

Covered Call Trade

November 18, 2022  
Covered Calls

Meta Platforms, Inc

\$92.49

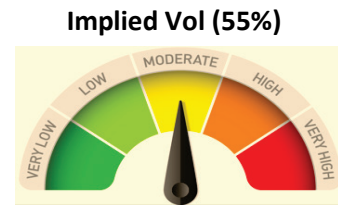
Sector: Communications Services

C-Corp

<https://investor.fb.com/investor-events/default.aspx>

The Trade

Buy Meta Platforms (META) in 100 share lots, Sell November 18, 2022 \$85.00 Calls against the long position (covered calls)



Extended Commentary

Meta shares have come under tremendous pressure this year - culminating with a 31% decline over the past month - as capital expenditures have rocketed from \$15 to \$18 bln annually between 2019 and 2021 to \$27 bln over the past twelve months. With earnings behind us and company management likely to bow to investor pressure to reduce spending, we believe this is a very interesting time to take advantage of elevated volatility to write covered calls against a long position. We are opening a relatively conservative (low risk!) position, 'buying' shares at \$92.95 and writing November 18th, \$85 calls for \$9.16. This allows a breakeven of \$83.33 (9.90% lower) while still providing the chance to earn a 1.81% return over sixteen days if the shares remain above \$85.00, or a 43.2% annual return. Our view that Meta covered call trade is relatively low risk is aided by the believe equity markets are more likely to rally over the next two weeks than decline due to the severity of the recent selloff and the moderation of inflationary data and Fed rhetoric.

Pricing and Liquidity Metrics		META Five Year Share Price Chart	
<b>META Shares</b>			
Current Share Price:	\$ 92.49	META	92.82 -0.34 (-0.36%)
3M Average Volume (mln):	36.5	Vol	253.842M
Shares Outstanding (mln):	2,682		
Float (mln):	2,260		
Market Cap (bln):	\$ 248,058		
Short Interest as % of Float:	1.17%		
Short Interest, Days to Cover:	0.79		
<b>November 22, 2022 \$85 Calls</b>			
Current Options Price:	\$ 9.16		
Intrinsic Value:	\$ 7.49		
Options Premium:	\$ 1.67		
Implied Vol:	55.00%		
Open Interest:	192		

META Covered Call Returns by Date and META Share Price

	Estimated Return Matrix (\$ per share)						Estimated Return Matrix (%)					
	2-Nov	4-Nov	7-Nov	10-Nov	14-Nov	18-Nov	2-Nov	4-Nov	7-Nov	10-Nov	14-Nov	18-Nov
\$107	1.39	1.45	1.53	1.59	1.63	1.67	1.50%	1.57%	1.65%	1.72%	1.76%	1.81%
\$104	1.29	1.37	1.48	1.57	1.63	1.67	1.39%	1.48%	1.60%	1.70%	1.76%	1.81%
\$101	1.12	1.23	1.39	1.52	1.63	1.67	1.21%	1.33%	1.50%	1.64%	1.76%	1.81%
\$98	0.85	1.00	1.22	1.42	1.61	1.67	0.92%	1.08%	1.32%	1.54%	1.74%	1.81%
\$95	0.44	0.63	0.93	1.21	1.54	1.67	0.48%	0.68%	1.01%	1.31%	1.67%	1.81%
\$92	(0.15)	0.07	0.44	0.82	1.35	1.67	-0.16%	0.08%	0.48%	0.89%	1.46%	1.81%
\$89	(1.00)	(0.75)	(0.32)	0.15	0.89	1.67	-1.08%	-0.81%	-0.35%	0.16%	0.96%	1.81%
\$86	(2.13)	(1.87)	(1.42)	(0.90)	(0.05)	1.67	-2.30%	-2.02%	-1.54%	-0.97%	-0.05%	1.81%
\$83	(3.60)	(3.35)	(2.91)	(2.42)	(1.62)	(3.33)	-3.89%	-3.62%	-3.15%	-2.62%	-1.75%	-0.36%
\$80	(5.41)	(5.19)	(4.81)	(4.41)	(3.81)	(3.33)	-5.85%	-5.61%	-5.20%	-4.77%	-4.12%	-3.60%
\$77	(7.56)	(7.38)	(7.09)	(6.81)	(6.46)	(6.33)	-8.17%	-7.98%	-7.67%	-7.36%	-6.98%	-6.84%

Company Overview

Meta Platforms, Inc - formerly known as Facebook - owns and operates the Facebook social media platform, as well as Instagram, Oculus, Workplace, Portal and Portal+ and Meta. The company counts more than three billion users worldwide, generating \$118.1 bln in revenue over the past twelve months and \$28.83 bln in net income. The shares have fallen sharply this year (-72.58%) as revenue growth has vanished (\$116.4 bln predicted in 2022 versus \$117.9 bln in 2021) and earnings have declined due to what many investors view as excessive spending on Metaverse development. In 2021, Meta earned \$13.99 per share while consensus estimates call for 2022 earnings of \$9.08 per share.

Potential Events and Newsflow

Post-earnings analyst downgrades could weigh on the shares.

Market Exposure/Risk of a 10% Decline or Rally in Equities

With a beta of 1.14, META shares would be expected to decline 11.4% if equity markets declined 10.0%. This would likely send META shares to \$81.95, resulting in a \$1.38 per share loss on our covered call position, or 1.66%. If equities rallied 10%, META shares would likely rally 11.4% (to \$103.03) and the covered call trade would earn the maximum return of \$1.67 per share, or 1.81%.