



FEATURED OPTIONS RADAR REPORT



Put Buyers Position in Tech Name Facing Currency and Demand Headwinds

Ticker/Price: IBM (\$135)

Analysis:

IBM (IBM) flows have turned bearish the past couple weeks with August \$130 size put buys taking open interest to above 7000 for more than \$4M put premium as well as recent opening sales of 10,000 each July \$140 and \$145 calls seeing limited upside for shares. IBM does have over 12,000 August \$150 calls in open interest from buys in April/May. IBM has been a relative strength name in 2022 with shares positive YTD but essentially flat since last October. Shares broke above a key value level but then put in a bearish candle and potential to revisit long-term trend support near \$125. IBM has primarily been focused on Software with digital transformation but also continues to have large Consulting and Infrastructure segments. IBM has a market cap of \$122B and trades 13X Earnings, 2.7X EV/Sales and 10X EBITDA with a 10% FCF yield and 4.9% dividend yield. IBM has historically been a weaker return on capital name and operates with 15% EBIT margins and 17.5% FCF margins while carrying a more levered balance sheet than most Tech peers with Debt/EBITDA at 3.75X. Forecasts see revenues rising 6% this year before dipping back to 3-5% growth with EPS at 22.2% growth before moving back to 5-8% growth. IBM has been optimizing its portfolio via acquisitions, notable the Red Hat deal that positioned it well in the cloud and saw 21% growth last quarter. The consulting business could be further pressured by a competitive and inflationary labor market which will impact profitability. The strong USD will also be a major headwind for the multinational while the hardware demand environment for spending is also likely to slow. IBM is taking the proper steps to align its portfolio with the strategic priorities of hybrid cloud, AI/automation, security, and quantum. IBM views quantum as critical technology as we move into the back-half of the decade, with many applications across physics, chemistry, materials sciences, finance, optimization, and machine learning. The quantum space is gaining worldwide traction and investment. Analysts have an average target of \$144 and short interest is low at 2% of the float. After reporting last quarter, MSCO raised its target to \$157 positive on execution the last two quarters while BAML raised to a \$165 target citing significant portfolio changes.

Hawk Vision:



Hawk's Perspective: IBM under \$134 sets up as a short to the 200-MA \$131.20 and could see that \$125 target, tough to see it doing well in a weaker Macro while USD strength is a major headwind.

Confidence Ranking: \$\$