



Stanley Works Large Call Buy as Clears 200 MA

Ticker/Price: SWK (\$137)

Analysis:

Stanley Works (SWK) with 2,000 July \$145 calls opening for \$6.10 today, spot where 1,000 sit in open interest from buyers in December. SWK had 300 July \$140/\$175 call spreads bought for \$6.50 back in early January which remain in open interest while the \$120 calls bought on 1/25 and the April calls also have some sizable open interest at the \$155 strike, 3700X from September. Shares are back above the 233-day MA after a strong post-earnings move and sitting at resistance of a four-month range at \$135/\$140. Longer-term, shares are nearing a downtrend break from the late 2017 highs which measures out to \$165/\$170. The \$20.55B company trades 14.68X earnings, 1.47X sales, and 67.5X FCF with a nearly 2% yield. They expect 4.9% and 9.8% EPS growth through FY20 with revenue growth of 3.5%. SWK has seen some concerns over tariff headwinds but delivered organic growth better than the industry while continuing to add share and expand into lawn/garden. The company sees 2019 upside from the rollout of the Craftsman brand, deal synergies from the Lenox and Irwin acquisitions, and expanded e-commerce gains. They are also executing on a \$250M cost-savings plan and initiatives to enhance margins which are near their lowest level since 2016. Analysts have an average target for shares of \$157 with 14 buy ratings and 2 hold ratings. Short interest is 3% and near its highest levels since April 2016. Baird has a \$154 PT for shares with upside seen to volumes and their restructuring. Deutsche Bank defending shares on 1/23 seeing their 2019 outlook at overly conservative given the macro and geopolitical uncertainty. Institutional ownership jumped 30%.

Hawk Vision:



Trading Strategy: SWK is a fairly attractive value in the Industrial group and not as extended, though running into major trend resistance and above can move to \$155 upside. The overall market is extended and think there will be a better dip to position in quality names in May/June.

Confidence Ranking: \$\$