



## FEATURED OPTIONS RADAR REPORT



### Large ITM Call Buy Sees Long-Term Trend Shift in Aerospace Manufacturer

**Ticker/Price:** ERJ (\$15.88)

#### Analysis:

**Embraer (ERJ)** with a block of 1,980 January 2024 \$10 ITM calls bought today for \$7.80, pulling back to the rising 200-MA this week and forming a big weekly flag under \$19. ERJ has seen bullish flow recently into the February \$1750 calls, over 6000X, while the February \$20 OTM calls bought 5650X on 1/13. Shares are consolidating in a big weekly flag under \$18 and poised to clear a downtrend from the 2014 highs with room back to \$20 in the near-term and \$25 another notable volume node. The \$2.8B company trades 51X earnings, 0.60X sales, and 9.7X FCF. ERJ has been a rebuilding story since 2020 as they looked to maintain liquidity in the face of the pandemic and underwent a massive restructuring that has positioned them well for the current recovery. The Brazilian aircraft manufacturer is about 90% exposed to business jet and regional/domestic travel markets, both of which have seen demand steadily tick higher into 2022, while the company is leaner and more focused on efficiency which is helping the balance sheet. They see opportunities in 2022 for growth through higher replacement cycles, regional aviation development in emerging markets like India, and potential changes to China's aviation policy which has constrained their offerings to regional airlines in the country since 2018. ERJ also recently announced a plan to spin out their eVTOL business, Eve, and merge it with a SPAC vehicle Zanite Acquisition (ZNTE). ERJ will retain about 80% ownership in the company -- which will house their urban air mobility assets and IP -- and their partnership will allow for cost advantages for both sides as they look to scale into the emerging UAM market. Eve has a pipeline of more than 1700 orders valued at near \$5B. Analysts have an average target for shares of \$20.50 with a Street High \$28. MSCO upgrading shares to Overweight this morning with a \$23 PT. The firm notes that ERJ's legacy operations are largely intact and they're growing more positive on the stake the company will retain in its eVTOL business, Eve, following the recent combination agreement. UBS positive on 11/11 seeing a multi-year FCF story emerging as the company is focused on improving operations while the business jet demand environment is at its best in over a decade. Hedge fund ownership fell 9% last quarter. Short interest is 2.5%.

#### Hawk Vision:



**Hawk's Perspective:** ERJ has a lot of moving parts but like the story that is emerging and shares should continue to improve throughout the next 12-18 months as the value unlock story becomes clearer and the aerospace environment firms up

**Confidence Ranking:** \$\$