



FEATURED OPTIONS RADAR REPORT



Massive Call Buys See Strong 2021 2H for Digital Transformation Leader

Ticker/Price: MSFT (\$287.1)

Analysis:

Microsoft (MSFT) a name that sees a ton of daily options activity but on 8/3 action stood out in December \$290 OTM calls with 9500 bought for over \$11M, a positive outlook through year-end. MSFT has a ton of notable open interest including size buys in October \$285 and \$290 calls as well as plenty of longer-term positioning that skews bullish and on 7/16 the June 2022 \$260 puts sold to open 7000X in a large trade. MSFT shares are forming a nice bull flag after hitting new highs above its rising 21-day moving average and looks certain to make a run to \$300. MSFT is winning from a number of major secular growth trends in cloud and digital transformation. MSFT now has a \$2.15 trillion market cap and trades 28.5X Earnings, 11X EV/Sales and 55X FCF with a 0.79% dividend yield. Forecasts see revenues rising 12-15% annually the next few years with consistent 15% EBITDA growth as well. MSFT is coming off another impressive quarter with growth driven by cloud and Office 365 while PC numbers are likely to ramp with the next Windows 11 release and gaming is another area of growth. Goldman notes “Microsoft is well positioned to double its \$60bn+ commercial cloud business (Azure, Office 365, Dynamics, and LinkedIn Commercial) into a \$120bn to \$140bn business longer term. We believe that Microsoft’s installed base of on premise Windows Servers (25-30mn GSe) alone represents \$80bn to \$90bn in potential Azure business. New customers and new workloads from existing customers would represent upside to this number. We also believe that Office 365 could potentially double its installed base from 255mn+ to 500mn given the massive number of knowledge workers worldwide, which is over 1.2bn according to Forrester. The gross margins of the commercial cloud business at 71% have room for meaningful upside as the Azure segment, which we estimate to be at a \$25.6bn run rate, gains scale and drives expanding margins.” Analysts have an average target of \$325 and short interest minimal at 0.6% of the float. BMO raised its target to \$325 on the Q2 margin upside & Wedbush noted the robust results saying the cloud story remains underappreciated. Citi is the major bull raising its target to \$411 as Azure growth reaccelerates into 2022.

Hawk Vision:



Hawk’s Perspective: MSFT looks great and continues to fire on all cylinders, momentum is firmly intact for short and swing-term trades.

Confidence Ranking: \$\$