



FEATURED OPTIONS RADAR REPORT



Unusual Call Buys in Knight-Swift on Strong Trucking Market Outlook

Ticker/Price: KNX (\$43.50)

Analysis:

Knight Swift (KNX) on 1/8 with more than 2500 May \$45 calls bought to open near \$3.50 which follows recent accumulation of 5500 February \$45 calls. KNX shares last week broke out of a nice bottoming pattern that targets a move to \$47.50 after holding key trend support and the rising wedge on the weekly leaves room for a move into the \$50's. The \$7.4B trucker trades just 13X Earnings, 6.3X FY21 EBITDA and 29X FCF. KNX forecasts see 9.7% revenue growth and 14.6% EBITDA growth in 2021 after managing well through 2020. KNX is the largest truckload (TL) carrier in North America following the 2017 merger with Swift, with more than 80% of its revenue derived from its trucking services, complemented by its Intermodal (10% of revenue) and Logistics (7%) businesses. KNX is well positioned to take advantage of the present tightness in the domestic TL market. The TL industry has benefitted from elevated demand associated with robust spending on goods and inventory restocking since the early days of the pandemic, and although these trends are likely to carry well into 2021, the pending release of a vaccine and likely return to spending on services could remove a bit of this demand tailwind. At the same time, after several months of limited ordering and OEM disruptions, Class 8 tractor orders have built momentum over the last three months, indicating that net capacity growth could re-accelerate at the same time the demand tailwinds alleviate, calling into question the sustainability of the current pricing strength. KNX is best positioned from current demand/pricing environment and has the lowest operating ratio (a positive) in the industry and also an industry-leader for capital returns. Analysts have an average target of \$50.50 and short interest at 20% of the float is high. KNX has seen downgrades from Citi and Wolfe in recent months while MSCO raised its target to \$60 following earnings. Hedge Fund ownership rose 8% in Q3 filings.

Hawk Vision:



Hawk's Perspective: KNX is a best-in-class name that looks to have near-term room up to \$50 and the flows support that move.

Confidence Ranking: \$\$