MGM Calls Accumulate as Shares Consolidate Uptrend

Ticker/Price: MGM ($33.20)

Analysis:

MGM Resorts (MGM) with 3000 June $34 calls bought $1.91 in stock replacement and follows buyers in the February $33 calls last week. In December, the June $36 calls were bought 7000X for around $1M. Shares are coiled in a narrow flag after a strong run with an upside VPOC from February 2018 up around $35.50 in focus. MGM has a big monthly channel higher from 2011 that targets $40+ with continued strength. The $17.26B casino operator trades 22.2X earnings, 1.35X sales, and 25.8X FCF with a 1.56% yield. MGM is actively pursuing a more capital light strategy as they look to take down leverage and announced some real estate monetization plans yesterday. They're guiding to over $1.75/share in earnings power by FY21, up from $0.95 now. MGM has tailwinds from Macau comps which get easier in the 1H of 2020 while the focus near-term turns to Japan. The company is widely expected to win the first license to open a resort in the country in the 1H of this year. The Osaka project has been their focus and they'll plan to launch the $10B+ site by the World Fair in 2025. Japan is considered a potentially historic opportunity for casino operators. Analysts have an average target for shares of $32. Nomura positive on 12-18 with a $40 PT while Barclays also positive noting that they expect MGM to be one-times levered against its domestic EBITDA by year end 2020. They see a pullback in spending and a greater digestion period this year as a positive for the company. Short interest is 1.8%. Hedge fund ownership rose 1.3% in Q3. Point72 a big buyer of 6.175M shares as well as call options. Activist Corvex still holds 20.5M shares, their biggest position and 26.8% of their portfolio. The firm has a board seat as well and Keith Meister buying stock in November at $29.50 to $31. MGM will report in mid-February.

Hawk Vision:

Hawk's Perspective: MGM was one of the coiled bull set-ups into the week and still watching for a breakout trigger.

Confidence Ranking: $$