



Johnson Controls Unusual OTM Call Buyer

Ticker/Price: JCI (\$40.95)

Analysis:

Johnson Controls (JCI) with near 14,000 March \$43 calls opening today around \$0.45/\$0.50 and follows 4,650 February \$42 calls bought last week. JCI shares traded well in 2019 up over 50% and pulling back to the 23.6% Fibonacci as well as the rising 200-MA. A move out of a bull wedge above \$41.50 targets the VPOC from October/November around \$42.75 while longer-term has room to \$48. The \$32.2B company trades 14.24X earnings and 1.3X sales with a 2.54% yield and low-teens EPS growth. JCI sees 3-4% revenue growth in 2021. The company is coming off a multi-year portfolio shift with the Adient (ADNT) spin in 2016 and last year's \$13.2B sale of their automotive battery business. The moves have made JCI a pure play on HVAC, fire protection, and security services with a better balance sheet (debt down \$3.7B in 2019), more flexibility to reinvest capital (likely to target tack-on deals), and buyback stock (over \$6B in 2019). They saw 5% growth in field orders as well in 2019 with a backlog near \$9B and strong visibility into 2020. Analysts have an average target for shares of \$41 with 4 buy ratings, 3 hold, and 2 sell. Wolfe Research upgrading to Buy on 1-9 while CSFB upgrading to Outperform on 1-6 seeing 2020 guidance as achievable with upside driven by margin expansion. The firm thinks JCI remains well positioned in HVAC that is a 'hot' sector for investors given the pending IR/GDI deal and Carrier spinoff. Short interest is 1.8%. Barrow Hanley remains a top holder with over 31.7M shares while the last notable insider buy was in August 2019 around current levels when a director bought \$257k in stock at \$41.50.

Hawk Vision:



Hawk's Perspective: JCI is a bit of a forgotten name and not quite the quality as many of its large cap peers we favor. With that said, shares are cheap, and have an easy low-risk stop near-by at recent lows, while it could be a buyer of Nortek business to strengthen the HVAC portfolio, a potential catalyst.

Confidence Ranking: \$\$