



Bulls Position for Further Upside in Aerojet

Ticker/Price: AJRD (\$39.85)

Analysis:

Aerojet Rocketdyne (AJRD) name which continues to consolidate in a narrow range and on Friday saw 2,700 May \$35 calls bought for \$6.55 as the February calls adjusted out. AJRD has more than 4,300 March \$40 calls in OI from buyers in late January while the May \$40 calls also with 1,400 in OI from buys. Shares have run strong to new highs since early January and has a long-term measured target of \$45-\$50. AJRD doesn't have an official date for earnings yet but expected to be within the next two weeks. The \$3.12B company trades 26.93X earnings, 1.57X sales, and 12.79X FCF with almost \$8/share in cash on hand. They expect 5.4% and 12.6% EPS growth through FY20 with revenues higher by 3-4% with tailwinds from hypersonic, a growing area of spend in the DoD budget. AJRD continues to focus on margin improvement and improving the balance sheet (debt down from over \$460M to \$102M since 2015) while CEO Eileen Drake has said that their focus in 2019 will be on bolt-on deals to build out product lines and strategic programs. They've won contracts with DARPA and ULA for their next-gen rocket systems and adding new lines could give them a competitive edge against Blue Origin and SpaceX. AJRD is also looking to monetize over 5,600 acres of land in California after shifting production. Analysts have an average target for shares of \$41 with limited coverage. Sun Trust with a Buy rating for shares citing better bookings growth as defense spending improves. AJRD has been considered a top M&A target in the space as well after the Orbital deal with scarcity value as the lone US rocket manufacturer with a number of strategic suitors such as Lockheed, Raytheon, BAE and others. Institutional ownership rose 7.25% last quarter. Short interest is 12.5% and up from 4.6% in September 2017.

Hawk Vision:



Trading Strategy: AJRD was a base breakout trigger early in 2019 with notable call OI and has worked nicely, now consolidating. It's a name I have liked for a while in a large Aerospace industry with few niche players, and likely one to wait until after earnings to trade again.

Confidence Ranking: \$\$