



Unusual Bullish Action in Potential Bottoming GrafTech

Ticker/Price: EAF (\$11.75)

Analysis:

GrafTech (EAF) with 2,285 April \$15 calls bought for \$0.35 with IV perking up, name that saw some Feb. \$12.50 puts sold to open on Friday over 9000X and a bunch of bullish January open interest recently exercised long stock with short puts ITM. EAF shares are building a long weekly basing pattern, an inverse head and shoulders look, and a move above \$14.50 can target a run to \$19. The \$3.5B company develops graphite and carbon based products and screened well in the annual outlook among peers. Shares trade 6.9X EV/EBITDA and with a 20% FCF yield and 2.83% dividend yield. Forecasts are calling for revenues, EPS and EBITDA to remain under pressure in FY20 after declining in FY19. EAF is a leader in Graphite Electrodes which are highly engineered and mission critical in the steelmaking process with healthy consumption trends. EV battery demand has caused tightness in the petroleum needle coke market, its primary raw material but has a wholly owned Seadrift facility that generates 2/3 of its needs at low costs. Analysts have an average target of \$14.70 and short interest is high at 18.8% of the float. BMO cut shares to Perform on 12/17 noting the majority shareholder overhang on shares with an inventory overhang likely lasting into 2021. However, EAF has a four year contract lock-in allowing it to ride out electrode price volatility. Hedge Fund ownership declined modestly in Q3 filings.

Hawk Vision:



Hawk's Perspective: EAF is an interesting name though obviously struggling fundamentals in a tough group. I like the longer term potential on this bottoming pattern playing out as a small speculative own.

Confidence Ranking: \$\$