Scientific Games Draws Bullish Positioning After Board Refresh

Ticker/Price: SGMS $44

Analysis:

Scientific Games (SGMS) big block of 9,500 April $50 calls opens $4.10 today, follows buyers at the strike on Friday 975X for $4.10, first notable action in a while for the name. SGMS in a strong trend higher since September and pulling back to the rising 21-MA last week in a small bull wedge. A run above $45.50 sets up for a test of new highs and then measured move to $54. The $4.25B company trades 1.5X sales and 4X cash and expected to return to profitability this year. SGMS has a number of big opportunities ahead of it with expansion of cashless gaming solutions, sports betting, and iGaming while their core lottery business has been stabilizing into the latter half of 2020. SGMS announced a big board refresh in September aimed at evaluating new strategies for growth and unlocking shareholder value from the deep library of tech and IP. The company noted in Q3 they are targeting better cash flows and deleveraging and any potential update on strategy would be net positive. Analysts have an average target for shares of $39 with a Street High $60 from Truist. The firm thinks the industry's Q4 results may be soft, but the management commentary will focus on vaccine distribution that should ramp over the next few quarters, opening up a tidal wave of pent-up demand for in-person social engagement and experiences. Jefferies with a $55 PT last week and expecting the company's lottery and leased equipment business to show stability, while slot sales gradually recover to 85% of fiscal 2019 levels by fiscal 2022. Short interest is 7.3% and down from around 10% in late 2020. Hedge fund ownership rose 38% in Q3, Park West a new buyer of 1.6M shares. Sylebra Capital remains a top holder with over 8.6M shares.

Hawk Vision:

Hawk's Perspective: SGMS has been quietly in a very strong trend and recent pullback gives a nice risk/reward entry for a continuation higher

Confidence Ranking: $$