



HD, TGT, CSCO, NVDA

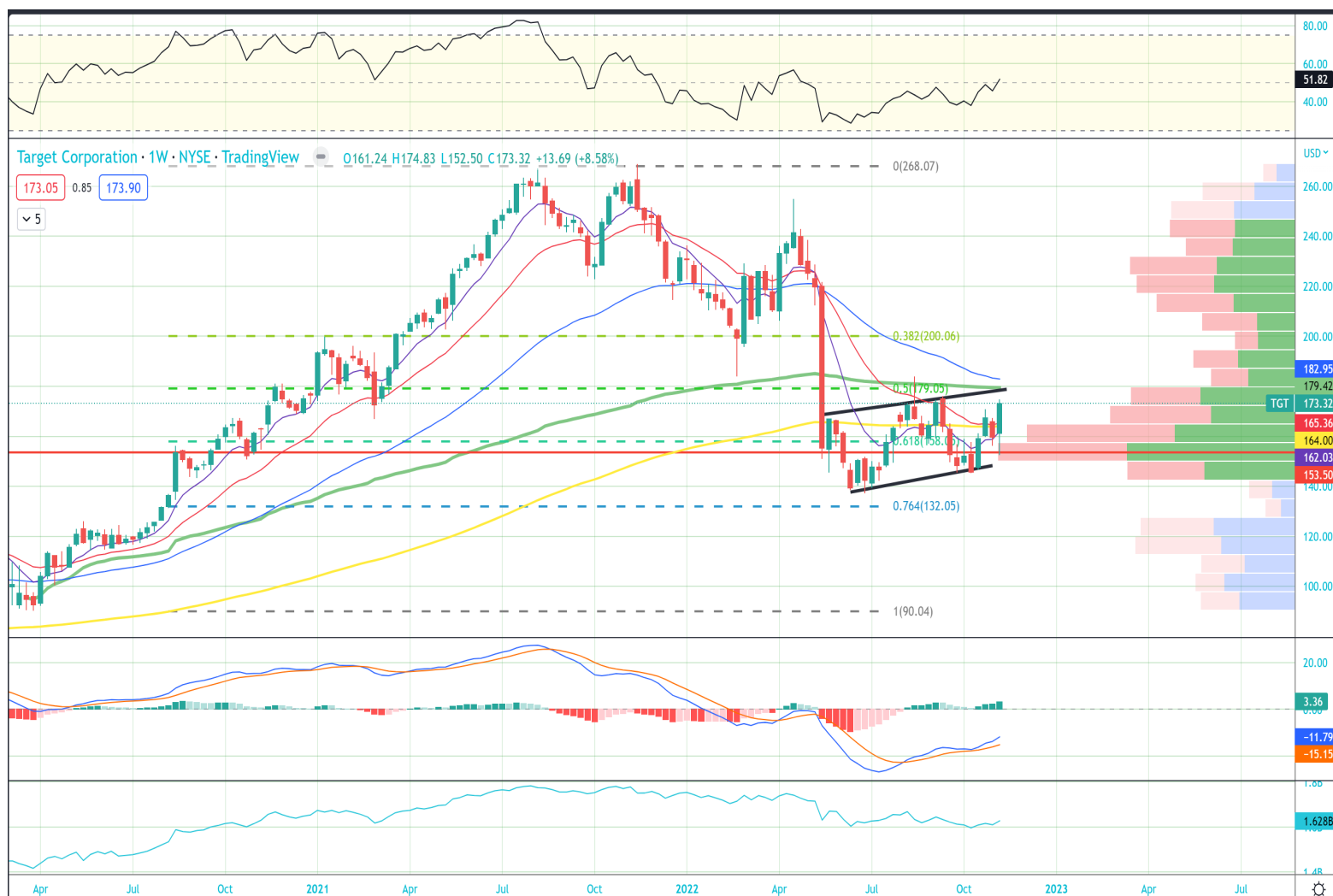
**Home Depot (HD)** will announce results 11/15 before the open with the Street looking for \$4.13 EPS and \$38B in Revenues (+3.2%) while Q4 seen at \$3.34/\$36.1B as both EPS and Revenue growth decelerate and FY24 growth seen at 3.9% and 1.8% respectively. HD shares have closed higher three of its last four reports after being lower the prior eight, a six-quarter average max move of 5.7%. HD is the leading home improvement retailer and recent reports across the supply chain have indicated slowing DIY demand though HD's Pro business has been a standout in recent years, the slowdown in the housing market likely dampens the outlook despite longer term trends of low inventory and an ageing housing stock remain tailwinds. There is a typical 6-9 month lag of Home Improvement activity following rate hikes. HD has a market cap of \$319B and trades 18.3X Earnings, 13.6X EBITDA and 2.06X Sales with a 4.8% FCF yield. Existing home sales and home price appreciation – the top two drivers of Home Improvement demand – are decelerating sharply. Remodeling Market Index (RMI) and Leading Indicator of Remodeling Activity (LIRA) are two other indicators to monitor. The RMI Future Indicators Index has slowed 13 points to 71 from its Q1'21 peak at 84. LIRA forecasts a rate of change, which is equal to the y/y change in the trailing 4Q spend, and points to a moderate deceleration. Market expectations are for comps in the 4%-5% range (vs. ~2.9% consensus). Consensus is modeling Q4 comps of +0.7%, which implies a ~210 bps deceleration on 3-year stacks. The market is concerned there could be a sharper deceleration in Q4 than the consensus is modeling, especially given indications October trends slowed on a y/y basis. Analysts have an average target of \$350 with short interest low at less than 1% of the float. JPM lowered its target to \$300 last week seeing negative revisions. Atlantic sees a positive risk/reward seeing long-term housing tailwinds intact. On the chart HD shares put in a major weekly base at \$267.50 and last week rebounded right to VWAP off the highs. A move above \$328 would set up for a measured move breakout to \$360. On weakness the 200-MA at \$302.50 a key level while a retest of monthly value at \$292 makes sense as a target. HD options are pricing in a 4.2% earnings move and 30-day IV Skew at +5.3 compares to the +4.6 52-week average. HD's put/call open interest ratio at the 94th percentile and average IV30 crush is -12.4%. HD recently with 10,000 December \$250 puts bought to open.

