Mickey In Full On Beast Mode

Summary:

- Disney (DIS) and Scorpio Tankers (STNG) earnings review
- Sell signal triggered

Let's start with Disney (DIS).

The House of Mouse reported earnings late last week and beat estimates across the board.

The company reported revenue of $19.1bn, up 34% YoY and adjusted EPS came in at $1.07, beating its own forecast as well as consensus estimates.

Each of the company's business units saw positive growth with media growing revenues 22% YoY. Parks, experiences, and products growing 8% YoY and studio entertainment crushing top-line growth at 52% on the year.

In addition, Disney reported that the company has already signed up more than 10mn subs to its Disney+ streaming service which launched on Tuesday. For comparison, it took HBO nearly 3-years to reach 5mn subscribers for its svod service.

The stock is up roughly 50% since we entered last year and 15% since we increased its size last month.

I’m already seeing a lot of talk about how there’s a complete valuation mismatch between the stocks recent move and the number of subs (10mn) who just joined the service. This take completely misses the point and is not how markets work. Markets discount the future 18-24 months out and what’s driving the current trend higher in Disney is a complete narrative shift around the stock.

I talked about this back in April in “[Disney, Memetics, and Markets]” where I wrote:

> Disney is a classic case of the market latching onto a stale narrative and failing to see the changing fundamentals. The stale narrative, in this case, is the focus on a declining subscriber base in Disney’s media business (think ABC/ESPN), which the market is now valuing at just 2x EBITDA — which is kinda crazy…
>
> Despite a clear positive inflection in the fundamentals — both income and revenues pivoted higher in the middle of last year — along with extremely positive catalysts in the company’s DTC SVOD plans, this bearish narrative has persisted...
>
> That was of course until last week when the stock finally gapped up and out of its 4-year trading range. This move has been accompanied by a complete and total shift in the popular narrative from “Disney as an out of touch legacy media business with a gangrenous ESPN division” to “Disney is a Netflix killer and the new hot growth stock”.

I have no idea how much higher it'll go from here. There's a technical measured move target of $155 from its previous 4-year trading range. I ultimately think it goes higher than that, especially if we see broader market sentiment swing back to full bullish FOMO.

It's overextended on a short-term basis so I wouldn't be surprised if we saw it pull back and consolidate from here before it's next push up.

Our other equity position Scorpio Tankers (STNG) also reported last week and there were no major surprises. The stock is still battling its 200-week moving average (blue line) and has traded down to the mid-line of its Bollinger Band at the $29/30 level which I pointed out in a prior Brief "[The Big Breakout]", is a good place to add/enter if you don't already have a position on.

The [bullish shipping thesis] is really going to shine in 2020. You can think of the 50-100% rises in many shipping stocks over the last 6-months as just the first inning in what will be a long and exciting game.

Let me share some highlights from Scorpio's recent earnings call to show you why (emphasis is mine).

> **CEO Emanuele Lauro**: ...In our view, **we now stand in the foothills of a powerful inflection, driven by the confluence of seasonal, cyclical and structural changes substantially the impact of IMO 2020.** We are satisfied to have brought the company

to this point, with the largest the most modern, most efficient scrubber equipped spot market exposed fleet. Our financial gearing, operational gearing, and market liquidity allow us and our equity holders optimal position for the upswing. It has been a long time coming, longer than we may have expected, but the waiting may now be over and the best is to come.

President Robert Bugbee: We are very excited. It's really hard not to be like really very, very bullish and after 10 years or so of a bad market, we've got a lot to look forward to. Our markets are at very strong levels right now, pre our season. As you can see from the slides we sent out, the strength has been slowly developing quarter-over-quarter now for well over 15 months, and so it's pretty well set in, and this has happened before any IMO regulation... MR today are in the low-20s and our LR2s, modern LR2s are fixing, on a triangulating basis, around $30,000 a day, that's just a fantastic level right before the season starts.

And in a couple of weeks **around Thanksgiving, traditionally our market starts a strong winter season. So we can be confident that our remaining bookings will be substantially above where they are today**. And that's not what we've just released that's above the actual earnings that we are at this point to the moment.

