

Tesla, Inc.(TSLA)

\$882.96 (As of 06/03/20)

Price Target (6-12 Months): **\$927.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 06/17/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:F

Value: F

Growth: C

Momentum: F

Summary

Shares of Tesla have outperformed the industry over the past year. The firm has a first-mover advantage in the EV space with high range vehicles, superior technology, and software edge. Rising Model 3 delivery, which forms bulk of the Tesla's overall deliveries, is aiding the company's top-line growth. Further, Model Y is also set to boost Tesla's prospects, going forward. Production ramp up in Shanghai Gigafactory and upcoming product launches bode well for the firm. However, profitability and deliveries might take a temporary hit in the upcoming quarter amid coronavirus-led low demand. Moreover, high R&D, SG&A costs and massive capex may clip the margins. Tesla's elevated leverage of 53% also plays a spoilsport. Waning margins for Model S/X is another concern. Thus, investors should wait for a better entry point.

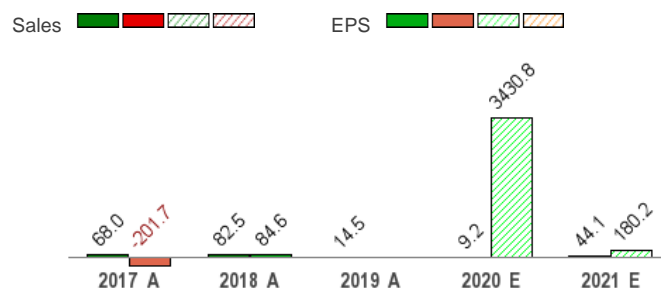
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$968.99 - \$179.61
20 Day Average Volume (sh)	11,477,637
Market Cap	\$163.7 B
YTD Price Change	111.1%
Beta	1.14
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Automotive - Domestic
Zacks Industry Rank	Bottom 23% (194 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	663.6%
Last Sales Surprise	11.4%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	07/22/2020
Earnings ESP	0.0%
P/E TTM	214.3
P/E F1	192.4
PEG F1	5.3
P/S TTM	6.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	8,929 E	10,237 E	11,381 E	12,443 E	38,676 E
2020	5,985 A	4,675 E	6,722 E	8,103 E	26,846 E
2019	4,541 A	6,350 A	6,303 A	7,384 A	24,578 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$2.84 E	\$3.74 E	\$4.74 E	\$5.70 E	\$12.86 E
2020	\$1.24 A	-\$1.03 E	\$1.25 E	\$2.47 E	\$4.59 E
2019	-\$2.90 A	-\$1.12 A	\$1.86 A	\$2.14 A	\$0.13 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 06/03/2020. The reports text is as of 06/04/2020.

Overview

Over the years, electric vehicle ('EV') maker Tesla has evolved into a dynamic technology innovator. It has transformed the EV market much the same way as Amazon changed the retail landscape and Netflix revolutionized entertainment. Tesla is the market leader in battery-powered electric car sales in the United States, owning around 60% of market share. In fact, the company's flagship Model 3 accounts for about half of the U.S. EV market. Tesla, which has managed to garner the reputation of a gold standard over the years, is now a far bigger entity than what it started off since its IPO in 2010, with a market capitalization almost double the combined value of top two U.S. auto giants General Motors and Ford.

Over the years, Tesla has shifted from developing niche products for affluent buyers to making more affordable EVs for the masses. The firm's three-pronged business model approach of direct sales, servicing, and charging its EVs sets it apart from other carmakers. Tesla, which is touted as the clean energy revolutionary automaker, is much more than just a car manufacturer. The firm also makes different kinds of technology like self-driving software, charging stations and battery development, et al. The technology titan has also made inroads into solar and energy storage business.

Tesla operates under two segments: Automotive and Energy Generation & Storage. While automotive revenues accounted for 93.7% of 2019 revenues, energy generation and storage revenues constituted 6.3% of the total sales.