Trade to Consider: Sell the **HD** December \$320/\$325 Call Spreads for \$2.15 Credit (Bear Call Spreads)



**Target (TGT)** will report earnings 11/16 before the open with the Street looking for \$2.13 EPS and \$26.38B in Revenues (+2.8%) with Q4 seen at \$3.29/\$32B while FY24 seen as EPS rebounding 47.8% despite just a 3.6% climb in revenues. TGT shares have sold off on earnings four of the last five reports with a six-quarter average max move of 10.36%. TGT is a leading department store that offers everyday essentials and fashionable, differentiated merchandise at discounted prices. TGT generates approximately 1/3 of sales from its owned and exclusive brands. TGT did a great job navigating the pandemic and has built out a strong omnichannel platform incorporating store pickup and delivery and stands to benefit from further market share gains. TGT with a \$75B market cap trades 14.6X Earnings, 12X EBITDA, 0.7X Sales and a 2.5% dividend yield. Q3 results should be decent relative to expectations, but Q4 carries some downside risk on sales and margins. On sales, consensus is modeling stable +3% comps in Q4 despite TGT's higher discretionary exposure. Comp upside could be driven by double digit growth both overall goods inflation and Grocery sales. The downside risk is if October trends slowed more than expected. This presents some risk to the +3% Q4 consensus comp given TGT's higher discretionary exposure, the negative read through from AMZN, and our cautious view on 2H discretionary spending. TGT's Grocery exposure, positive traffic trends, and healthy market share position should provide insulation from a meaningful deceleration. Consensus is modeling ~250 bps of gross margin on net sales contraction in Q3. Analysts have an average target of \$192 with short interest low at 2% of the float. Deutsche Bank lowered its target to \$183 expecting a Q4 guidance cut on weaker discretionary demand. Evercore added to its Tactical Underperform list expecting a miss and lower. On the chart TGT shares remain below VWAP from the pandemic low at \$179.50 which is near its 200-MNA of \$181.40. TGT has major support at \$150 and below could set up for a move down to \$128. TGT options are pricing in an 8.7% earnings move and 30-day IV Skew at +6.5 compares to the +3.9 52-week average. TGT historical put/call open interest ratio at the 93<sup>rd</sup> percentile and average IV30 crush is -20%. TGT with a buyer of 5000 December \$160 puts on 10/10 has also seen buyers in Nov. \$155 puts but has 20,000 Dec. \$125 short puts in OI while also having 16K Dec. \$150 long puts.

Trade to Consider: Long the **TGT** December \$165/\$150 Put Spreads at \$3.85 Debit



