



Zynga Calls Bought into Multi-Day Sell-Off

Ticker/Price: ZNGA (\$5.99)

Analysis:

Zynga (ZNGA) with buyers active early today for more than 15,750 June \$6 calls for \$0.60/\$0.66 and follows 10,000 February \$6 calls bought on 1-23. ZNGA has seen call buyers active in March \$6 calls as well and still has 37,000 January \$10 OTM calls in OI from last year. Shares are selling off by around 15% from the recent highs in mid-January and attempting to hammer today at the 200-EMA around \$5.95. Shares are just below the 1-year VPOC at \$6.25 and a narrow multi-month node and a move back up and through sets up a re-test of recent highs. The \$5.8B company trades 22.5X earnings and 5X sales with mid-teens EPS growth and 27% revenue growth expected in 2020 from better monetization behind their core five franchises. They continue to see growth in live services as they add new modes and content that has reengaged both new audiences and lapsed users. It's also allowing them to build a bigger inventory of ads that is helping optimizing yields. ZNGA has a deep pipeline of new games on deck for 2020 including expansions to FarmVille as well as one-off titles like Harry Potter and Star Wars. And, they noted in October that they could pursue more M&A to expand their titles and development teams. Analysts have an average target for shares of \$7.50 with 10 buy and 3 hold ratings. Keybank starting at Overweight on 1-15 with an \$8.50 target seeing a combination of sustainable and proven brands and a deep pipeline that should supplement the growth over the next few years at scale. Sun Trust positive on 1-6 seeing ZNGA as the best pure-play on the growing global mobile gaming market. Baird sees ZNGA outperforming in 2020 given growth in live services, new title launches and the potential for more M&A. Short interest is 5.9% and down from around 11.5% in October. Hedge fund ownership rose 1.45% in Q3 with Cadian Capital adding another 7.6M shares. ZNGA reports on 2-5 and higher 11 of the last 13.

Hawk Vision:



Hawk's Perspective: ZNGA looks attractive into this move as I see little interruption to its business and remains an intriguing lesser followed play on mobile gaming.

Confidence Ranking: \$\$