I'd just like to highlight that we've got through another quarter with very few orders, **companies and capital markets are unwilling to make or fund speculative new orders.** We expect that to continue. We finally next year, the fleet will start to age and it's actually possible that we could have small or **zero effective fleet growth in the clean petroleum product market for the next couple of years,** and this optimism is already starting to be reflected in higher values and higher time charter rates.

Director Lars Dencker Nielsen: During the second-quarter earnings call, I made a reference to the front-loaded refinery maintenance season, which was underway in August, reducing the tonnage demand. However, I also remained optimistic at the time that we would start to see a firm market in the back end of the third quarter. The market certainly came in mid-October MR rates began to approach $20,000 a day and LR2s at $40,000 per day. **These are the highest rates for the month of October since the 2004 to 2008 period**.

...Apart from normal seasonal change, we anticipate a further tightening from the actual fuel changeover, as the incremental product demand accelerates in the logistical physical supply preparation during December. **Most refineries previously in turnaround are back online in November, which will act as a catalyst for additional product tanker demand.**

> Amid these turnarounds and the talk of IMO 2020 preparation, geopolitical tensions and asymmetrical market reactions provide further impetus to the upside. The strong step-change in extreme rate volatility experienced beginning of the Q4 has underpinned the future market outlook.
>
> ...This emerging reality along with the historically low order book, the downtime of tonnage for scrubber fittings, the strong crude tanker fundamentals, the increased tonne to mile demand are very positive market indicators. They provide a solid foundation for more sustainable and firm product tanker market than we're experiencing even today.

And finally, read this final comment from Bugbee:

> Even at the present run rates... the company is creating, I can't remember exactly what it is, but it's got to be something -- something in the region of **$50 million, $60 million of cash a month**. So you can do a lot of damage just with these positions, and if the market goes up $10,000 from here in those positions, then, which I would take as a base case, then that's something in the region of an <u>additional $50 million a month</u>. And if you actually get some, a month or two or three where you have some really good earnings, you know, if you start getting those LR2s the back up into the '50s, '60s and '70s, by the time you get to March you can have a **huge amount of capital.**

There's still huge upside ahead for STNG and other shipping names. Again, this is just the first inning. I'm still looking to put another position on in one of these names (TNK, DSSI, LPG, EURN). I'm hoping that the coming market dip will give us a better entry.

Odds on for a market dip

This week a number of my short-term technical indicators are triggering a sell signal. This raises the odds that we see a dip in the market over the coming week(s). Overall though, breadth remains strong so I'm not looking for a large selloff, something in the 1-4% is most likely.

Sentiment is also getting a bit frothy so there's also the chance that the market runs a bit higher here before taking a break. I'm patiently sitting on our positions and waiting for the market to tip its hand.

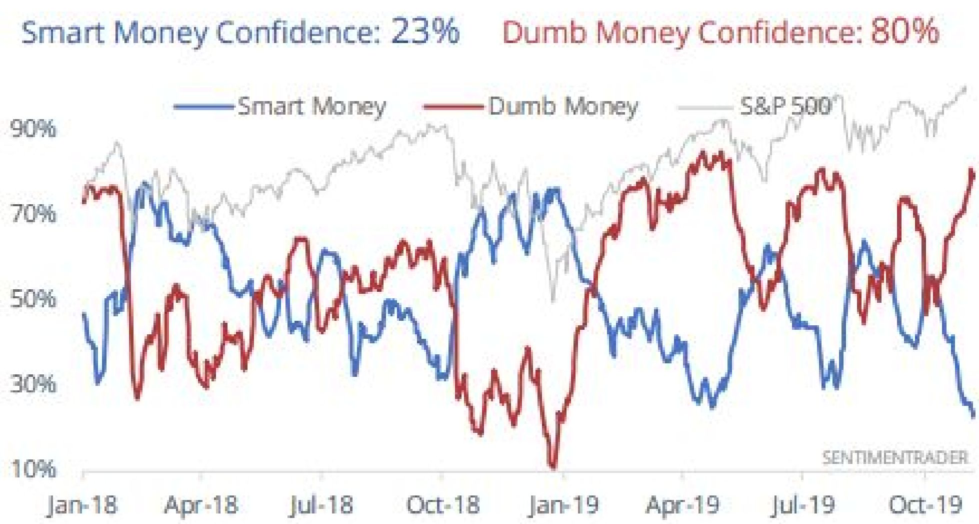
Here's a few of the things I'm looking at.

