



FEATURED OPTIONS RADAR REPORT



Bullish Positioning in Johnson Controls as Transformation Story Takes Hold

Ticker/Price: JCI (\$65.65)

Analysis:

Johnson Controls (JCI) with large spreads on 5/7 that sold the July \$60 puts to open more than 15,000X and bought the \$67.50 calls to open more than 11,500X. JCI does not have a lot of notable open interest and has been popular with buy-writes with sales in October \$62.5, \$65, and \$70 calls. JCI has been an impressive performer with shares +41% YTD and hitting new highs working out of consolidation last week, and a measured move still in play to \$72.50. JCI is a global company with products and solutions that enable smart, energy efficient, sustainable buildings that work seamlessly together to advance the safety, comfort and intelligence of spaces. In 2016, Johnson Controls completed the spin-off of its automotive business into Adient plc, an independent, publicly traded company. In 2019, the Company sold its Power Solutions business to BCP Acquisitions LLC and completed its transformation to a pure-play building technologies company. JCI sells and installs its commercial HVAC control systems, security systems, fire-detection systems, equipment and services. In fiscal 2020, the Company launched OpenBlue, a digitally driven suite of connected solutions that delivers impactful sustainability, new occupant experiences, and respectful safety and security by combining the Company's building expertise with cutting-edge technology, including AI-powered service solutions such as remote diagnostics, predictive maintenance, compliance monitoring and advanced risk assessments. JCI announced an \$870M deal for Silent-Aire in April that established a leadership position in hyperscale data center technology. JCI currently has a market cap of \$46.5B and trades 20.9X Earnings, 15X EBITDA, 2.1X Sales and 26.9X FCF with a 1.64% dividend yield. JCI forecasts see 5-6% revenue growth and 10-12% EBITDA growth the next two years. Analysts have an average target of \$68 on shares with short interest low at 1% of the float. Goldman has a \$75 target and sees JCI as one of the best positioned HVAC OEMs to take advantage of decarbonization trends, and notes the strong discount in valuation to peers **LII**, **TT**. The American Rescue Plan passed in March will drive 25-50% HVAC sales growth in the Education segment through 2023. UBS raised its target to \$70 in April seeing healthy growth for a few years with the clean building and infrastructure investments supporting upgrades. Hedge Fund ownership rose 11% last quarter, Aristotle Capital with an \$830M stake.

Hawk Vision:



Hawk's Perspective: JCI is an attractive HVAC play with strong fundamental tailwinds, a pullback to \$62 would be an ideal entry.

Confidence Ranking: \$\$