Raytheon Put Sales See Limited Downside into Aero Recovery
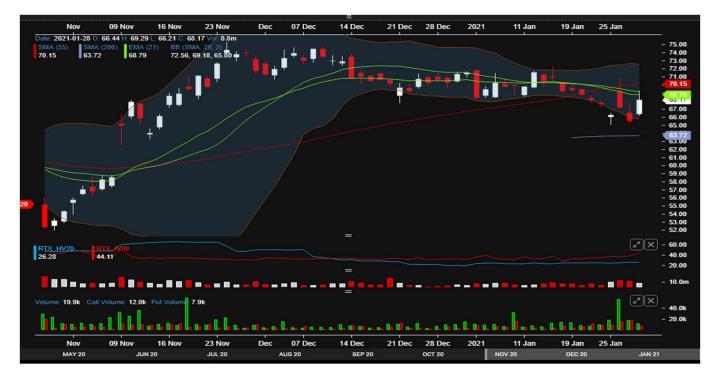
Ticker/Price: RTX $68.2

Analysis:

Raytheon (RTX) with 2,000 August $65 puts sold to open on 1/28 around $5.65, more than $1.15M, and follows bull spreads in the May options recently selling the $60 puts to buy the $75/$80 call spread 6000X. RTX also has 16,000 June $85 calls in OI from mid-November. Shares have pulled back to the 38.2% Fibonacci of the recent rally and above $70.50 has room back to recent highs above $75. RTX has a big low-volume gap from February back to $90. The $105B company trades 19.7X earnings, 1.75X sales, and 10X cash with a 2.8% yield. The company is coming off a strong quarter, especially off of free cash flows, higher realized synergies and aggressive cost-cutting plans. Their Intelligence & Space business continues to track higher bookings, over $4B, and their defense backlog is now $67B. RTX expects narrow body to rebound first in 2021 given the travel restrictions Internationally. Analysts have an average target for shares of $87 with a Street High $101 at Baird. BAML naming shares a Top Pick on 1/4 citing "diversified and platform-agnostic defense portfolio should continue to grow mid-single digits, most likely outpacing the US defense budget and generating stable FCF." The firm also thinks improving aircraft cycles will provide upside into 2021 and there may be a resurgence of maintenance demand in 1Q21 as airlines swap out engines on unused aircraft. Short interest is less than 1%. Hedge fund ownership fell 8%. Viking Global with 6.1M shares, a new position. A number of insiders buying stock recently including the COB on 10/28 adding $1M at $52.50 and the CEO adding $3M on $54.82.

Hawk Vision:

Hawk's Perspective: **RTX** is a quality name which will benefit greatly from a better aerospace environment in 2021 while they continue to execute on the UTC merger and cost-cutting program well

Confidence Ranking: $$