



Z-Scaler Bulls Active as Shares Move to New Highs

Ticker/Price: ZS (\$47.50)

Analysis:

Zscaler (ZS) calls hot early with shares up 5% as 1,250 February \$49 calls are bought from \$1.20 to \$1.30, 745 of the December \$50 calls open for \$8.90, and more OTM Jan. 2020 calls open up to \$65 strike. ZS had 1,500 March \$48 calls bought on Friday and the Jan. 2020 \$55 calls bought as well 500X. ZS has bullish open interest in the May calls as well from early January. The March \$44 and \$45 puts have also opened in size, although down over 30% since initial buys. ZS is nearing a breakout above \$48.50 out of a wide multi-month range which targets \$60+. The \$5.46B software company trades 24.4X EV/sales and 17X cash and expected to see profitability in FY20. The company has been growing revenues steadily at 46.8% in FY19, 31.4% in FY20, and 27.9% in FY21 behind significant demand for their high-end offerings and growing in Private Access, their VPN-alternative for enterprise security. ZS operates in a big TAM as public cloud workloads are expected to jump significantly over the next 1-2 years and IT spending on security becomes a large percentage of the overall mix. Analysts have an average target for shares of \$38 with 5 buy ratings, 8 hold ratings, and 1 sell. MSCO downgraded shares to Underperform on 1/15 with a \$40 PT seeing shares priced to perfection. The firm thinks shares will be a relative underperformer as competitive noise gets louder. Piper starting at Overweight on 1/11 with a \$50 PT seeing the migration of data and applications to the cloud driving sustainable, long-term demand. They also think ramping adoption of SD-WAN should increase the need for cloud-based security. Institutional ownership rose 79% last quarter. Driehaus Capital, Castle Hook, and Maplelanc all notable buyers. Short interest is 6.8% and up from 4.4% in December.

Hawk Vision:



Trading Strategy: ZS has been a favorite newer growth tech name since early last year and continue to like it, though would not be recommending a position at these levels as it is quite extended.

Confidence Ranking: \$\$