



Large Call Accumulate in Deere as Trade Tensions Seen Easing, Growth/Margin Expansion Cycle Strong

Ticker/Price: DE (\$157.25)

Analysis:

Deere & Co. (DE) shares continuing to show relative strength holding up near multi-month highs, moving out of a large descending triangle recently and back well above the 200 MA and weekly cloud. DE has seen a lot of bullish call accumulation since December as well as the June \$150 short puts 3,775X in OI and 1,500 of the February \$140 short puts. DE has seen calls accumulate at June \$180 for 2,660X, March \$155 for 5,780X, and Jan. 2020 \$165 calls bought 1,250X. The \$50.7B farm & construction machinery leader trades 12.3X Earnings, 1.36X Sales, and 14X EBITDA with a 1.92% dividend yield, earnings boosted in recent years from cost cutting measures. DE saw revenues rise 11.6% and 25.6% the last two years and now faces tough comps, but does see 22% EPS growth for FY19. DE has been investing in new products and Ag markets look to be improving. It also made a key acquisition of Wirtgen last year which has a strong order book and sees synergies by 2022. Analysts have an average target of \$176 with short interest low at 2.3% of the float. DE will next report earnings on 2-15. CSFB has an Outperform rating and \$211 target on shares seeing a roadmap to mid-cycle margins while precision Ag is in focus. A trade resolution would be a boost for DE with steel tariffs and Ag trade flow impacts. Argus was out last week with a \$170 target after management raised operating margin target to 15% from 12%. BMO has a \$195 target and sees years of growth and margin expansion despite challenged farmer incomes, machinery continues to age and a replacement cycle is coming. Hedge Fund ownership fell 16.8% last quarter, though Cascade Investment, Castle Hook, and Firefly Value all took large concentrated new stakes.

Hawk Vision:



Trading Strategy: DE is a favorite fundamental name in Industrials and showing impressive price-action, extended near-term but attractive back near \$149.

Confidence Ranking: \$\$