

An Option Strategy on Square, Inc.

June 30, 2021 / Jeffrey Hirt vloptions@valueline.com

Square, Inc. (SQ; \$245.16) designs and sells software and hardware that enables businesses to accept electronic payments via smartphones and other mobile devices. It also facilitates peer-to-peer money transfers.

The company has been growing revenues at a brisk pace. From 2018 to 2019, the top line expanded 43%, to \$4.7 billion. Then, against the COVID-19 backdrop of 2020, sales roughly doubled to \$9.5 billion, as the company established itself as the dominant name in digital payments. While a normalization of the economy may slow the rapid pace of customer adoption, we are not too worried. First, judging by a strong March-quarter performance, demand remains ample. Indeed, top- and bottom-line results crushed consensus estimates. And, even if a doubling of year-over-year revenues is unlikely to happen again, we think investors will still be pleased with the gains to come over the coming quarters and years. Payment processors benefit from robust economic activity.

Generally, option premiums are affordable in the current environment. That holds true for some SQ options. In the example we have highlighted below, the ask premium looks attractively priced, relative to the underlying stock's short-term upside potential. The option rank is favorable for call buyers (1), as is the Timeliness rank of the underlying stock (1, Highest), suggesting outperformance over a six- to 12-month period.

This call buy option has a strike price of \$290, or about 18% out-of-the money, and expires roughly six months out, on January 21st, 2022. It may be suitable for investors that seek leveraged long exposure to this company. If the price of SQ stock were to quickly jump 10%, the call buyer could expect this position to increase in value by about 63%, all else being equal.

Underlying Stock/Index		Industry	Stock Ticker	Option Ticker	Common Price	Dividend Yield	Common Rank	Tech Rank
Square Inc		Computer Software/Svcs	SQ	SQ 220121C00290000	245.16	0.00%	1	4
General Info		Volatility & Leverage		Naked Options	Writer (Bid)	Buyer (Ask)	Covered Call Info	
Call/Put	C	Relative Vol.	462.18	Premium	16.35	16.60	Covered Call Rank	1
Expiration	01/21/22	Hist.Vol.	53.23%	Est.Premium	19.08		C'vd B/E	228.81
Strike Price	290	Forecast Vol	54.79%	Implied Volatility	41.87%	42.24%	C'vd Rel. Vol.	54
% In/Out	-18.29%	Forecast Vol Adj.	45.78%	Under/Over Valued	-8.53%	-7.73%	C'vd % p.a.	12.66%
Delta	37	Up 10%	63.30%	Rank	3	1	C'vd Protection	6.67%
Volume	1	Down 10%	-45.73 %	Prob.I.T.M.	32.30 %		C'vd Max Profit	26.74 %
Open Interest	1363	Theta x 100	-7.43	Prob I.T.M. (Implied)	30.78 %	30.93 %		

Investors should carefully consider their own suitability requirements along with company specific details to determine if taking a position in the option listed in this report is warranted.

At the time of this report, the analyst did not have positions in the equities mentioned.