Earnings Snapshots 1/24/2022

MSFT, TSLA, AAPL, V, CAT

Microsoft (MSFT) will report results 1/25 after the close with the Street looking for $2.31 EPS and $50.86B in Revenues (+18%) and Q3/FY22 seen at $2.17/$48.22B and $9.22/$197B. MSFT shares have closed lower on earnings four of the last six reports with an average max move of 3.85%. The $2.2 trillion software leader trades 28.1X Earnings, 11X EV/Sales and has a 3% FCF yield. Microsoft stands out as very uniquely in the technology world given its strong presence across all layers of the cloud stack including applications platforms and infrastructure. MSFT is well-positioned to capitalize on digital transformation spending with sustained double-digit topline growth alongside continued margin expansion. Azure continues to gain market share, with growth coming from both new workloads and data center migrations. Office 365 has potential for the company to double its installed base of ~300M users to 500M. MSFT recently announced plans for the acquisition of Activision as it moves further into gaming and the metaverse. Microsoft represents a rare combination of strong secular positioning and reasonable profitability-based valuation within the software space. Capturing share of IT budgets as workloads shift to the cloud serves as the foundation for Microsoft's durable double-digit top line growth rate, while improving gross margins, opex growth profile underpacing gross profit dollar growth and a solid capital returns push the overall total return profile to high-teens CAGR through FY24. Analysts have an average target of $370 with short interest low at 0.6% of the float. BAML recently reiterated MSFT as a Top Pick with a $365 target on strong partner checks seeing upside to Azure growth. MSCO highlights five factors to watch into the print, the trajectory of Azure growth, on-premise server products, benefits from Office 265 price increases, impact of the Nuance deal, and FX margin headwinds. Citi lowered its target to $376 seeing a healthy quarter but Azure growth could moderate on tougher comps and seasonally weaker bookings. On the chart MSFT shares broke down hard last week towards the rising 200-day moving average at $292.50 and the $280 level is VWAP from the 2021 breakout that could be a target for support. The $310 level is seen as resistance on a rebound. MSFT options are pricing in a 6% earnings move and 30-day IV Skew at +7.2 compares to a +3.1 52-week average. MSFT's put/call open interest ratio is at the 67th percentile and average IV30 crush is –9.1%. MSFT sees a ton of options flow and call sellers been active in the name but also 5000 June $265 puts sold to open on 1/18 and 5000 Mar. 4th (W) $340 calls bought on 1/20.

Trade to Consider: Long the **MSFT** Jan. 28th (W) / February $285 Put Calendar Spreads at $3.60 Debit

Tesla (TSLA) will announce quarterly results 1/26 after the close with the Street expecting $2.31 EPS and $16.35B in Revenues (+52.2%) and Q1/FY22 seen at $2.08/$16.66B and $9.27/$75.93B. TSLA shares have closed lower five of its last seven earnings reports with an average max move of 5.5%. The $947B EV leader trades 102X Earnings, 55X EBITDA and 12.4X EV/Sales with revenues seen rising 45% in 2022 after 66% growth in 2021 and EBITDA seen higher by 51% in 2022 after 95.5% growth in 2021. Tesla reported preliminary Q4 vehicle deliveries of about 309K (+71% Y/Y) and production of 306K, well above the Street consensus. Tesla is nearing start of production for the Model Y at both its Austin and Berlin plants. Austin and Berlin ramps will be a key factor to monitor for production, deliveries, and auto gross margins in 2022 given the introduction of new product/manufacturing technologies and ongoing supply-chain related challenges. Investors will be focused on new factory progress, the product roadmaps for Cybertruck, Semi, and $25K-EV, semi/component supply environment, a wider release of FSD beta, and gross margins given ongoing cost pressure from component shortages but also the continued mix shift toward the higher margin Model Y and a series of price increases in CY21. Analysts have an average target of $1025 and short interest is low at 3.2% of the float. MSCO raised its target to $1300 after the preliminary Q4 numbers on signs that the industry leader is accelerating its lead over its EV peers. MSCO suggests looking for Berlin, Austin, Gigapress, structural pack, many new model intros and other developments to enter the narrative in 2022. Jefferies raised its 2022/2023 estimates into the report with a $1400 target and notes expectations for an updated product plan including a lower-end model. New Street has a $1580 target seeing the ramping of new factories leading to 1.8M production run rate by the end of 2022 and sees TSLA breaking the 30% gross margin bar. On the chart TSLA broke key support last week and filled a gap from December while its 200-day moving average is way down near $812 and the $895 level is a 50% retracement while $850 potential support as VWAP off the 2021 lows and is the 34-week EMA. Tesla options are pricing in an 8.2% earnings move with 30-day IV Skew at +4.3 comparing to the +6 52-week average. TSLA's put/call open interest ratio is at the 18th percentile and average IV30 crush is -15.3%. TSLA has mostly seen mixed flows with some large opening sales in March $1300 and $1400 calls. A large buyer of 4000 September $1125 calls on 11/22 is positioned for upside later this year.

