



Option Traders See Opportunity in Concho Resources

Ticker/Price: CXO (\$90.75)

Analysis:

Concho Resources (CXO) a good looking set-up in Oil and Gas that held up above its 200 MA with recent consolidation and trying to work higher out of that flag as Oil prices have finally put in a strong session. CXO recently tested a \$95 level that was a key breakdown point in 2019 and working out of its 2019 downtrend now. CXO has seen some bullish positioning lately with 1000 Feb. 14th (W) \$91 calls opened, some buyers in June \$85 and \$90 calls, and a buy-write with 4000 Jan. 2021 \$120 calls on a large equity buy. CXO also has over 12,000 January 2021 \$90 calls and 6800 of the \$80 calls in open interest from size buys back in August. After the Anadarko (APC) deal I highlighted CXO on 4/22/19 as a most likely next M&A target with its superior margins and EBITDA growth. CXO in August with news it was weighing a \$1B sale of its New Mexico assets and on 9-5 Bloomberg highlighted it as a potential target for Exxon (XOM). The \$18B Company trades 6X EBITDA and expects to post 12.8% EBITDA growth in FY20 after 9% growth in FY19. CXO has a high quality asset portfolio in the Permian. CXO continues to see strong FCF and return capital, a \$1.5B buyback authorized in 2019 and is improving its portfolio and cost structure. Analysts have an average target of \$105 with short interest low at 3.9% of the float. MSCO upgraded shares this week while downgrading most of its peers noting the Q3 operational turnaround. Guggenheim started CXO at Buy on 1/6 with a \$105 target seeing an improving company after a difficult 2019. Hedge Fund ownership jumped 14% in Q3 filings.

Hawk Vision:



Hawk's Perspective: CXO is in a tough group but could see some rotation start to Energy and love the technical view and best of breed status, see it has tradable versus \$87 or \$84 depending on your risk profile.

Confidence Ranking: \$\$