OptionsHawk

Earnings Snapshots 10/18/2021

NFLX, IBM, TSLA, SNAP, HON

Netflix (NFLX) will report quarterly results 10/19 after the close with the Street consensus at $2.56 EPS and $7.48B in Revenues (+16.2%) with Q4/FY22 seen at $1.10/$7.67B and $12.87/$34B. NFLX shares have closed lower on earnings six of the last seven reports with an average max move of 8.6%. The $280B streaming media leader trades 48.75X Earnings, 10.2X Sales and revenues seen rising 18.5% in 2012 before entering a multi-year 12-15% annual growth period while EPS seen rising 72% in 2021 followed by 20-30% annual growth. NFLX has a large subscriber base and has demonstrated strong pricing power while its original content strategy has been a key turning point though more recently lapping tough subscriber comps and facing more competition in the streaming space for engagement. NFLX remains a margin expansion story with FY26 EBIT margins seen above 33% from 2020 levels of 18.3%. NFLX has ~ 210M subscribers today with plenty of room to expand to a global addressable market of around 645M ex-China for broadband households and 1.6B mobile. Nielsen measures streaming media at only 27% of US video media consumption and Netflix is only at 7% total market share of that total consumption. Netflix has passed along a series of price increases to consumers that have had temporary impacts on churn and gross subscriber addition dynamics. NFLX is also becoming a strong FCF story with content spending costs leveling off, pricing increases kicking in and demonstrating strong operating leverage with FCF growth seen at a 167% CAGR through 2026. Looking at this coming quarter the consensus is for 3.7M paid subscription adds (guidance was 3.5M). Netflix co-CEO Ted Sarandos said recently that Korean thriller TV series 'Squid Game' is currently the No. 1 show on the platform and is set to be Netflix's biggest hit of all time. Sensor Tower APAC app downloads in Sept surged (+15% y/y, +26% m/m) when Squid Game was released in mid Sept, and the content slate for Q4 sets up for a potential optimistic outlook though Q3 data checks show that mobile app downloads and DAUs continue to be under pressure on tough y/y comps. According to Sensor Tower, worldwide Netflix mobile app downloads were down 13% y/y but up 7% q/q. Analysts have an average target of $630 on shares with short interest rising 15% Q/Q to 2.4% of the float. Evercore added to its Tactical Outperform list last week with a $695 target seeing content strength into Q4 and 2022. Piper raised its target to $705 positive on the Squid Game impact while Jefferies raised to $737 positive on NFLX's plans to enter the games market. Hedge Fund ownership fell 4.5% in the latest quarterly filings. On the chart NFLX has been on a strong run since bottoming in May and currently consolidating below $645 resistance with $850 still a longer-term measured move target out of the recent bull pennant breakout and $664 a potential Fibonacci extension target. Support levels are at $610, $570 and $550. NFLX options are pricing in a 5.3% earnings move with 30-day IV Skew at +0.5 comparing to the +1 52-week average. NFLX with a recent opening sale of 1000 June $600 puts for $3.2M, the Oct 22nd (W) $625/$680 call spreads open 2000X, and November $630 and $650 size call buys in early September for 3000X and 2000X respectively.

Trade to Consider: Long the **NFLX** Oct. 29th (W) $640/$660 Call Spreads for $6.50

