



FEATURED OPTIONS RADAR REPORT



Bulls Accumulate Calls in Large Cap Tech Company that Could Make Key M&A Move

Ticker/Price: CSCO (\$45.90)

Analysis:

Cisco (CSCO) shares have quickly given up the strong gains on earnings as Tech stocks sold off the past week but has seen a surge in bullish options positioning including a buyer of 6000 March \$45 calls for \$4.50 on 8/26, a buyer of 4000 March \$47.5 calls on 8/25, the January 2024 \$55 calls bought 7500X with the June \$52.50 calls sold in a large spread on 8/25, buyers in December and March \$50 calls and 5000 December \$47.50 puts sold to open. CSCO also has 20K December \$55 short calls in open interest and 4000 December \$45 calls were bought 6/22. CSCO's recent high was rejected at a 38.2% retrace and VWAP off its highs making \$50 a key level to get above. VWAP off that May gap-down low near \$44.35 seen as support. Cisco designs and sells a broad range of technologies that power the Internet with platforms across networking, security, collaboration, applications and the cloud. Infrastructure Platforms; Applications; Security and Other Products are its segments. Cisco has actively been transitioning to a software recurring model and away from hardware the past few years leading to a better margin/growth profile and potential to re-rate higher. Cash allocation is another potential catalyst for shares, reports earlier this year Cisco offered \$20B+ for Splunk (SPLK). Cisco has been enhancing their security and analytics portfolio for years, between acquisitions of Duo Security, OpenDNS, AppDynamics, and ThousandEyes. Splunk is the market leader today in cyberanalytics (by a wide margin). In combination with Cisco's existing assets in security and analytics, this could better position them for newer architectural approaches such as Extended Detection & Response (XDR). Cisco is coming off a strong quarter as both supply chain showed signs of easing and network investments proved resilient. Orders were up 15% QoQ, with three of the four segments growing QoQ at the same rate of historical levels and pointing to a stable environment. 400G, 5G, WiFi 6, and 400ZR/Optical are key supportive product cycles. Cisco's shift to higher growth recurring software/services is positive and helps support the stock, with software now +40% of revs and growing. Management called out that their Webscale business is now approaching ~\$3bn in annual scale with orders growing at ~50% over the past 4 quarters. Cisco gave no indication of a broader macro slowdown except noting that customer verticals such as retail, financial services, and healthcare are seeing slight pressure. The company added that they see healthy spending from most other verticals. Cisco has a market cap of \$192B and trades 12.1X Earnings and 25.75X FCF with a 3.3% yield. Analysts have an average target of \$55 with short interest low at 0.9% of the float. Cowen raised its target to 60 after the quarter on increased visibility and attractive risk/reward. CSFB raised its target to 65 on the strong outlook from management.

Hawk Vision:



Hawk's Perspective: CSCO seems likely to do a big deal by year-end and right now an ugly Tech tape but if stabilizes offers cheap upside calls looking at March 2023.

Confidence Ranking: \$\$