Merck Bull Sells Large Put Block into Correction

Ticker/Price: MRK ($86.20)

Analysis:

Merck (MRK) large vote of confidence with 8,500 January $82.5 puts sold to open for $5.45 and follows buyers recently of more than 5,000 June $92.50 calls, June $85 calls and 4,500 May $95 calls. Shares are have pulled back from multi-year highs over the last two weeks and quickly back just above its rising 200-MA at $84 as well as channel support from the October 2018. An intermediate-term move higher targets $100. The $220B pharma company trades 15.3X earnings and 4.8X sales with a 2.85% yield, a slight discount to peers. MRK sees accelerating top and bottom-line growth through FY21 driven by Keytruda which remains the core long-term focus and recent wins in first-line lung and renal carcinoma. They will also have data in TNBC later this year which would continue to expand its reach. MRK sets up well among large-cap peers with their primary revenue drivers under patent control for the next decade and a deep pipeline of optionality in their vaccines business and more. The company spent $2.7B in cash recently for ArQule (ARQL) which broadens their pipeline with a solid BTK inhibitor coming off of positive data. Analysts have an average target for shares of $97 with 12 buy ratings and 4 hold. RBC with a $99 PT on 1-6, positive on their core products but valuation is 'well understood.' MSCO positive on 12-18 noting that macro headwinds on the stock like the election and drug pricing seem to be abating. JP Morgan positive last Fall noting that the company remains cheap on SOTP basis with a premier Animal health unit and vaccines franchise. Short interest is 1%. Institutional ownership fell 8% in Q3 but Twin Tree Capital, Healthcor, and Polar Capital notable buys. MRK reports on 2-5 with shares higher each of the last four.

Hawk Vision:

Hawk's Perspective: MRK rarely gives opportunities like this and pulled back to key support. The June $90/$80 bull risk reversal looks attractive here.

Confidence Ranking: $$