



FEATURED OPTIONS RADAR REPORT



Bulls Pile into Howmet on Aero Recovery Inflection

Ticker/Price: HWM (\$35.2)

Analysis:

Howmet Aero (HWM) is a name that continues to see strong bullish options activity with 10,000 October \$40 calls bought to open on 6/4 at \$1.25. HWM has 4500 June \$36 short calls in open interest but July has all bought to open calls including 2000 each of the \$32 and \$33 calls, 3950 of the \$35 calls, and 5000 of the \$37/\$40 call spreads. HWM also has 1000 each of the October \$35, \$37 and \$38 calls in OI and over 8000 January \$35 calls from buyer accumulation. HWM shares recently broke through its pre-COVID highs and \$43.65 is the first Fibonacci extension target. Howmet is a leading global provider of advanced engineered solutions for the aerospace and transportation industries. The Company's primary businesses focus on jet engine components, aerospace fastening systems, and titanium structural parts necessary for mission-critical performance and efficiency in aerospace and defense applications, as well as forged wheels for commercial transportation. The commercial transportation end market represented approximately 16% of the Company's revenue in 2020. The Company invented the forged aluminum wheel in 1948, and continues to advance technology to deliver breakthrough solutions that make trucks and buses lighter, more fuel efficient and sharper-looking. Howmet's forged aluminum wheels are a leading choice for commercial trucks and mass transportation vehicles because they can reduce weight and save fuel. The strength of the Company's rivets, bolts and fasteners offers another light-weighting solution that delivers performance. Industrial and other end markets include industrial gas turbines, oil and gas, and other industrials, which represented approximately 15% of the Company's revenue in 2020. HWM is seen to benefit from an inflection occurring in Aerospace and sees above-normal growth persisting through FY24. HWM currently has a market cap of \$15B with shares trading 23.7X Earnings, 13X FY22 EBITDA and 3.13X Sales. HWM forecasts see revenues growing 16% in 2022 and EBITDA rising 23.8%. The company cited an expectation for its Engines business to recover first, followed closely by Structures and then Fasteners which will likely not see substantial improvement until the end of 2021 or beginning of 2022. Management sees recent price actions, combined with structural cost takeout, as important levers to their differentiation as the industry recovers and margins expand with improved volumes. Analysts have an average target of \$40 and short interest is low at 1.4% of the float. Wells Fargo initiated Overweight on 5/12 with a \$39 target. HWM is Elliott's 2nd largest position and 10.9% of their portfolio while Kensico also with a concentrated stake. Apollo/Elliott formerly tried to buy Howmet in a \$15B deal that collapsed.

Hawk Vision:



Hawk's Perspective: HWM joins the long list of Aerospace names seeing bullish positioning and this is a quality business with growth seen above-average for multiple years and margin expansion, so a name that remains a good own.

Confidence Ranking: \$\$