



Align Tech Calls See Resumption of Uptrend

Ticker/Price: ALGN (\$205.50)

Analysis:

Align Technology (ALGN) shares trying to clear a small downtrend today above \$205 with room back to the 50-day MA and \$220 with some notable bullish flow recently ahead of 1-29 earnings. On Friday 1/11, a trader bought 2,000 February \$200 calls for \$12.90, a more than \$2.6M trade, and ALGN still has over 1,000 April \$185 short puts in OI from 12/20. ALGN has also seen the February \$210 calls, February 1st (W) \$205 calls, and April \$270 calls bought recently. Shares forming a wedge under \$215 and showing a bullish RSI divergence into the recent lows with a gap to fill above \$250 back to the 200-day MA around \$300. The \$16B company trades 33.5X earnings, 8.6X sales, and 26.35X cash with 20-25% EPS growth. ALGN expects 23.2% and 22.5% revenue growth through FY20 but ASP expected to lower as they see a shift in mix towards more general practitioner level treatments. The company noted that some of their weakness is from a promotional push which has been discontinued. ALGN remains a leader in the clear aligner space which has a massive TAM, over 12M ortho cases globally where they estimate just a small fraction have been served. The company is expanding their digital services and new product offerings in areas like MA in 2019 which should help them gain share in an overly competitive space. ALGN especially sees a big opportunity in emerging markets and focused on Brazil which is the second largest market for cosmetic procedures. Analysts have an average target for shares of \$340 with 13 buy ratings and 2 hold ratings. Short interest is 3.7% and up from 2% in November. Baird positive on 1/2 after positive Invisalign survey data for December and a more reasonable valuation after the recent pullback. CSFB with a \$343 PT on 11/20. They note that more than 75% of their case mix will still be comprehensive and ALGN can gain market share over peers by moving into the non-comp sector, a long-term positive as they add volume despite the ASP headwinds right now. Piper positive recently noting that FDA approval for their new Mandibular Advancement product will help drive share gains in EMEA and Asia while it also adds another vertical in the US which his underpenetrated. Institutional ownership fell 6% last quarter. Winslow Capital a notable buyer of 131K shares.

Hawk Vision:



Trading Strategy: ALGN is showing some bullish divergences since the earnings sell-off and looks good versus recent lows as a name that could see forgiveness for its lone miss in many years but still carries plenty of risk as a multiple contraction name and prefer to see the next report.

Confidence Ranking: \$\$