**Cisco (CSCO)** will release earnings 11/16 after the close with the Street estimating EPS of \$0.84 with \$13.31B in Revenues (+3.2%) and Q2/FY23 seen at \$0.85/\$13.24B and \$3.53/\$54.11B implying 5% EPS and Revenue growth for the year with revenue growth seen accelerating each quarter. CSCO shares have closed higher on results five of the last eight reports with a six-quarter average max move of 7.7%. Cisco designs and sells a broad range of technologies that power the Internet with platforms across networking, security, collaboration, applications and the cloud. Infrastructure Platforms; Applications; Security and Other Products are its segments. Cisco has actively been transitioning to a software recurring model and away from hardware the past few years leading to a better margin/growth profile and potential to re-rate higher. Cash allocation is another potential catalyst for shares. Cisco is coming off a strong quarter as both supply chain showed signs of easing and network investments proved resilient. Orders were up 15% QoQ, with three of the four segments growing QoQ at the same rate of historical levels and pointing to a stable environment. 400G, 5G, WiFi 6, and 400ZR/Optical are key supportive product cycles. Cisco's shift to higher growth recurring software/services is positive and helps support the stock, with software now +40% of revs and growing. CSCO has a market cap of \$188B and trades 11.8X Earnings, 9X EBITDA, 3.65X Sales and 28.7X FCF with a 3.39 % yield. CSCO sets up relatively defensively into next week because constrained supply and backlog should position the company to meet expectations even as order growth slows. Supply constraints remain across networking, but reseller commentary also suggested stabilization rather than deterioration in the quarter. CSCO has historically completed \$3-4B in acquisitions per year and has \$19bn in cash on its balance sheet. Analysts have an average target of \$55 and short interest low at less than 1% of the float. Evercore added to its Tactical Outperform list on positive checks. Barclays downgraded shares 9/21 on stalled cloud growth and enterprise softness risk. On the chart CSCO shares consolidating tightly the last two weeks and above \$46.25 has a large volume pocket while VWAP off the highs is \$48.70. Support levels are \$43.6 and \$42.70. CSCO options pricing in a 5.4% earnings move and 30-day IV Skew at +5.8 compares to the +4.8 52-week average. CSCO put/call open interest ratio at the 3<sup>rd</sup> percentile and average IV30 crush is -24.6%. CSCO last week saw a lot of upside call sales with Nov. \$47 8000X and April \$47.5 and \$52.5. CSCO had a size buy of 8000 June 2024 \$45 calls on 10/6 and big buys in March \$47.50 calls remain in OI 19,000X as well as 13K March \$45 calls bought.

Trade to Consider: Long the **CSCO** December/March \$47.5 Call Calendar Spreads for \$1.30 Debit



**Nvidia (NVDA)** will announce results 11/16 after the close having already reduced guidance with the Street consensus now at \$0.70 EPS and \$5.79B in Revenues (-18.5%) while Q4 seen at \$0.77/\$6.12B and FY24 implying 13.1% revenue growth and 30% EPS growth. NVDA shares have closed higher four of the last five and eight of the last eleven reports with a six-quarter average max move of 6.8%. Nvidia is a leading Semi and has leveraged its GPU architecture to create platforms for scientific computing, artificial intelligence, or AI, data science, autonomous vehicles, or AV, robotics, and augmented and virtual reality, or AR and VR. NVIDIA has a platform strategy, bringing together hardware, software, algorithms, libraries, systems, and services to create unique value for the markets it serves. NVDA's main markets are Gaming, Data Center and Automotive. NVDA has a market cap of \$392B and trades 37.5X Earnings, 37X EBITDA and 67X FCF, high valuation. NVDA announced intraquarter it could face up to \$400M in restrictions related to shipments of its high-end A100/H100 AI products to China hyperscale customers. Analysts have an average target of \$190 with short interest at 2.5% of the float. BAML sees Q3 as the cycle bottom and expect sales to re-accelerate to best-in-sector mid-teens YoY pace in FY24/CY23 driven by new 5nm product cycles (Hopper accelerators, Grace CPU, Lovelace gaming), easier YoY compares in gaming, and a relatively resilient US cloud capex. OpCo cut its target to \$225 a soft setup for Q3-Q4 as enterprise spending weakens, gaming inventory digests and U.S.-China restrictions weigh on shares. Piper is a buyer into earnings expecting a resumption of growth next year. On the chart NVDA with a strong move last week has some resistance near \$165 as one-year upper value and VWAP off the highs is up at \$198.50. The \$153 and \$137 levels are downside support. NVDA options are pricing in a 7.3% earnings move and 30-day IV Skew at +7.2 compares to the +7.1 52-week average. NVDA's put/call open interest ratio at the 8<sup>th</sup> percentile and average IV30 crush is -9.3%. NVDA last week a large buy 6000 ITM Dec. \$110 calls and seen bullish skew to flows since mid-October. NVDA has 8000 March \$140 short puts in open interest and a buyer of 5K March \$180 calls back on 10/13. On 10/12 5850 January \$115 calls bought for \$12M.

Trade to Consider: Sell the **NVDA** December \$195/190/\$140/\$135 Iron Condors for Credit of \$1.70



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**Not Investment Advice or Recommendation**

*Any descriptions "to buy", "to sell", "long", "short" or any other trade related terminology should not be seen as a recommendation. The Author may or may not take positions in any of the names mentioned, and is not obligated to disclose positions, nor position sizes.*

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