NASI just turned over and triggered a sell signal.

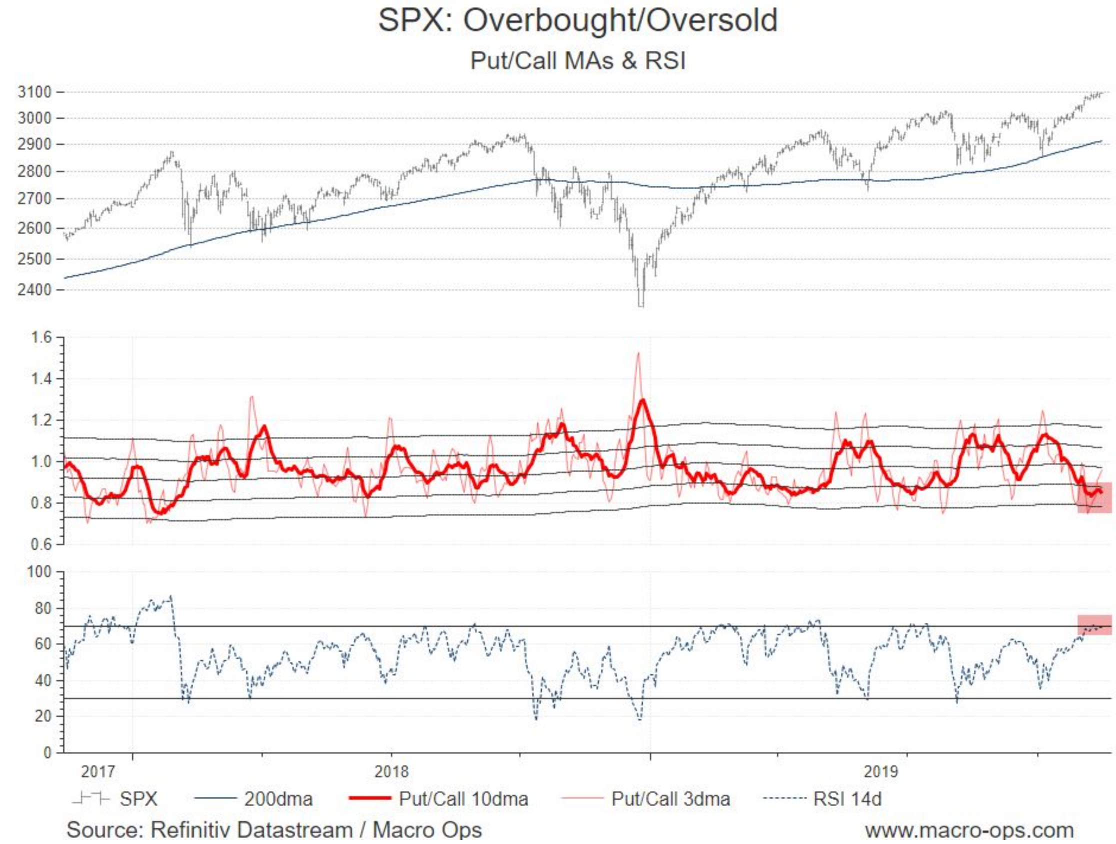
NAMO is trending lower and just turned negative.

And NYMOT is doing the same, showing increasing underlying weakness.

The smart/dumb money spread is at historically stretched levels.



And Put/Call MAs are 2 Stdev below their rolling average showing high complacency.



There's also deteriorating new highs versus lows, an inverting vix curve, a rising percentage of stocks trading below VWAP and so on.

I'm not looking to sell here since the broader trend is still firmly higher but I'm not looking to aggressively add or open new positions until we see this overbought and excessive bullishness resolved — plus we're already 145% net long. So I'll patiently wait and watch for a setup.

That's all I've got for now.

If you've got any questions for us in the meantime, let us know in the Comm Center. Have a great week!

Your Macro Operator,

Alex