is a logical long term target. Support is seen at 75 and 72.50 being the 2021 yearly VPOC. The \$71.5B company trades at 22.5x earnings, 9.8x sales, with FCF yield at 3.7% while revenue is expected to grow +30% in FY23. The Company provides rail and intermodal transportation services over a network of approximately 13,000 miles, directly serving the principal business centers of Canada from Montreal, Quebec, to Vancouver, British Columbia, and the United States Northeast and Midwest regions. Average analyst target is \$86. Scotiabank upped its target to \$83 USD and keeps a Sector perform while Deutsche Bank upgraded in late November to Buy from Hold and a new price target of \$98 from \$80. The firm believes very little of the \$1B in synergies from the Kansas City Southern (KSU) deal is reflected in CP's share price today, which the firm says should begin to take hold starting in Q1 of next year after final approval from the Surface Transportation Board. The firm notes Canadian Pacific is the highest quality railroad from an operational perspective with the biggest volume growth opportunity. The firm is now very close to the start of integration. The firm is positive on the outlook for transportation equities in 2023. The firm estimates the trough in earnings growth will likely be in Q2, followed by a prolonged period of improving year-on-year growth. This is an important consideration in cyclical investing, as negative revisions closer to the bottom typically translate to higher multiples and higher equity values. Short interest is at 2.4%. Hedge fund ownership rose 1.6% last quarter.

Hawk Vision:



Hawk's Perspective: CP is a name ripe for a repricing as industrials are leading the new bull market move higher. Can trade long against a close below 75 here.

Confidence Ranking: \$\$\$