Presently, the company produces and sells three fully electric vehicles: The Model S sedan, the Model X sport utility vehicle ("SUV") and the Model 3 sedan. Tesla's equally impressive future product lineup includes Model Y, Cybertruck, Semi truck and Roadster. The firm manufactures its vehicles primarily at facilities located in Fremont, California, Lathrop, California, Tilburg, Netherlands. Tesla's first and second Gigafactory are located in Nevada and New York (Gigafactory 2). While the firm's Gigafactory 3 in Shanghai started deliveries this year, Tesla aims fourth Gigafactory in Berlin to further boost output. Car production in the Berlin Gigafactory is expected to begin in late 2021.



Reasons To Buy:

- ▲ Although electric cars occupy a small portion of the global automobile market, Tesla has acquired a substantial market share within this niche segment. With Model 3 sedan being its flagship vehicle, Tesla has established itself as a leader in the EV segment. Strong performance and impressive design of the firm's products are ramping up sales volumes. Rising Model 3 delivery, which forms a major chunk of the automaker's overall deliveries, is aiding the company's top-line. Revenues are likely to rise further as it expects to make good progress on Model 3 going forward. Along with Model 3, Model Y is also set to boost Tesla's prospects, going forward. Notably, the deliveries of the latest Model Y began in March— significantly ahead of schedule— and contributed to the company's profits.
- ▲ Tesla is making continued efforts to increase vehicle deliveries. In full-year 2019, Tesla delivered 367,500 vehicles, reflecting an increase of 50%, year over year. For full-year 2020, the company expects vehicle deliveries to exceed 500,000 units. The firm's first-quarter 2020 deliveries remained robust despite coronavirus woes. Higher volumes should enable Tesla to achieve cost and production efficiencies, thereby strengthening margins. Along with increasing automotive revenues, the firm's energy generation and storage revenues are also boosting Tesla's prospects. Notably, both solar and storage deployments will be up at least 50% in 2020
- ▲ With China being the biggest EV market, Tesla's ambitious plans to start production in the country bode well. Robust production levels from the new Gigafactory in Shanghai bode well for its future growth. The Shanghai factory is ramping up well and commands a higher market share in the Chinese EV market. The plant is operating at full capacity, and will continue to generating solid revenues for the firm. Accelerated production from Gigafactory 4 in Berlin will also add to the top-line, going forward. Tesla's focus on expansion of product portfolio and development of self-driving capability is commendable.

Rising Model 3 delivery, which forms a major chunk of the automaker's overall deliveries, is aiding the company's prospects.

Reasons To Sell:

- ▼ The company's high R&D and SG&A costs, may clip the margins, going forward. Both R&D and SG&A expenses had increased in 2015, 2016, 2017 and 2018. Though the company displayed operational efficiency this year, it is yet to be seen if it can continue the trend amid high spending plans and new launches. Tesla is investing heavily to increase production capacity, boost Model 3 sales, launch Model Y, construct Gigafactories and enhance Supercharger infrastructure. These initiatives are likely to strain near-term financial prospects of the firm.
- ▼ Notably, the company had generated negative FCF in 2018. While it posted positive FCF in 2019, high spending plans may threaten Tesla's aim of generating positive cash flow in 2020. Notably, in the first quarter of 2020, the EV maker reported negative FCF of \$895 million. As the company intends to invest heavily in product and capacity expansion even amid coronavirus mayhem, it has put a hold on its cash flow guidance for 2020 as of now. Capital expenses in the first quarter of 2020 increased both yearly and sequentially and the trend is expected to continue, thereby marring cash flow and profit levels. And of course, Tesla's profitability and deliveries might take a temporary hit in the upcoming quarter as stores in many of its markets were/are shuttered due to coronavirus pandemic. To this end, the company has refrained from providing any profitability forecast.
- ▼ While Models 3 and Y are aiding the company's growth, production and margins for Models S and X are on the decline. Ebbing demand for Model S/X are denting the profits of the firm. Moreover, Tesla's elevated leverage is a cause of concern. Its long debt-to-capital ratio stands at 0.53, higher than its industry's 0.52. Moreover, the company's times interest earned ratio of 1.07 is also unfavorable to the industry ratio of 2.32.

Tesla is bearing the brunt of high leverage along with high R&D costs and capex.

Last Earnings Report

Tesla Puts Up a Stellar Q1 Show

Tesla reported earnings per share of \$1.24 in first-quarter 2020, as against the Zacks Consensus Estimate of a loss of 22 cents. This outperformance stemmed from higher-than-anticipated automotive revenues, which came in at \$5.13 billion, beating the consensus mark of \$4.47 billion. The bottom line also compares favorably with the prior-year quarter's loss of \$2.90 per share.

