



## Call Buyers in Cimarex Energy Weakness

Ticker/Price: XEC (\$42.75)

### Analysis:

**Cimarex Energy (XEC)** with 2,000 March \$45 calls bought today from \$1.45 to \$1.70 and follows buyers yesterday in the February \$45 calls over 3,500X. XEC has seen buyers in the February \$50 calls (over 3,000) as well as the March \$60 calls (over 1500) recently while put sales active in the February \$45 and June \$50 strikes. The January \$50/\$75 call spread remains in OI from October 2,500X5,000. XEC with an ugly longer-term chart and shares have pulled back just below 1-year VPOC and the low-end of value from a base that stretches back to July. The rising channel off those lows has an upside target back above the 200-day to \$55+. The \$4.39B energy company trades 7.5X earnings and 1.89X sales with a near 2% yield. XEC has significant leverage in the Permian basin with their March 2019 deal for Resolute adding acreage and they used 2019 to focus on integration, cost savings, and efficiency programs. Late in the year, they guided 2020 to near double-digit production growth and upside likely as they continue to add rigs, especially in higher production areas like Reeves. Estimates are for a 28.8% rise in EPS in 2020 and a 21.3% rise in 2021 with revenues up 11% and 6.5%. Analysts have an average target for shares of \$65 with 10 buy ratings, 7 hold, and 1 sell. CSFB upgrading to Buy on 1-23 with a \$60 PT. The firm thinks double digit oil production growth looks achievable in 2020 and believes the year could be setting up as an inflection year for Cimarex. They also think Permian net completions could increase by 30% in 2020. JP Morgan upgrading to Overweight on 1-9 with a \$70 PT. The analyst expects XEC's capital efficiency will improve on the back of "peer-leading" oil well productivity in the Permian and tweaks to well design that are poised to support lower well costs in 2020. Short interest is 4.7% and down from around 7.5% in December. Hedge fund ownership rose 3.5% in Q3 with Encompass Capital, Bridgewater, and Carlson Capital all notable buyers. XEC has seen some smaller insider buys over the last two years around \$74, \$84, and \$90 although nothing more than \$65k. In September, Bloomberg reporting that big oil was again circling Permian assets as potential M&A targets and Tudor Pickering highlighted XEC as a prime target for someone like Shell (RDS.A).

### Hawk Vision:



**Hawk's Perspective:** XEC chart is ugly and overall just tough to buy into Energy names in this environment, though M&A is one potential source of upside for speculative positions.

Confidence Ranking: \$