



FEATURED OPTIONS RADAR REPORT



Calls Accumulate in Industrial for Stronger 2H Set-Up

Ticker/Price: OTIS (\$83.50)

Analysis:

Otis Worldwide (OTIS) interesting action with September \$90 calls seeing 2000X each day the last few trading sessions and now reaching 9140 in open interest. OTIS has also seen 3500 June \$87.50 calls bought while March \$82.5 calls have a large short call position with 6500 in OI. OTIS had a big breakout to start 2023 which also cleared a major VPOC, trend inflection and VWAP off its all-time highs. OTIS has some resistance at the \$86 level and above can revisit those 2021 highs near 93. OTIS is a worldwide leader in elevators and escalator installation and servicing for both residential and commercial buildings. New Equipment sales in China represent approximately one-third of new equipment net sales and China represented over half of global New Equipment unit volume. OTIS also has a significant service segment with 2.2M units globally needing regular service. New Equipment comprises ~43% of sales and ~20% of operating profit whereas Service comprises ~57% of sales and ~80% of operating profit. OTIS has market cap of \$34.5B and trades 22X Earnings, 16.5X EBITDA and 37X FCF with a 1.4% dividend yield. OTIS revenues are seen rising 3-5% annually with 8-10% EPS growth. OTIS delivered an in-line quarter and guidance with potential Service upside based on price and retention/conversion execution. New Equipment headwinds from China lockdown, FX, and supply chain limit 1H EPS growth, but 2H23 looks brighter. The company's backlog and price capture support equipment activity even as global construction activity softens in 2023, particularly in Europe and China. The Otis model is heavily influenced by mix, with modest operating leverage (<20% incrementals) on new equipment (NE) and higher profitability on service. The global elevator and escalator industry is estimated at ~\$80B as of 2021. Analysts have an average target of \$84 with short interest minimal at 1.4% of the float. Cowen raised its target to \$95 after the quarter seeing guidance realistic.

Hawk Vision:



Hawk's Perspective: OTIS is a favorite Industrial though modest growth a dominant market position and a compounder, and its ties to China make it favorable into 2H23.

Confidence Ranking: \$\$