



Bearish Positions Accumulate in Treehouse Foods

Ticker/Price: THS (\$58)

Analysis:

TreeHouse (THS) shares rallying recently ahead of 2-14 earnings but sizable bearish open interest including 13,000 May \$55 puts bought in late November, 10,000 of the \$50 puts, and today 2,500 February \$60 calls being sold to open from \$2.25 to \$2.20. Shares are up almost 45% from the October lows and running into channel resistance around \$60. A move back under the 13- and 20-EMA targets a re-test of \$50 with the lower-end back near \$45. THS traded as high as \$100 back in 2016 and recent bounce back to the 38.2% Fibonacci of the drop. The \$3.31B packaged goods company trades 22.6X earnings, 0.55X sales, and 48.5X cash. THS expects positive EPS growth over the next two years as they focus on operational efficiencies but seeing sales fall 3.5% in FY19 and 1% in FY20. The company has struggled with margins as a drop in volumes more than offset modest price hikes last quarter and inflation expected to be an issue again this quarter. THS has been weighed down by their \$2.7B deal for Ralcorp in 2016 and continues to offload assets while re-organizing. In November, reports indicated they were shopping their trail mix business but expected to sell for far less than the \$860M they paid for the company in 2014. Analysts have an average target for shares of \$51 with 2 buy ratings and 10 hold ratings. Short interest is 17% and jumping sharply since October when it was 9%. Short interest on a percentage-basis is near its highest levels in ten years. CS with a \$50 PT and Neutral rating, cautious on the long-term visibility as THS lacks pricing power to fully offset the incoming wave of costs. They also think FY19 will come in at the low-end. BMO cautious on 12/12 noting that they are skeptical that THS can sustain consistent growth at a time when execution is most important. Institutional ownership fell 14.25% last quarter.

Hawk Vision:



Trading Strategy: THS ranks high on the bear positioning and the \$60 level is key resistance, so appears to be a great time to position for downside in the name.

Confidence Ranking: \$\$\$