



FEATURED OPTIONS RADAR REPORT



Unusual Call Buying in Top Lab Testing Co. as Virus Resurges

Ticker/Price: DGX (\$152.80)

Analysis:

Quest Diagnostics (DGX) traded more than 7000 calls on 8/31 which is 19X average and nearly 50% of its total call open interest while IV30 rose 7.3%. DGX traded 2000 OTM September \$155 calls but most notable were the 2000 October \$145 calls that traded with buyers paying \$8.40 to \$9.30. DGX does not have a lot of other notable open interest, the January \$170 calls sold to open 2000X back on 8/16. DGX closed the session at highs as it works out of a nice bull flag and its closest peer Lab Corp (LH) has also been strong with call accumulation. DGX can measure out of this pattern to target a run to \$162. Quest is the world's leading provider of diagnostic information services that plays a crucial role in the healthcare ecosystem, empowering people to take action to improve health outcomes. Revenues in 2020 were broken down into 41% from routine clinical testing, 29% from COVID testing, 22% from advanced diagnostics and 5% from anatomic pathology testing. DGX has a very strong moat serving 50% of US hospitals and physicians processing 1.8M tests per day. The total US Lab Market is estimated around \$95B with 65% physician and 36% hospital. DGX has around a 25% market share in the independent lab segment. DGX held an Investor Day in March outlining key growth drivers as Health Plans, increasing share in the hospital health systems market, accelerating advanced diagnostics growth and DTC testing. It set a 2022-2024 revenue CAGR of 4-5% with EPS growth of 7-9%. DGX currently has a market cap of \$18.75B and trades 18.7X Earnings, 1.7X Sales and 10X FCF with a 1.62% dividend yield. DGX's My Quest patient portal now has more than 17M patients. DGX's forecast for FY22 is pricing in the worst case from PAMA cuts next year. Analysts have an average target of \$150 and short interest is at 6% of the float, down 33% Q/Q. UBS upgraded shares to Buy in May positive on the base business recovery and multiple expansion with a stable outpatient reimbursement backdrop putting industry fundamentals at the best in at least fifteen years. Mizuho recently raised its target to \$166 noting the recent surge in COVID PCR testing is back and potential upside from federally funded COVID screening programs for schools & employers.

Hawk Vision:



Hawk's Perspective: DGX has a beautiful chart and want to see how much of this volume sticks in open interest, a clear case of likely upside to estimates though not a very strong grower, the stock is cheap and it has dominant market share with upside drivers.

Confidence Ranking: \$\$