Trade to Consider: Sell the **TSLA** February $1110/$1100/$800/$790 Iron Condor for a $4.40 Credit

Apple (AAPL) will report earnings 1/27 after the close with the Street consensus at $1.89 EPS and $118.55B in Revenues (+6.4%) and Q2/FY22 seen at $1.33/$90.87B and $5.75/$382.6B. AAPL shares have closed lower the last five earnings reports with an average max move of 5.1%. The $2.687 trillion Tech leader trades 26.2X Earnings, 7.35X Sales and 34.25X FCF with a 0.54% dividend yield and a ton of cash. Current estimates call for 4-5% annual revenue growth and 2-5% EBITDA growth, a weak growth outlook that may be tough to sustain an elevated multiple compared to historic norms unless it acquires growth. Expectations are for Apple to see moderating growth of the Services segment. Analysts have an average target of $180 and short interest is less than 1% of the float. Wells Fargo raised its target to $205 last week expecting commentary on an improving supply chain and sees further monetization of its installed back through an expanded product portfolio. MSCO noted that upside looks priced in and expects in-line guidance, seeing Apple as a defensive/quality outperformer in tough markets and it tends to Outperform ahead of product cycles. Deutsche Bank raised its target to $200 seeing Street consensus for 2022 growth too low. Wedbush with a recent note seeing Apple pursuing sports content as a smart move. Loop raised its target to $210 seeing upside to iPhone unites and ASPs. Piper sees a favorable 2022 set-up into 5G adoption along with strong growth from wearables and services while Healthcare/Auto are potential major future growth markets. JPM sees a modest Q1 beat coming while the Q2 outlook will be the driver for shares and sees positives as headwinds abate from the supply chain. On the chart AAPL shares broke down under the 55-day moving average last week and nearing 2021 lower value at $159 as potential support while its 200-day is down at $147.40 which aligns closely with a long weekly rising channel support and key volume node and VWAPs. AAPL now has plenty of overhead resistance on a bounce at the $170 level and closed Friday right at VWAP off the October lows. Apple options are pricing in a 4.6% earnings move and 30-day IV Skew at +7 compares to the +2 52-week average. AAPL's put/call open interest ratio is at the 84th percentile and average IV30 crush is -12.7%. AAPL opening put sellers at the expirations through Feb. 11th (W) have been active at $170 and $165 strikes. AAPL has 40,000 February $170 calls in OI from a buyer back in October.

Trade to Consider: Long the **AAPL** Feb. 4th (W) $165/$170/$175 Call Butterfly at $1.05 Debit

Visa (V) will announce results 1/27 after the close with the Street estimate at $1.70 EPS and $6.79B in Revenues (+19.4%) and Q2/FY22 seen at $1.66/$6.81B and $7.04/$28.24B. V shares have closed lower five of its last eight earnings reports with an average max move of 3.3%. The $450B payments leader trades 24.5X Earnings, 22X EBITDA and 15.6X EV/Sales with revenues seen rising at a 15% CAGR the next two years and EBITDA ~ 17%. V's mid-quarter update on 12/1/21 showed the quarter tracking ahead of estimates but December saw cross-border travel headwinds emerge as a result of Omicron. Market confidence in the return of cross-border travel would be a key catalyst for V shares. Visa authorized a new $12B buyback in December. Analysts have an average target of $275 and short interest is low at 1.4% of the float. Barclays lowered its target to $250 last week and thinks Visa will continue to recover past 2019 spending levels. Mizuho cut shares to Neutral with a $220 target seeing a shortened cash to card conversion runway which has been the main driver of Visa growth and also sees secular challenges from net competitors weighing on volumes. On the chart V sold off sharply Friday back below VWAP off the recent lows and 2021 VPOC also breaking back under all key moving averages after its rally failed at trend resistance. It closed Friday right near VWAP off the March 2020 lows. Visa options are pricing in a 5.6% earnings move with 30-day IV Skew at +2.7 comparing to the +1.6 52-week average. V's put/call open interest ratio is at the 43rd percentile and average IV30 crush is just -3.35%. V has seen some buy-writes use April $235 and March $245, $250 calls and had a buyer 2000 June $220 calls on 12/31.

Trade to Consider: Sell the **V** Jan. 28th (W) $210/$215 Call Spreads for a $1.50 Credit (Bear Call Spreads)

Caterpillar (CAT) will release results 1/28 before the open with the Street looking for $2.26 EPS and $13.15B in Revenues (+17.1%) and Q1/FY22 seen at $2.79/$13.29B and $12.38/$56.59B. CAT shares closed higher last quarter on results after being lower twelve of the prior fourteen with average max moves of 3.95%. The $117.2B machinery leader trades 17.3X Earnings, 2.4X Sales and 13.6X EBITDA with revenues seen rising 12.7% in 2022 after 20.3% growth in 2021 and EBITDA at 19.3%. The set-up into this quarter and 2022 likely is a strong demand & pricing environment with offsets from supply chain and price pressures. CAT should see further strength from Resources & Energy while its large exposure to Construction Equipment may limit upside. Supply constraints are limiting dealer equipment inventories. Analysts have an average target of $235 with short interest low at 1.1% of the float. Citi raised its target to $230 more positive on pricing in 2022 leading to higher margins. UBS upped its target to $250 noting 2023 margin potential is being underappreciated. Bernstein upgraded to Outperform in December with a $240 target citing low expectations and a beneficiary of looser China monetary policy. On the chart CAT shares pulled back last week to its flat 200-day moving average and retested the upper end of one-year value. CAT's weekly MACD has emerged out of a long negative period and now positive and the recent base breakout has unfinished business to its $240 measured move target. CAT options are pricing in a 3.85% earnings move and 30-day IV Skew at +4.6 compares to the +1.5 52-week average. CAT's put/call open interest ratio is at the 70th percentile and average IV30 crush is -8.35%. CAT has not seen a ton of large positioning, the March $200 short puts in OI over 3000X and $230 long calls around the same amount while Jan. 2023 $220 calls most notable with more than 12,000 in OI from size buyers on 11/2.

Trade to Consider: Long the **CAT** Jan. 28th (W) $215/$225 Call Spreads at $3.35 Debit

Disclaimer:

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