



FEATURED OPTIONS RADAR REPORT



Unusual December Call Accumulation in Chinese Fintech

Ticker/Price: LU (\$8.25)

Analysis:

Lufax (LU) with an interesting trade on 9/8 as a block of 3000 December \$7.50 calls bought the morning low for \$1.45 and a name showing up in the OptionsHawk Database with notable open interest in December calls from activity in June including 44,000 December \$12.50 calls and 12,250 December \$15 calls. On 8/26 the March \$10 calls traded a block of 9000X to open at \$0.70 in a stock replacement or potential buy-write as it traded near mid-market. LU is an IPO from October 2020 that traded sharply higher the first three weeks up to \$20 but has since sold off with a recent low near \$7. LU's VWAP from the IPO is at \$12.60, also a key volume node, and has a large volume pocket above \$9.30 back to that level. LU primarily addresses the unmet demand for personal lending among small business owners as well as salaried workers in China through its retail credit facilitation business as well as wealth management solutions to China's middle class and affluent population. Its retail credit facilitation business connects borrowers, funding partners and credit enhancement partners, with its purpose-built end-to-end technology platform at the hub. LU currently has a market cap of \$20.8B and trades 7X Earnings, 2.1X EV/Sales and 20.5X FCF with revenues seen growing 25%+ in 2021 and 12-15% annually the next three years forward. LU is also strongly profitable with EBITDA seen growing 39% in 2021 and 16% in 2022 to \$5.15B. Q2 highlights included 16.8% growth in loans facilitated, 15.7% growth in borrowers and 15.6% growth in active investors. LU also announced a \$700M increase to its buyback. It spoke on regulatory developments "Since our Q1 earnings announcement, the Chinese government has continuously tightened supervision of technology platform companies. These include the direct sharing of borrowing information by online loan facilitators and co lenders with financial institutions, mitigating an all-in cost ceiling of 24% for consumer loans and publishing the draft version of the amended Cybersecurity Review Measures for public consultation." Analysts have an average target of \$14.40 with short interest low for a Chinese stock at 1% of the float. MSCO upgraded to Overweight on 8/10 with a \$13 target after a strong Q2 report and sees good value. JPM upgraded to Overweight in May with a \$15 target seeing the sell-off on regulatory risks to growth as overdone. Goldman cautious on 8/2 downgrading to Neutral on regulatory developments which will pressure loan yield and take rate for LU leading to lower margins. It notes LU's earnings are likely to become more sensitive to underlying portfolio credit worthiness and the broad credit asset quality cycle, and potentially more volatile. LU did see some notable funds take positions including Baillie Gifford and Farallon Capital.

Hawk Vision:



Hawk's Perspective: LU has inherent risks due to China regulations but also feels overdone and one of the better looking companies, a close above the 55-MA near \$9 should carry shares back to \$12 for a trade.

Confidence Ranking: \$\$