



FEATURED OPTIONS RADAR REPORT



Bulls Target Low-Cost Carrier with New CEO, Ambitious 5-Year Strategic Plan

Ticker/Price: LUV (\$43.85)

Analysis:

Southwest (LUV) bullish flow recently including buyers on 2/24 for 1,600 June \$42.50 calls for \$725K and the September \$60 calls for \$225K in January. LUV had buyers of 1000 September \$45 calls in December while the January \$37.50 calls and January 2024 \$47.50 calls remain in OI from December. LUV is back at the 50% retracement of the rally from the March 2020 lows and forming a small weekly base under \$46.50. Shares have been forming a series of higher lows since December and a breakout move has room to \$55. The \$26.5B company trades 13.5X earnings, 1.7X sales, and 11.45X FCF. LUV has managed through the pandemic well and improved their overall position into the expected travel recovery as they expanded routes and target new markets. LUV has a strong balance sheet and outlining an ambitious new strategic plan last year. The company expects to drive significant value from their plan with \$1B to \$1.5B in EBIT in 2023. Analysts have an average target for shares of \$55 with a Street High \$70. Susquehanna with a \$50 PT but sees a slower return to profitability for the low-cost carrier as cost pressures from investments and its entrance into new markets will offset the benefit from various revenue initiatives. MSCO with a \$65 PT in December as the company's analyst day laid out a plan for the next five years that included a fresh start with a new CEO and a rebuilding period coming out of the pandemic but with all of the familiar attributes that have made them an industry leader. Short interest is 3%. Hedge fund ownership fell 2%.

Hawk Vision:



Hawk's Perspective: LUV is carving out a nice base and above \$48 can make a strong move and shift sentiment, especially as Summer travel season expected to be significant in 2022

Confidence Ranking: \$\$