Exxon Mobil Bulls Position for Eventful Investor Day

Ticker/Price: XOM ($61.25)

Analysis:

Exxon (XOM) late spreads selling 9500 June $55 puts and buying $62.5/$70 call spreads. XOM also with 5000 January $50 puts sold to open $1.61 to $1.57, the March $65 calls active near $0.50 for a second straight day as more than 25,000 traded, and 3500 September $62.50 calls opened, the most bullish day of flows in XOM in a very long time. XOM has also seen 7500 January $60 calls open since December. XOM shares recently broke key support and back near a volume node support from the 2005-2010 trading range, also sit just above a 61.8% retracement of the 2002/2014 range at $58.30. Shares are very oversold with some signs of basing and needing to clear the short-term 8 day moving average for a reversal. The $257B Oil & Gas giant now trades 16.2X Earnings, 7X EBITDA and 1.36X Book with a 5.75% dividend yield. XOM forecasts call for a return to topline growth in 2020 and 11% EBITDA growth. XOM has been ramping up its Permian business and made 6 deepwater discoveries in 2019 with 5 in Guyana. The market has been expecting XOM to explore M&A in this price environment and on the latest call the CEO said the focus is on organic but did not rule out deals while also active with divestments. Analysts have an average target of $74 and short interest is low at 1% of the float though near a three-year high. XOM will host an Investor Day on 3-5-20 as a potential catalyst. The CEO bought $200K of stock this week. Goldman cut to Sell on 2-3 citing downside to long-term consensus estimates, elevated relative valuation versus peers, lack of free cash flow limiting capital returns, and risk to long-term return on capital employed targets. It notes the core of the Exxon bull case has been predicated on the company improving its return on capital, with a 15% ROCE 2025 goal set out at the 2018 Analyst Day. We see clear risk to this goal, with our own modeling showing an 8% ROCE in 2025 on a combination of lower downstream margin assumptions, lower crude price forecasts and risk around execution/capture rates. BAML reiterated a Buy with a $100 target noting noise around dividend stability is overblown and XOM is borrowing against an AAA balance sheet to fund discretionary spending that underpins unique capacity for long-term dividend growth. BAML notes “Near term growth is anchored on the Permian, expected to be cash neutral from 2021; longer term, industry leading margins in Guyana with production risked higher ahead of its 3/5 analyst day anchor visibility for a 2x increase in c/flow we believe can support dividend growth of 7% through 2025. This sits in contrast with recent history of XOM’s closest peer, RD/Shell which has a stagnating c/flow outlook and a dividend that has flat lined for the past five years. XOM is investing at the bottom of the cycle; we advocate investors do the same.” Hedge Fund ownership declined 2.8% in Q3 filings.

Hawk Vision:

Hawk’s Perspective: XOM is ugly with the rest of the Oil & Gas space but this flow is interesting into a key catalyst and upside calls are cheap for speculation.

Confidence Ranking: $$