Large Call Buy in HP as PC Demand Remains Strong

Ticker/Price: HPQ ($33.35)

Analysis:

HP (HPQ) on 4/20 with a massive opening buy of 20,000 November $35 OTM calls for $2.35, earnings not expected until late May. HPQ on 4/16 saw 2,250 August $30 puts sell to open and has also seen put sellers in January 2022, the May $29 calls have 5000X in OI from buyers, and a smaller buy of 1000 August $33 calls on 3/16. HPQ shares have been on a very strong run since November with the market rotating to value and shares pulling back to the rising 8-day moving average this week just under record highs, a strong trend firmly intact. HP has benefitted from strong Notebook and home printing demand. Last quarter, HPQ said it exited the quarter with a record backlog driven by continued supply shortages constraining growth through at least FQ3, particularly for Notebooks, Printing Consumer Hardware and Printing Supplies. HPQ saw very strong growth in consumer premium, gaming, peripherals and Chromebook last quarter, the latter revenues quadrupled. The $41.55B Tech company trades 9.95X Earnings, 0.72X Sales and has a lot of cash and a 2.3% dividend yield. HPQ revenues are seen rising 7.9% in 2021 with EPS up 44%. HPQ spoke at the MSCO Conference last month and noted it sees the PC market now being 45% bigger than pre-pandemic and seen continuing in the future. HP spent $425M to acquire HyperX, a maker of gaming peripherals in February. HPQ will generate at least $4B in FCF in 2021 and will continue to buy back shares and utilize M&A. Analysts have an average target of $31 and short interest is 1.3% of the float. JPM upgraded shares to Overweight with a $35 target in late February, positive on momentum with Printing improving finally. Hedge Fund ownership fell 4.4% in the latest filings, Dodge and Cox a top holder reduced its position.

Hawk Vision:

Hawk's Perspective: HPQ remains a value name and impressive price action, feels like a name that can make some splashier M&A deals as well to drive excitement back to the name.

Confidence Ranking: $$