



FEATURED OPTIONS RADAR REPORT



PennyMac Bulls Buy into 200-MA, Key Support into Spring Housing Season

Ticker/Price: PFSI (\$59.20)

Analysis:

PennyMac Financial (PFSI) late day buyers on 4/14 for 3,000 August \$70 calls for \$1.40 to \$1.65 with shares right back at the 200-MA and prior support. PFSI has 1,000 May \$55, 3,500 May \$60, and 3,000 May \$65 calls in open interest. Shares are back at the 200-day MA and put in a bullish reversal candle yesterday closing on the highs. PFSI also held the \$58 level again, a key area from both January and March while the top-end of the recent channel at \$68-\$70. Longer-term, a nice bull flag setting up after a strong rally in 2020 with upside to \$83. The \$4.13B company trades 5X earnings, 0.9X sales, and 1.25X book with a 1.35% yield. PFSI is one of the largest non-bank mortgage originators in the US, buying loans from smaller companies and selling them into their trust. PFSI is coming off of a strong year with historically low rates benefiting their Production business and in 2021 with rates creeping higher they expect to see stronger earnings out of their Servicing business as prepayments decline and the value of MSR grows. They have a roughly \$3B MSR portfolio. Analysts have an average target for shares of \$84 with a Street High \$109. Credit Suisse positive in February noting that while moderating from the peak, the return environment remains exceptional, which will continue to allow for significant book value growth in the coming quarters. In February, the CFPB announced it was investigating the company over disclosures made in 2015-2016. KBW commenting on the CFPB matter noted that it should not materially impact the company since the issues were self-identified and remediated prior to the CFPB exam. Short interest is 4.45%. Institutional ownership fell 5% in Q4, Senvest Management a buyer of stock and Basswood Capital added to their stake.

Hawk Vision:



Hawk's Perspective: PFSI is giving a nice risk/reward spot to lean against on the 200-MA and ultimately think the rates situation is being overblown while another strong Spring selling season should be a positive

Confidence Ranking: \$\$