



FEATURED OPTIONS RADAR REPORT



Wells Fargo Bulls Target Update on Asset Cap Restrictions

Ticker/Price: WFC (\$46)

Analysis:

Wells Fargo (WFC) buyers of 2,000 August \$42.50 ITM calls for \$4.75 today and follows a buyer of 2000 January 2023 \$65 calls for \$2.50 earlier this week and 3,500 January 2023 \$50 puts sold to open. WFC has seen buyers in the June \$48.50 calls recently too while the October \$47.50 calls bought over 14,500X since 4/20. Shares are consolidating in a very narrow range since mid-May with the rising 50-MA just below at \$44.50. A move higher out of this range targets \$53.50 and a big volume node from 2019. The \$190B company trades 13.15X earnings, 1.16X book and 0.4X cash with a small yield. WFC is coming off of a strong quarter buoyed by strength in the financial markets and a strong consumer which is driving deposit growth and spending, especially around areas like travel. WFC has been constrained by an asset cap put on them following the accounts scandal in 2016 which prevents the company from growing their balance sheet above \$1.95T and lifting the restriction would be a major catalyst for the bank. A Bloomberg note last has speculated that the move has cost Wells over \$4B in profits and they noted on their latest call that with the effects of stimulus and other government programs, 2021 has been more challenging. But, the bank has made progress on initiatives laid out by the CFPB and in February the Fed approved Wells risk management overhaul plan and potentially big step towards removing the cap. Analysts have an average target for shares of \$43.50 with a Street High \$60 from BAML on 6/4. The firm thinks WFC is in the middle of a multi-year transformation and while many big bank peers have either cyclical or self-help catalysts, Wells has both, and can easily achieve normalized ROTCE in the mid-teens. Short interest is 1.25%. Hedge fund ownership fell 5.5% in Q1.

Hawk Vision:



Hawk's Perspective: WFC has been on a remarkable run in 2021 and has a clear catalyst to close the discount to peers and continue higher, a move back to the 50-day at \$44.50 would be ideal

Confidence Ranking: \$\$