



FEATURED OPTIONS RADAR REPORT



Lumentum Risk Reversals See Value into Weakness

Ticker/Price: LITE (\$79.35)

Analysis:

Lumentum (LITE) with large bull trades late on 5/20 as 2500 December \$80/\$70 bull risk reversals opened at \$3.70 to \$3.80 net debits, a name where options activity has been slow recently outside of some September \$87.50 put sales. LITE shares have been weak in 2021 down 16% YTD and since its attempted buyout of **Coherent (COHR)** that turned into a bidding war won by **II-VI (IIVI)**. LITE shares have snapped back this week off the 200-week moving average and a retest of a major long-term range breakout from 2019. LITE is an industry-leading provider of optical and photonic products addressing a range of end market applications including Optical Communications and Commercial Lasers for manufacturing, inspection and life-science applications. It is a key player in 3D sensing for consumer electronics and diode light sources for a variety of consumer and industrial applications. LITE is a key supplier to Apple for 3D sensing while also seeing opportunities in Hyperscale and Telecom. LITE sees a tremendous opportunity in automotive the next few years. The \$5.8B company is trading just 12.9X Earnings, 3.35X Sales and 8X FCF with margins trending upwards to record levels and has over \$1.5B in cash. LITE revenues are seen fairly flat Y/Y into 2022 with growth reaccelerating in 2023 and the reason for its current low multiple. LITE is coming off a weak quarter on slower 5G deployments in China but more positive on the growth outlook heading into FH2'22 driven by accelerating telecom demand, new EML capacity, and improving Lasers trends. Lumentum also expects the overall global 3D sensing market expected to decline ~20-25% in FY22 due to smaller chips in certain applications. Analysts have an average target of \$90 and short interest elevated at 9% of the float. JPM cut to Neutral on 5-14 with a lowered \$80 target citing near-term headwinds and moderating growth in 3D sensing for smartphones though does note the robust opportunities in Telecom optical and Automotive LiDAR. Needham lowered its target to \$87 but expects a sharp recovery in FY23 as the EML capacity kicks in and DML demand recovers. Hedge Fund ownership jumped 10.9% last quarter.

Hawk Vision:



Hawk's Perspective: LITE shares have snapped back 20% in six days and although I see shares as undervalued particularly looking out 3-5 years, likely need shares to pull back near-term and set back up.

Confidence Ranking: \$\$