



FEATURED OPTIONS RADAR REPORT



Bull Spread Targets Earnings in Small Cap Builder

Ticker/Price: MTH (\$107.80)

Meritage Homes (MTH) with an interesting trade on 1/5 as 1950 February \$100 puts sold to open and 1000 February \$125 calls were bought, a name with very little other open interest. MTH shares pulled back to its rising 200-day moving average to start the week and put in a strong hammer reversal closing green. MTH has a healthy weekly pattern of higher lows and higher highs and above key \$122.50 resistance can target a run to \$145-\$150. MTH is a leading designer and builder of single-family homes in historically high-growth regions of the United States and offer a variety of homes that are designed for the first-time and first move-up buyers. MTH has operations in nine states: Arizona, California, Colorado, Texas, Florida, Georgia, North Carolina, South Carolina and Tennessee. MTH has been pivoting to a more streamlined land-light operating model and has low debt and land exposure to better withstand downturns. MTH sees affordability, constrained inventories, and demographic trends favorable for new home demand. MTH offers key value with homes such as energy efficiency and automation with its LiVE NOW strategy targeting Millennial buyers. MTH has a market cap of \$4.2B and trades 4.65X Earnings, 3.7X EBITDA and 1.44X Book with a 6.2% FCF yield. MTH is coming off a historic two years of growth but still expects 18% revenue and EBITDA growth in FY22. Analysts have an average target of \$130 with short interest low at 2.8% of the float. JPM upgraded to Overweight in October with a \$143 target seeing a solid industry backdrop in 2022 and 2023 and views MTG as a high growth small cap. MTH will report results on 1-26.

Hawk Vision:



Hawk's Perspective: MTH annually screens as a top builder and favorite small cap so this candle at the 200-MA is alluring and continue to see great value in shares on the assumption the housing cycle runs another two years.

Confidence Ranking: \$\$