



## Alliance Data Calls Accumulate into Weakness

**Ticker/Price:** ADS (\$169.25)

### Analysis:

**Alliance Data (ADS)** buyers of 675 February \$180 calls this morning for \$4.10 to \$4.60 and 100 of the \$175 calls for \$6.30. Today's action follows over 1,175 of the June \$200 calls bought on 12/10 for more than \$1M. Shares have been weak since 2015 after a period of strength from 2009 to 2015 and back at the 50% Fibonacci of the range around \$165. ADS has a big volume node at \$220 and prior support at \$200. The \$9.2B company trades 6.77X earnings, 1.17X sales, and 3.65X FCF with a 1.36% yield. ADS expects 9% revenue growth in FY19 and 11% in FY20 with 5% and 9% revenue growth respectively after a period of stagnant numbers. ADS reported strong card growth in Q3 with card services revenue up 10% and new client signings at a record which will drive \$4B in receivables growth over time. The company's Epsilon business continues to lag, down 4%, and in November they announced a strategic review to sell the business. The move comes after Acxiom's sale of its marketing-solutions business which attracted a notable premium. BMO thinks the company could sell its operations for \$5.4B, in whole or in parts, above consensus and could occur by March. Analysts have an average target for shares of \$246 with 13 buy ratings, 7 hold ratings, and 1 sell. BMO's upgrade on 12/10 had a \$240 PT while Deutsche Bank has \$218 PT and sees potential for a complete split of non-card businesses as a positive. Short interest is 3.2% and near five-year lows, well off the 2017 highs above 7.5%. Institutional ownership fell over 4% last quarter. ValueAct is the top holder with more than 11.8M shares.

### Hawk Vision:



**Trading Strategy:** ADS appears to be clearly an event-driven play for this unit sale, so could pay nicely and worth monitoring for further call accumulation.

**Confidence Ranking:** \$\$