



FEATURED OPTIONS RADAR REPORT



Upside Spreads See New Highs for Spirits Leader

Ticker/Price: DEO (\$198.25)

Analysis:

Diageo (DEO) early buyer 1,300 October \$200/\$210 call spreads for \$3.30 and volumes running over 2900X on the day, nearly 30X average for the leading Spirits name. DEO sees little notable options flows. Shares have been in a strong trend gapping higher in November and key support just below at the rising 21-EMA and prior range breakout around \$196.50. The measured move off the recent range is around \$215. The \$117B company trades 24.65X earnings, 6.66X sales, and 29.5X cash with a 1.85% yield. DEO delivered a strong quarter in July with 20% growth in the US as consumer demand jumped and distributors and other retailers boosted stock levels. They continue to see broad-based strength in tequila, scotch, and Chinese white spirits while growing their off-trade market share to 85%. DEO has been investing in their capacity, digital experience, and customer acquisition strategy over the last year to position them well for the post-pandemic environment which should see strong return to on-premise sales. They also remain active in M&A with deals for Aviation American Gin and Mezcal Union and plenty of dry powder left to add to their portfolio, especially within the ready-to-drink category. Analysts have an average target for shares of \$193.50 and a Street High \$225. JP Morgan upgrading to Neutral in June noting that DEO executed well during the pandemic and increasingly looks set for another year of strong organic EBIT. Argus upgrading to Buy on 6/4 as the firm expects DEO's U.S. business to show continued improvement thanks to its strong brands and market share gains in the spirits segment. They also believe Diageo's earnings in Europe will recover after falling 25% last year due to the pandemic as bars and restaurants reopen. Short interest is negligible. Hedge fund ownership fell 3.5%. AKO Capital a notable buyer of stock.

Hawk Vision:



Hawk's Perspective: DEO is a high-quality name and like the risk/reward on these spreads if we see stability around the 21-EMA as they continue to gain shelfspace and benefit from the reopening

Confidence Ranking: \$\$