IBM (IBM) will report results 10/20 after the close with the Street view at $2.51 EPS and $17.77B in Revenues (+1.2%) and Q4 seen at $4.19/$20.73B. IBM shares have a weak history on earnings but have closed higher the last two reports, a six quarter average max move of 6.55%. The $128.5B Tech company trades 12.25X Earnings, 1.73X Sales and 13.7X FCF with a 4.54% dividend yield. IBM consensus forecasts call for modest 1-3% annual revenue growth with EPS seen rising 23.7% in 2021 and 10.1% in 2022. IBM is in the midst of spinning off its managed services business Kyndryl and expects $35B in FCF over 2022-2024 with plans to further invest via M&A, see a higher mix of software and recurring revenues, and sees Red Hat as a key growth driver. Analysts have an average target of $150 with short interest flat Q/Q at 2.8% of the float. CSFB raised its target to $176 in October after the investor briefing outlined its post-spin strategy and sees IBM's opportunity in the hybrid-first world meaningfully underappreciated with shares undervalued. Jefferies started shares at Buy with a $170 target on 10/1 with IBM at the convergence of several high growth trends in enterprise tech and sees the company moving in the right direction. Hedge Fund ownership rose modestly in the latest quarterly filings. On the chart IBM shares are consolidating below a major trend resistance level long-term in a falling wedge pattern and above $149.50 would be a key inflection of the trend. The 200-day moving average is down at $136.50 while $131 a key volume profile node of support on weakness. IBM options are pricing in a 3.55% earnings move which is cheap to historical moves and 30-day IV Skew at +2.9 is fairly steep to the +1.2 52-week average. IBM recently with a large seller of December $145 calls seeing limited upside and 10,000 November $145 calls sold to open back on 9/16. IBM has seen 20,000 June $160 calls bought, a recent buy of 1500 Nov. 5th (W) $140 calls and a seller of 1000 February $140 puts to open back on 8/2.

Trade to Consider: Sell the **IBM** November $145/$150 Call Spreads for a $2 Credit (Bear Call Spreads)

Tesla (TSLA) will announce earnings 10/20 after the close with the Street looking for $1.49 EPS and $13.37B in Revenues (+52.4%) while Q4/FY22 seen at $1.71/$14.92B and $7.22/$67.75B. TSLA shares have closed lower on results five of the last six quarters with an average max move of 6.3%. The $812B EV leader trades 115.4X Earnings, 89X FCF and 16X EV/Sales with revenues seen rising 60% in 2021 and 34% in 2022 while EBITDA climbs 68% and 39.5% respectively. TSLA recently announced Q3 deliveries of 241,300 vehicles which came in well above estimates as Model S/X deliveries and production finally started to ramp in the quarter with the launch of the next-generation models. The company has also pushed back the start of production timeline for both its Cybertruck and Semi to now 2022 due to supply chain issues. TSLA's ability to drive accelerated growth will depend on its ability to introduce refreshed (Model S/X) or all-new (Model Y, Cybertruck) product and build out capacity (Austin, Berlin, etc.). TSLA units/margins should benefit as the company ramps additional Model Y factories in Austin/Berlin. The mix shift towards Model Y combined with several recently announced price increases to drive margin accretion for the company. Tesla's full ecosystem (e.g., clean energy, storage, and charging) and growing installed base of vehicles will both open up other growth/profit vectors and also help maintain strong market share and profits even as competition in EVs increases. Analysts have an average target of $750 with short interest down 31% Q/Q to 3.4% of the float. Jefferies raised its target to $950 last week seeing a higher capacity ramp and sustained demand. Hedge Fund ownership fell 7.5% in the latest quarterly filings. On the chart TSLA has been a strong performer the last few months and has pushed up to a fairly key volume node of resistance near $855 while Fibonacci extension levels are at $870 and $925. Support levels on weakness are at $795 and $760. TSLA options are pricing in just a 3.6% earnings move while 30-day IV Skew at +10.1 is very steep to the +4.8 52-week average. TSLA has significant size calls in Oct. 22nd (W) expiration and last week saw short call legs move to November $860 strike. With skew so steep and the deliveries numbers baked into expectations, put spreads look attractive after the big run-up.

