

# Netflix Pullback Offers Strong Risk/Reward for Run into Earnings as Apple Streaming is Much Ado About Nothing



Date: 3/28/19

Netflix (NFLX) shares have pulled back to the 55-MA and cloud support after a failed breakout attempt last week above \$365. Shares are back at monthly value-area low and support of a narrow range at \$350. A breakout above \$375 has room to \$400 and then the prior highs around \$425. NFLX has seen a lot of bullish flow recently including size in the April 5<sup>th</sup> (W) 400 calls, over 10,000X, while the May \$365 calls and March \$350 calls have seen large buys recently. The full snapshot is below.

Date	Description	Volume	Open_Int	Price	%Change	Delta	Impl Vol	Prob.ITM	Premium Paic	Symbol
3/27/2019	NFLX 100 18 OCT 19 300 PUT	517	84	\$19.26	13.29%	-0.24	42.68%	34.93%	\$995,742	.NFLX191018P300
3/27/2019	NFLX 100 (Weeklys) 12 APR 19 367.5 CALL	1,042	226	\$5.90	-13.87%	0.35	33.35%	32.86%	\$614,780	.NFLX190412C367.5
3/26/2019	NFLX 100 15 JAN 21 520 CALL	300	142	\$33.75	-9.47%	0.35	38.33%	18.62%	\$1,012,500	.NFLX210115C520
3/20/2019	NFLX 100 (Weeklys) 5 APR 19 400 CALL	4,721	6,374	\$2.18	147.73%	0.15	34.42%	13.65%	\$963,778	.NFLX190405C400
3/18/2019	NFLX 100 17 JAN 20 490 CALL	307	272	\$16.65	15.22%	0.26	35.88%	16.28%	\$511,155	.NFLX200117C490
3/15/2019	NFLX 100 21 JUN 19 345 PUT	2,264	291	\$18.20	-12.03%	-0.345	37.34%	41.79%	\$4,120,480	.NFLX190621P345
3/15/2019	NFLX 100 17 MAY 19 365 CALL	1,329	532	\$23.64	7.95%	0.533	38.77%	46.84%	\$3,141,756	.NFLX190517C365
3/14/2019	NFLX 100 (Weeklys) 12 APR 19 365 CALL	837	45	\$13.70	11.84%	0.51	33.77%	47.11%	\$1,146,690	.NFLX190412C365
3/14/2019	NFLX 100 17 MAY 19 340 PUT	511	325	\$14.65	-1.68%	-0.31	42.23%	37.90%	\$748,615	.NFLX190517P340
3/11/2019	NFLX 100 20 SEP 19 325 PUT	1,028	312	\$23.55	-17.66%	-0.3	39.55%	40.95%	\$2,420,940	.NFLX190920P325
3/8/2019	NFLX 100 18 APR 19 350 PUT	1,996	991	\$20.86	10.66%	-0.466	45.96%	52.74%	\$4,163,656	.NFLX190418P350
3/8/2019	NFLX 100 20 SEP 19 330 CALL	402	41	\$50.29	-16.74%	0.65	41.67%	53.00%	\$2,021,658	.NFLX190920C330
3/8/2019	NFLX 100 19 JUN 20 320 PUT	100	35	\$45.40	17.53%	-0.33	41.19%	50.39%	\$458,000	.NFLX200619P320
3/5/2019	NFLX 100 17 MAY 19 350 CALL	6,069	1,137	\$28.00	9.38%	0.57	40.10%	49.87%	\$16,993,200	.NFLX190517C350
3/1/2019	NFLX 100 18 APR 19 355 CALL	2,027	728	\$23.14	-1.74%	0.56	40.57%	50.47%	\$4,690,478	.NFLX190418C355
2/26/2019	NFLX 100 20 SEP 19 300 PUT	504	55	\$23.80	-3.92%	-0.3	38.70%	40.17%	\$1,199,520	.NFLX190920P300
2/26/2019	NFLX 100 20 SEP 19 260 PUT	575	92	\$7.05	4.75%	-0.11	43.07%	17.67%	\$405,375	.NFLX190920P260
2/25/2019	NFLX 100 21 JUN 19 445 CALL	505	124	\$7.34	12.06%	0.2	34.28%	14.98%	\$370,670	.NFLX190621C445
2/22/2019	NFLX 100 20 SEP 19 390 CALL	762	532	\$31.75	2.09%	0.47	37.02%	36.34%	\$2,419,350	.NFLX190920C390

The \$162B company trades 55.5X earnings and 10.25X sales with 54.5% and 57% EPS growth expected through the next two years. NFLX sees revenue growth of 28.1% and 24.1% through 2020 driven by growth Internationally. The company has posted strong metrics outside the US with adds of 7.3M last quarter, above forecasts. NFLX is expected to be incrementally phasing in price hikes which will lift ASP and help absorb higher marketing costs as they roll out more original programming. One of the company's biggest titles, Stranger Things, will return in July while they also expect new seasons from Black Mirror and the OA.



Analysts have an average target for shares of \$380 with 29 buy ratings, 7 hold ratings, and 5 sell. Raymond James was out defending the company after Apple's service unveiling and the impending Disney service. They note that similar offerings already exist, suggesting this service is more incremental than revolutionary. Buckingham was cautious on 3/8 citing the departure of their CMO and headwinds to member growth from new plans. Sun Trust out on 3/27 seeing modest upside for domestic adds in Q1 while positive on the FY outlook as their content slate improves and additional opportunities exist around merchandising, product placement, box office, and content licensing.

Institutional ownership rose 1.12%. Short interest is 3.6%.

**Trade to Consider:** Long the **NFLX** April \$370 Calls for \$11.40 or Better