



## Bearish Position in Kar Auction Services

**Ticker/Price:** KAR (\$52.75)

### Analysis:

**KAR Auction Services (KAR)** with 3,000 March \$55 puts bought today from \$3.00 to \$3.30 to open and follows 3,000 April \$55 puts bought up to \$4.90 on 12/7. KAR shares have rebounded from the recent lows \$46 and back near the 200-EMA and 38.2% Fibonacci of the downtrend from the August highs. MACD is nearing a bearish crossover while RSI is turning over from the 75 level and overbought range. KAR broke a long-term uptrend in November. The \$7.15B company trades 16.75X earnings, 1.92X sales, and 21X FCF with a 2.65% yield. KAR has been growing revenue in the high-single digits but forecasting a slowdown in 2019 to 6.1% and 5.7% in 2020. The company has been planning a separation of their salvage auction business, IAA, and the Remain Co will focus on ADESA auctions and financing. ADESA is the second-largest used vehicle network in North America and faces concerns over peak pricing with Manheim's index decreasing for the third consecutive month in January after hitting multi-year highs. SAAR is also hit its highest levels in 10-years late last year according to Wards and forecast to see a slowdown in 2019, historically a 1-2 quarter lagging indicator to ADESA. Analysts have an average target for shares of \$65 with 5 buy ratings and 3 hold ratings. Short interest is 1.7%, up from 0.7% in October. Institutional ownership fell 22% with Frontier Capital selling nearly half their stake. Point72 and Boston Partners notable buyers. Sun Trust lowering their PT to \$65 on 1/7 noting that the company may not see similar levels of higher RPU for catastrophic vehicles sold in Q4 and faces tough comps in 2019 which should drive multiple compression.

### Hawk Vision:



**Trading Strategy:** KAR is moving right back into major resistance and a good candidate to roll back over. It is also in a tough industry right now, so the short play looks to be on the right track.

**Confidence Ranking:** \$\$