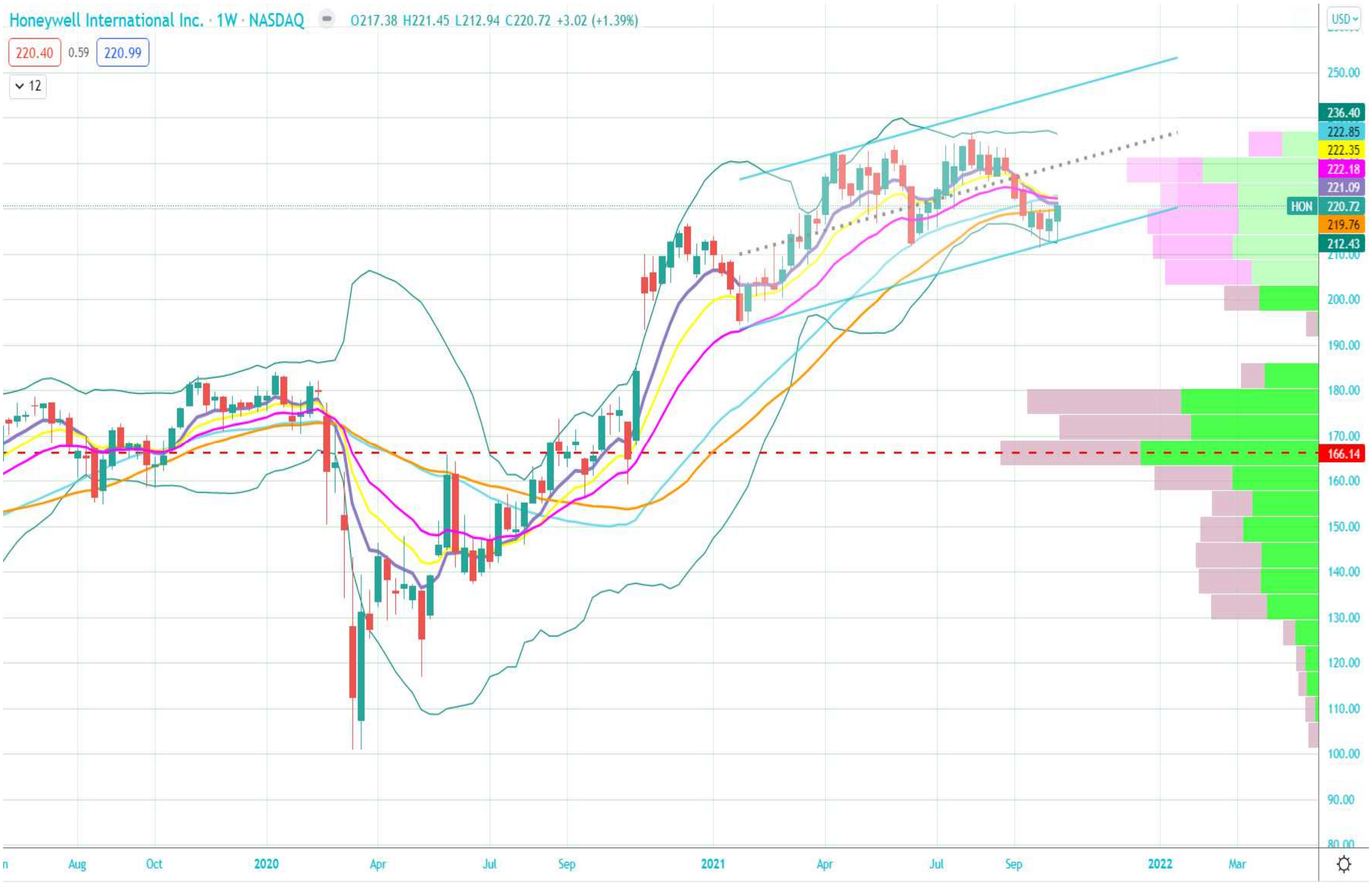
Trade to Consider: Long the **TSLA** November $830/$800 Put Spreads at $8 Debit