During the reported quarter, net income attributable to common shareholders amounted to \$16 million as against the net loss of \$702 million recorded in the year-ago quarter.

Revenues increased to \$5.98 billion from the \$4.54 billion registered in first-quarter 2019. Also, the revenue figure surpassed the Zacks Consensus Estimate of \$5.37 billion.

During the first quarter, Tesla reported delivery and production of 88,496 and 102,672 vehicles, reflecting a year-over-year increase of 33% and 40%, respectively.

Total automotive revenues surged 38% year over year to \$5.13 billion in the reported quarter.

Energy generation and storage revenues decreased from \$325 million in first-quarter 2019 to \$293 million in the first quarter. Services and other revenues were up 13.6% year over year to \$560 million.

Tesla's first-quarter 2020 automotive gross margin was 25.5%, shrinking 538 basis points (bps) from first-quarter 2019.

Financial Position

Tesla had cash and cash equivalents of \$8.1 billion as of Mar 31, 2020, compared with \$6.3 billion as of Dec 31, 2019. This increase was mainly driven by a \$2.3-billion capital increase.

Net cash used by operating activities amounted to \$440 million in first-quarter 2020 compared with \$640 million of net cash used in first-quarter 2019. Capital expenditure increased to \$455 million from the year-ago quarter's \$280 million, mainly due to investments in the Gigafactory Shanghai and Model Y preparations in Fremont.

Model 3 & S/X Update

In first-quarter 2020, Tesla reported Model 3/Y production and deliveries of 87,282 and 76,266 units, reflecting a year-over-year increase of 39% and 50%, respectively. During the March-end quarter, the production rate of Model 3/Y continued to improve.

The Model S/X production and deliveries totaled 15,390 and 12,230 vehicles, up 9% and 1% year over year, respectively.

Outlook

Tesla is making efforts to improve vehicle deliveries, sequentially and annually, with some expected fluctuations from seasonality. For full-year 2020, the company expects vehicle deliveries to exceed 500,000 units. However, amid the coronavirus-related setbacks, Tesla refrained from providing any profit or cash-flow forecast. The EV maker expects to ramp-up production of Model 3 in Shanghai and Model Y in Fremont through second-quarter 2020 and start deliveries from both locations by 2021. Furthermore, deliveries for Tesla Semi are anticipated to begin in 2021.

Quarter Ending **03/2020**

Report Date	Apr 29, 2020
Sales Surprise	11.35%
EPS Surprise	663.64%
Quarterly EPS	1.24
Annual EPS (TTM)	4.12

Valuation

Tesla shares are up 111.1% in the year-to-date period and up 349.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Auto-Tires-Trucks sector are up 30.3% and 1.2% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 66.1% and 17.6%, respectively.

The S&P 500 index is down 3.2% in the year-to-date period and up 10.5% in the past year.

The stock is currently trading at 5.14X forward 12-month price to sales ratio, which compares to 1.14X for the Zacks sub-industry, 0.76X for the Zacks sector and 3.51X for the S&P 500 index.

Over the past five years, the stock has traded as high as 5.24X and as low as 1.1X, with a 5-year median of 3.09X. Our Neutral recommendation indicates that the stock will perform in-line with than the market. Our \$927 price target reflects 5.4X forward 12-month sales.

The table below shows summary valuation data for TSLA:

Valuation Multiples - TSLA					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	5.14	1.14	0.76	3.51
	5-Year High	5.24	1.14	0.76	3.51
	5-Year Low	1.1	0.52	0.49	2.53
	5-Year Median	3.09	0.65	0.61	3.02
EV/EBITDA TTM	Current	51.83	16.19	10.95	11.56
	5-Year High	510.95	16.59	11.3	12.86
	5-Year Low	NA	6.37	6.94	8.26
	5-Year Median	73.58	12	9.25	10.81
P/B TTM	Current	16.3	4.16	1.58	4.21
	5-Year High	49.84	4.18	2.13	4.56
	5-Year Low	5.69	1.97	1.11	2.83
	5-Year Median	10.58	2.71	1.72	3.66

