



Bulls Accumulate Positions for a Bottom in CVS

Ticker/Price: CVS (\$65.95)

Analysis:

CVS Health (CVS) with a buyer today of 1,280 August \$67.50 calls for \$4.50 and follows buyers earlier this week in the March \$62.50 calls and some size Feb. \$75 puts closing. CVS had buyers of the March \$67.50 calls over 2,500X on 1/18 while the Jan. 2020 calls and April calls have seen accumulation up to the \$72.50 calls. The May \$65 puts have been sold to open over 3,500X as well, willing buyers of shares near current levels. Shares are down around 19% since mid-November but forming a multi-week base back near the 2018 lows. A move above \$67.50 has room back to \$75. The \$84.15B company trades 8.8X earnings, 0.45X sales, and 37X FCF with a 3% yield. CVS sees 5.8% and 11.2% EPS growth over the next two years with revenue growth of 5-6%. The company closed on their \$70B deal for Aetna in November and now sees synergy opportunities in excess of their original \$750M goal driven by cost-reduction, integration of operations, and higher medical cost reductions. The deal gives CVS a more unified approach to services and the company plans to roll out new store concepts to capitalize on their opportunities in early 2019. In December, a judge in DC halted some aspects of the integration as he continues to review the deal and a resolution of the review process a positive catalyst. The company also sees upside drivers in 2019 from new partnerships such as their Apple agreement yesterday and in-store offerings around dental with Smart Direct Club. Analysts have an average target for shares of \$91.50 with 14 buy ratings and 3 hold ratings. UBS starting at Buy on 1/17 with a \$75 PT noting that concerns around guidance have pushed the stock down to a very appealing risk/reward. Cowen also noting that recent pressure on the shares due to rebate guarantees is overdone in that it represents less than 2% of its revenues. Barclays with an Overweight in December, \$91 PT noting that the Aetna deal will more than offset weakness or slowing in their retail and PBM side. Short interest is 0.83%, down sharply from November. Institutional ownership fell 1.14%. Shares are back near a level where two Directors bought more than \$2M in stock in May at \$62.

Hawk Vision:



Trading Strategy: CVS looks compelling as a bottoming play for longer dated calls but have to see some better price action.

Confidence Ranking: \$\$