



Domtar Bull Extends Position Seeing Further Upside After Unit Sale

Ticker/Price: UFS \$32

Analysis:

Domtar (UFS) buyer of 5,000 April \$35 calls today for \$1.92, adjusting some February calls, while remaining bullish on the name. UFS has little notable open interest beyond January but does have 2,500 February \$30 short puts in OI from 12/28 while the Jan. 2022 \$25 calls were bought 600X on 11/25 for around \$9.20. Shares gapped higher last week after news and now back to VPOC from the very narrow multi-week range at \$31.50. UFS is consolidating above a breakout from the August highs and has a low-volume gap above to \$37.50. The \$1.85B company trades 15.2X earnings, 0.40X sales, and 14.2X FCF with mid-single digit growth. UFS is a provider of paper and packaging solutions and recently announced a sale of their personal care business for \$920M to AIP, a deal that strengthens their balance sheet and makes them more focused on pulp production. UFS has announced plans to expand capacity at two of their larger mills in 2021 as demand dynamics are expected to lift pricing in 2021. In Q3, they reported strong response from early containerboard hikes across the board which drove a better mix and profitability into year-end, something they see extending into this year. Short interest is 3.5%. Hedge fund ownership rose 3.25%. Analysts have an average target for shares of \$31 with a Street High \$42 from Stephens. RBC out positive on 1/8 noting that the NewCo is a much more attractive M&A target after their deal with AIP, especially to containerboard producers who could see potential to convert some operations at their newly expanded facilities in Kingsport, Hawesville, Marlboro, and Ashdown. Citi also thinks UFS is a sale target now citing opportunity for an International buyer to get a foothold into the US through a strong, cash-rich company. They see upside to \$45.

Hawk Vision:



Hawk's Perspective: UFS is back at an attractive spot here after gapping higher and fading on the news last week, earnings in early February and could see plans for how they expect to use their cash from the unit sale while longer-term the M&A angle is intriguing at this value

Confidence Ranking: \$\$