As of 06/03/2020

Industry Analysis Zacks Industry Rank: Bottom 23% (194 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Autobytel Inc. (AUTO)	Neutral	3
General Motors Company (GM)	Neutral	3
HarleyDavidson, Inc. (HOG)	Neutral	3
IAA, Inc. (IAA)	Neutral	3
Polaris Inc. (PII)	Neutral	3
Fox Factory Holding Corp. (FOXF)	Underperform	4
PACCAR Inc. (PCAR)	Underperform	5
Toyota Motor Corporation (TM)	Underperform	5

Industry Comparison Industry: Automotive - Domestic				Industry Peers		
	TSLA	X Industry	S&P 500	HOG	PCAR	PII
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Underperform	Neutral
Zacks Rank (Short Term)	2	-	-	3	5	3
VGM Score	F	-	-	D	D	D
Market Cap	163.68 B	5.66 B	22.50 B	3.72 B	25.80 B	5.66 B
# of Analysts	8	5.5	14	6	8	6
Dividend Yield	0.00%	0.00%	1.88%	0.33%	1.72%	2.68%
Value Score	F	-	-	B	C	C
Cash/Price	0.05	0.09	0.06	0.48	0.17	0.08
EV/EBITDA	70.42	10.20	12.98	7.36	6.55	10.15
PEG Ratio	5.27	2.66	3.05	3.84	2.65	NA
Price/Book (P/B)	16.30	2.44	3.11	2.20	2.68	5.65
Price/Cash Flow (P/CF)	107.53	7.45	12.18	4.42	7.45	9.00
P/E (F1)	192.37	26.43	22.19	23.03	26.47	26.38
Price/Sales (P/S)	6.29	0.78	2.40	0.71	1.06	0.85
Earnings Yield	0.52%	3.21%	4.31%	4.32%	3.78%	3.79%
Debt/Equity	1.07	1.07	0.76	2.67	0.75	2.07
Cash Flow (\$/share)	8.21	3.24	7.01	5.50	10.02	10.27
Growth Score	C	-	-	F	D	F
Hist. EPS Growth (3-5 yrs)	NA%	1.90%	10.87%	-2.92%	12.44%	2.14%
Proj. EPS Growth (F1/F0)	3,429.85%	-44.02%	-10.74%	-60.63%	-58.95%	-44.57%
Curr. Cash Flow Growth	36.54%	6.65%	5.48%	-13.75%	6.65%	-0.38%
Hist. Cash Flow Growth (3-5 yrs)	54.29%	7.39%	8.55%	-5.50%	11.72%	1.56%
Current Ratio	1.24	1.28	1.29	1.09	2.49	1.31
Debt/Capital	53.08%	58.92%	44.75%	72.75%	42.85%	67.41%
Net Margin	-0.55%	3.82%	10.59%	6.93%	8.73%	4.04%
Return on Equity	-1.86%	6.54%	16.29%	24.99%	21.76%	33.41%
Sales/Assets	0.76	0.82	0.55	0.49	0.88	1.48
Proj. Sales Growth (F1/F0)	9.23%	-13.78%	-2.65%	-19.29%	-39.79%	-12.26%
Momentum Score	F	-	-	C	B	D
Daily Price Chg	0.16%	3.05%	2.42%	3.05%	1.63%	3.57%
1 Week Price Chg	2.22%	7.21%	4.60%	-12.47%	7.95%	4.32%
4 Week Price Chg	12.83%	19.65%	13.40%	24.23%	9.27%	35.37%
12 Week Price Chg	39.22%	13.30%	12.78%	5.33%	19.43%	27.52%
52 Week Price Chg	349.14%	-18.89%	0.89%	-29.30%	7.94%	8.83%
20 Day Average Volume	11,477,637	1,908,070	2,528,787	5,148,933	1,908,070	1,254,344
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	-10.43%	-0.14%	0.00%	-5.88%	0.00%
(F1) EPS Est 12 week change	-100.58%	-57.60%	-16.00%	-61.27%	-48.12%	-49.64%
(Q1) EPS Est Mthly Chg	0.00%	-18.86%	-0.02%	-12.90%	-24.82%	-7.12%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	F
Growth Score	C
Momentum Score	F
VGM Score	F

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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