



Kroger Attracts Bearish Bets into Rebound, Headwinds Persist

Ticker/Price: KR (\$29)

Analysis:

Kroger (KR) buyers earlier of 10,000 March \$30 puts today up to \$2.16 and follows buyers of 2,225 February \$30 puts on 1/14. KR has seen buyers in the Jan. 2020 \$27 puts, over 5,000X, and the July \$27 puts also accumulating over 2,000X. KR has 10,000 April \$31 calls in OI but down around 75% from the original buy. Shares bounced back into cloud resistance this week and rolling back under the 13- and 20-EMA today with recent support at \$26.50. A breakdown targets \$23.50 and forming a series of lower highs since September. The \$23.3B company trades 12.9X earnings, 0.2X sales, and 54X cash with a 1.92% yield. KR expects 5-10% EPS growth over the next two years with 2-3% revenue growth but margins continue to contract hitting their lowest level since 2015. The company faces near-term headwinds as they sacrifice pricing power to gain traffic share as they compete with peers like Amazon and Walmart. They are also entering a heavy period of investment in their omnichannel strategy and concerns last quarter over rising healthcare/pension costs. Analysts have an average target for shares of \$31.50 with 7 buy ratings, 9 hold ratings, and 2 sell ratings. Loop Capital with a \$30 PT and on 12/17 reiterating a more cautious stance noting that near-term guidance was a surprising positive but their aggressive 600-store remodel progress remains below plan. They also think valuation is unlikely to expand without a meaningful turnaround in comps. Institutional ownership fell 10% last quarter. Short interest is 5.1% and down from 2018 highs near 8.5%.

Hawk Vision:



Trading Strategy: KR looks like it can roll over from this level and setting alert for \$28 as a key breakdown.

Confidence Ranking: \$\$