



Trade of the Week

Merck (MRK) late day buy on 8/13 of 5000 January \$85 calls \$4.30 to \$4.35, strong action this week and follows 7000 September \$82.50 calls bought \$2.55 in the opening minutes on 8/5 and volume ran more than 11,000 on the day. MRK has seen buyers in the October \$82.50 calls and January \$85 calls recently, the latter over 5400X. MRK still has 11,500 September \$80 calls in OI from buyers on 7/27. MRK has lagged the broader market since April's recovery and forming a narrow multi-month base under \$84. A breakout targets a run back to the 2019 highs up around \$92.50. MRK held the 50% retracement of the run from the 2018 lows and set for potentially another big leg higher.



The \$202B company has a strong balance sheet with a lot of cash, shares trading 13.3X earnings and 4.22X sales with a 3% yield. MRK should see results continue to improve into the 2H as patient access was severely impacted by initial COVID closures in the 1H of 2020 and they continue to focus on building out high-growth verticals like animal health which had double-digit revenue growth in Q2. MRK has a broad pipeline with a focus on oncology and vaccines where they're working on a COVID-19 effort. Analysts have an average target for shares of \$95. Goldman recently upgrading to Buy and Street High \$105 PT noting that the market is ascribing minimal value to Merck's potential opportunity of \$13B-\$18B in pipeline assets with a number of upcoming readouts later this year and into next for cancer, HIV and COVID-19. They also note that MRK could be more active in M&A or business development in the 2H as they paused their buyback policy earlier this year and currently sitting on about \$45B in firepower. Short interest is 0.6% and sitting near 10-year lows. Hedge fund ownership rose 5.5% in Q1, Redmile and Orbimed adding to their stakes.

Trade to Consider

Long the **MRK** September \$85 Calls for \$1.65 or Better