

SPOTLIGHT OPTION TRADE



Philip Morris Worst Baked In, Re-Rate into 2021 Likely, Thinking Contrarian for Q3

TRADE SNAPSHOT

TICKER	PM
SECURITY	Philip Morris
SECTOR	Consumer Defensive – Tobacco
CURRENT PRICE	\$72.3
LONG/SHORT	Long
TARGET	\$85
STOP	\$66.5
TIMEFRAME	3 Months

Trading Strategy: Long PM September \$72.50 Calls at \$4 or Better

Net Debit/Credit: Debit \$4

Profitability Zone: PM Shares Above \$76.50 on September OpEx

Options Volatility / Trade Simulator View:





Technical Analysis: PM shares forming a tightening triangle pattern and pulled in Wednesday after a strong move Tuesday, a long large base forming.



Fundamental Analysis: The \$111B tobacco leader trades 13.35X Earnings, 10.4X FY21 EBITDA, and 3.7X Sales with a 6.5% dividend yield and is well capitalized. PM looks interesting as a value name with FY20 a throw-out year for most companies it is expecting modest declines Y/Y, but for FY21 sees 6.4% revenue growth and 10.4% EPS growth, strongest since 2011 (and shares started trending higher July 2010). PM has ample liquidity and has a cost-cutting program while nicotine demand is expected to remain resilient and IQOS is a growth engine and the FDA decision this week was a win ruling IQOS tobacco system as a modified risk product. PM has been growing IQOS users by nearly 70% Q/Q since early 2018 and now the third largest brand in all of its major markets. PM was out with guidance on 6/11 so expecting downside is fully baked into this quarter. PM remains committed to its strong dividend and is focused on cost efficiencies, on track for > \$1B cuts by 2021. It noted at the Deutsche Bank conference on 6/11 that consumer trends remained resilient during lockdowns and seeing positive recovery signs. Analysts have an average target of \$83 and short interest low at 0.5% of the float and falling 30% Q/Q. Goldman starting at Buy on 4-1 noting that the actual impact of COVID-19 on consumer behavior is being dramatically overblown while PM has multiple levers to offset any potential near-term pressure including pricing changes and cost-cutting. Piper positive in March noting that nicotine demand will remain resilient near-term. Cowen in February noted that IQOS remains a major long-term story given its attractive unit economics and profit potential and the company has done an exceptional job of conversion early. Stifel noting earlier this week the FDA authorization is a major win and a significant first step in exploiting growth potential of the heated tobacco category. Another long-shot but interesting angle is PM has a unit working on a tobacco-based COVID vaccine which would be very promising due to scalability. Medicago, which is one-third owned by Philip Morris, is using a virus-like particle grown in a close relative of the tobacco plant. It is aiming to begin human tests this summer and estimates it would take 12 to 18 months to release the vaccine, although this could be sooner if regulators accelerate the approval process. Hedge Fund ownership rose 3.2% in Q1 filings, Fundsmith a large 7% weighting. PM has closed higher 5 of its last 7 earnings reports.

Options Activity:

Date	Description	Volume	Open Int	Price	Delta	Impl Vol	Prob. ITM	Premium Paid	Symbol	Current Price	Current OI	Price Change	OI Differential
7/7/2020	PM 100 17 JUL 20 71 CALL	1,939	326	\$2.48	0.67	30.94%	64.58%	\$480,872	.PM200717C71	\$2.56	989	3.23%	-56.34%
6/24/2020	PM 100 (Weekly) 24 JUL 20 64 PUT	1,211	6	\$0.90	-0.19	40.47%	22.09%	\$122,311	.PM200724P64	\$0.46	1212	-48.89%	-.41%
6/22/2020	PM 100 17 JUL 20 77.5 CALL	3,276	1,365	\$0.40	0.16	26.77%	13.91%	\$137,592	.PM200717C77.5	\$0.13	3496	-67.50%	-24.67%
6/11/2020	PM 100 21 JAN 22 70 PUT	1,000	654	\$13.06	-0.47	28.74%	66.43%	\$1,306,000	.PM220121P70	\$12.00	1648	-8.12%	-.36%
6/11/2020	PM 100 21 JAN 22 70 CALL	1,007	1,517	\$9.81	0.52	33.87%	33.72%	\$987,867	.PM220121C70	\$10.00	2623	1.94%	3.92%
6/4/2020	PM 100 18 SEP 20 70 CALL	3,272	499	\$7.00	0.67	31.77%	58.87%	\$2,290,400	.PM200918C70	\$5.97	3867	-14.71%	2.55%
5/13/2020	PM 100 21 JAN 22 70 CALL	1,007	361	\$8.45	0.49	36.47%	30.27%	\$850,915	.PM220121C70	\$10.00	2,623	18.34%	91.74%
5/8/2020	PM 100 18 DEC 20 72.5 CALL	600	6	\$6.93	0.496	36.69%	37.97%	\$415,800	.PM201218C72.5	\$6.05	1073	-12.70%	77.06%
4/1/2020	PM 100 15 JAN 21 72.5 PUT	2,003	787	\$11.45	-0.48	40.53%	64.75%	\$2,293,435	.PM210115P72.5	\$7.15	3,305	-37.55%	18.46%
2/28/2020	PM 100 15 JAN 21 75 PUT	1,524	939	\$7.75	-0.38	30.55%	51.89%	\$1,181,100	.PM210115P75	\$9.80	2,489	26.45%	1.06%
1/27/2020	PM 100 18 SEP 20 87.5 PUT	480	151	\$7.80	-0.6	18.69%	67.52%	\$379,200	.PM200918P87.5	\$14.50	456	85.90%	-27.73%
1/7/2020	PM 100 15 JAN 21 87.5 CALL	1,001	1,052	\$6.25	0.46	23.39%	36.52%	\$625,625	.PM210115C87.5	\$1.25	2,619	-80.00%	27.57%
12/13/2019	PM 100 15 JAN 21 72.5 CALL	1,124	418	\$13.09	0.782	23.12%	63.23%	\$1,471,316	.PM210115C72.5	\$4.49	2,627	-65.70%	70.36%

Potential Catalysts: Earnings 7/21

Disclaimer:

Not Investment Advice or Recommendation

Any descriptions "to buy", "to sell", "long", "short" or any other trade related terminology should not be seen as a recommendation. The Author may or may not take positions in any of the names mentioned, and is not obligated to disclose positions, nor position sizes.

Content is for informational and educational purposes only. You alone will need to evaluate the merits and risks associated with the use of this content. Decisions based on information provided are your sole responsibility, and before making any decision on the basis of this information, you should consider (with or without the assistance of a financial and/or securities adviser) whether the information is appropriate in light of your particular investment needs, objectives and financial circumstances. Investors should seek financial advice regarding the suitability of investing in any securities or following any investment strategies.

No reference to any specific security constitutes a recommendation to buy, sell or hold that security or any other security. Nothing constitutes investment advice or offers any opinion with respect to the suitability of any security, and the views expressed on this website should not be taken as advice to buy, sell or hold any security. In preparing the information contained in this website, we have not taken into account the investment needs, objectives and financial circumstances of any particular investor. This information has no regard to the specific investment objectives, financial situation and particular needs of any specific recipient of this information and investments discussed may not be suitable for all investors.