



Colfax Calls Accumulate on Portfolio Transformation Catalysts

Ticker/Price: CFX (\$21.60)

Analysis:

Colfax (CFX) with 2,575 February \$22.5 calls being bought with 1,500 at \$0.75 and now a block at \$0.90, hot activity after 2,500 opened here late yesterday and 2,250 of the March \$25 calls earlier this week. The \$2.45B diversified industrial trades 8.2X Earnings, 6.8X FY19 EBITDA, and 21X FCF with a healthy balance sheet and ample cash. CFX is foretasted to see growth slow in 2019 but top-line at 4.2% and EPS growth of 14%. Shares pulled back in 2018 and held at the 2016 bottom, now trying to work out of a small base and moving above the 20 MA this week. It gave its 2019 outlook in December noting restructuring cost savings, margin expansion opportunities, acquisition overview and its strategic review of Air & Gas Handling business as it transforms the portfolio. CFX has been seeing margins improve and expects double-digit order growth in Q4 with momentum in Industrial applications and winning Mining orders while Oil & Gas and Power remain solid. Analysts have an average target near \$28 with short interest down 34% Q/Q to just 5.3% of the float. Cowen was out with a \$30 target yesterday and OpCo on 12-20 lowered its target to \$30 noting an increased risk-profile with uncertainties from the DJO acquisition but sees material upside in shares for patient investors. Stifel noted in November a sale of the Air & Gas Handling business is highly likely in 2019 with expected \$1.05B proceeds. Hedge Fund ownership rose 5% last quarter.

Hawk Vision:



Trading Strategy: CFX does still have 2,000 March \$25 puts sitting in open interest, but has a tight stop level to use at \$20 for a nice reward/risk set-up.

Confidence Ranking: \$\$