



Southwest Air Positioning Skews Bullish

Ticker/Price: LUV (\$58.2)

Analysis:

Southwest (LUV) with another 4,000 April \$57.5 puts sold to open \$2.05 today where 8,000 are already in OI and follows buyers in the September \$62.50/\$52.50 bull risk reversals recently as well. LUV has seen more size put sales recently into post-earnings strength, willing buyers on a dip, with the March \$55 puts sold 20,000X on 1/28 while the March \$60 calls have over 5,000 in open interest from buyers in October. Shares are working out of a multi-month base recently above \$55 and consolidating above the 8-EMA over the past week with plenty of room above back to September highs. LUV is forming a big weekly channel under \$62.50 and a breakout has a measured move to \$75. The \$31.77B company trades 10.3X earnings, 1.45X sales, and 7X FCF with a 1.11% yield and double-digit EPS growth. They see 7-8% revenue growth over the next two years as well as margin expansion and better ROIC as their cost outlook improves. LUV is undergoing a massive investment cycle with improvements in their operations, reservation systems, and airport remodels in some of their largest hubs. They also are building out a fleet and routes to Hawaii which is expected to start in 2019 and being a significant new route. Analysts have an average target for shares of \$62.50 with 13 buy ratings, 6 hold ratings, and 1 sell rating. Vertical starting at Buy on 2/4 with a \$70 PT. Imperial raising their PT to \$60 on 1/25 although still concerns near-term about earnings power as their investments take hold over the next 12 months. Institutional ownership up 23% with short interest 2.6% and down from 3.4% in December. LUV back near an area where insiders were active in early 2018 when a director bought \$200K in stock at \$56.25.

Hawk Vision:



Trading Strategy: LUV has always been a top operator in the group, though on an extended run and the Airlines outlook been uncertain, so holding off and prefer to own it closer to the put sale strikes.

Confidence Ranking: \$\$