



FEATURED OPTIONS RADAR REPORT



Call Buyer Positions for Merck Upside into Year-End Following Spin-Off

Ticker/Price: MRK (\$76.20)

Analysis:

Merck (MRK) has been a laggard in Pharma with shares -1.6% YTD and has seen active opening call sales in August and September \$80 and \$85 strikes but on 6/22 the November \$80 calls bought to open 10,000X at \$2.04 to \$2.17, a sizable longer-term trade. MRK has also seeing some size sales of puts at \$70 and \$72.5 strikes out through January. MRK shares have been finding support on the rising 200-week moving average and forming a multi-month basing pattern that above \$77.50 would clear a key VPOC and trend resistance off the 2019 highs that could trigger a trend inflection move. The \$195.9B Pharma trades 11.5X Earnings and 4.1X Sales with a 3.4% yield. MRK forecasts see mild revenue growth ahead and EPS growth of just 2.8% in 2021 followed by 9.3% in 2022. MRK completed its spin-off Organon with it focusing on key growth drivers as the Organon portfolio represents around 15% of Merck's revenues, but 25% of manufacturing capacity and roughly 50% of its products. MRK is focused on capturing the substantial opportunities in innovative high-growth human health medicines and vaccines, like KEYTRUDA, GARDASIL, Lynparza, and Bridion, and across its leading animal health business. MRK has over \$45B in firepower to be more active in M&A and buybacks. MRK could also be set for margin expansion after the spin-off with EBIT margins reaching 45% in 2024 and 2021-2024 EPS CAGR of 11%. MRK has mainly lagged due to competitive threats to its Oncology lead with Keytruda but MRK has a strong and underappreciated pipeline. Analysts have an average target of \$93 with short interest at 0.8% of the float. Goldman has MRK on the Conviction Buy list with a \$102 target. Argus cut shares to Hold into the spin-off concerned that MRK now has more reliance on Keytruda which has slowing sales growth and rising competition.

Hawk Vision:



Hawk's Perspective: MRK needs to get above that \$77.5 level, flows not overwhelmingly positive but could set up a diagonal or calendar spread based on short September, long November call flows.

Confidence Ranking: \$\$