

Trade Alert

April 29, 2020

Long: Rolls Royce (RR.LN) & Bolloré (BOL)

Operators,

We went long Rolls Royce (RR.LN) and Bolloré (BOL) this morning. Both of these positions are swing trades (hold time of a couple weeks) but have the potential to turn into longer-term holdings as they're stocks that we like the long-term value case for. The big determining factor is whether or not the market has put in a major bottom — something I'm still quite skeptical of.

Both have similar technical setups: A breakout from a bottoming wedge following grossly over-sold conditions.

I wrote up the bull thesis for Bolloré back in early February. You can find the [report here](#). The stock is now selling at a steep discount to its NAV and its position in Vivendi, whose value comes largely from Universal Music Group, is being completely ignored by the market.

Rolls Royce is a company I was digging into before the crisis and came to really like the thesis. I hope to do a longer writeup on it in the future. The stock is down roughly 80% from its 13' peak and bouncing off of support it last hit during the depths of the GFC, when the companies revenues were less than half what they are now.

On the surface there's plenty of good reasons to be bearish. Rolls Royce gets paid by airlines based on how many hours they fly. The company operates a kind of "razor blade" model. It sells its engines at cost and then makes high margined dollars servicing those engines over the course of their lifetime.

The company recently suspended its dividend for the first time since 1987 in order to shore up its finances. The market is worried about its liquidity but those fears are overblown. The company has roughly 6.7 billion pounds in liquid assets to help see it through the crisis. It's also about to start a major FCF generating cycle as increased CAPEX costs roll-off from its Trent fan-blade problems. So once things return to some kind of normalcy and people return to the skies, RR should be well-positioned for a strong run.

Of course, uncertainty reigns in this environment and I still lean towards the more bearish camp looking 6-12 months out from now; though I'm trying to maintain an open-mind. At the very least, these two stocks represent a good risk/reward swing trade here and potentially something much more.

Trade Details:

Rolls Royce (RR.LN) - Risk: 100bps, Entry: \$346, Stop: \$300

Bolloré (BOL. Euronext) - Risk: 100bps, Entry \$2.46, Stop: \$2.26