Snap (SNAP) will release results 10/21 after the close with the Street expecting $0.08 EPS and $1.1B in Revenues (+61.9%) while Q4/FY22 seen at $0.18/$1.36B and $0.80/$6.19B respectively. SNAP shares have closed sharply higher five of its last six reports with an average max move of 21.8%. The $121B social media advertising company trades 98X Earnings and 28.8X EV/Sales with revenues seen rising 68% in 2021 and > 40% annually through FY24. SNAP has positioned itself as a key advertising platform for the younger generations that advertisers are looking to target. SNAP hosted an Analyst Day in February that outlined its longer-term vision with multiple avenues of monetization via maps, games, and viral videos. SNAP has also positioned itself as a leader in Augmented Reality (AR) with 200M people engaging daily. The SNAP camera can solve math equations, scan wine labels to find ratings, reviews and prices, tell you the name of the song you're listening to and so much more. SNAP Stories has become the largest revenue driver for the company. The Snapchat Generation makes up 40% of global consumers and already yields $1 trillion in purchasing power. Consensus expects SNAP generating a '21-'26 revenue CAGR of ~41% (driven by a mixture of user growth, ad price inflation, and product innovation in its core advertising business) and a 2026 GAAP EBITDA margin of 40% (compared to (13)% in 2021) as the company scales its revenue base on its fixed cost base while also remaining focused on investing against key long-term growth initiatives. Snap is an emerging growth leader in terms of digital advertising – the company has exposure to the ~$862bn 2026 TAM for global (ex-China) digital advertising, of which it currently has a low-single-digit percentage market share. The recovery of digital advertising (now trending well above the levels of pre-COVID) is emblematic of the capture of additional use cases and budgets/business planning of more industry verticals. Snap has perhaps been the largest incremental beneficiary of this shift to Direct Response Advertising. Snap has undergone a platform transformation in the past few years (which is still in progress) from being primarily a camera-focused messaging utility to a more diversified computing platform with aspects of social media, media consumption, shopping, and augmented reality. Analysts have an average target of $88 with short interest down 29.6% Q/Q to 3.8% of the float. RBC started at Outperform on 9/30 with an $88 target positive on its direct response offering and new products. Jefferies out on 9/17 noting the Q3 estimates are far too low given the resurging ad pricing and unit growth from the reopening. Hedge Fund ownership was flat Q/Q. On the chart SNAP shares have consolidated well since last quarter's strong earnings move and have stayed resilient to market moves and a potential weekly rising channel pattern in play with upside to around $87 for next week. The rising 21-week EMA has been very supportive with $74 and $70 key support followed by a pocket down to $64.50. SNAP options are pricing in a 10.6% earnings move and 30-day IV Skew at +0.2 is in-line with its 52-week average. SNAP last week with a large buyer of Oct. 22nd (W) $79 calls 5000X for $1.5M also saw buyers in Oct. 29th and Nov. 12th (W) $79 strike calls. SNAP has also seen size buyers in November $75 and January $70 call strikes.

Trade to Consider: Long the **SNAP** Oct. 22nd (W) $78/$85 Call Spreads at $2.35 Debit

Honeywell (HON) will report earnings 10/22 before the open with the Street view at $2 EPS and $8.65B in Revenues (+10.9%) and Q4/FY22 seen at $2.12/$9.18B and $9.15/$37.65B. HON shares have closed lower on results six of its last seven reports with an average max move of 3.45%. The $150B industrial that is shifting more towards tech/software trades 24.1X Earnings, 4.44X Sales and 60.65X FCF with a 1.69% dividend yield and forecasts see revenues rising 5-7.5% annually through FY23 with EPS +10-15% annually over the same period. HON has always been a top operator among Industrials and is positioning to benefit from longer cycle (commercial Aero, O&G), later cycle (non-res) end markets that are now inflecting and should grow strongly over the next few years. HON will host an Analyst Day in November which may prove to be the more important catalyst as it updates long-term targets. Analysts have an average target of $245 with short interest low at 0.9% of the float. Wells Fargo started at Neutral on 10/7 with a $229 target seeing tailwinds in end-markets already reflected in its premium valuation. Gordon Haskett out with an interesting note on 9/10 speculating on a potential deal for Hexcel (HXL). Hedge Fund ownership jumped 3.3% in the latest quarterly filings. On the chart HON shares recently put in a multi-week base below the 200-day MA and pushed above that level to close last week. HON has support at $216 and $212 followed by $202.5 while resistance at the 55-MA at $224.10 and then YTD VPOC near $230. HON options are pricing in a 2.1% earnings move with 30-day IV Skew at +0.8 comparing to the +1.3 52-week average. HON on 10/4 with 1200 December $200 short puts opened and has some size bullish OI in January 2022 with the $220 and $210 short puts and long the $230 calls. HON also still has 2000 December $200 long calls in OI from a buyer on 4/22 and Jan. 2023 $200 calls 1000X from a 12/28/20 buy.

Trade to Consider: Long the **HON** October 22nd (W) / December $225/$230 Call Diagonal Spread at $1.75 Debit



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