

Tesla, Inc.(TSLA)

\$887.06 (As of 02/04/20)

Price Target (6-12 Months): **\$940.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 06/17/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: F

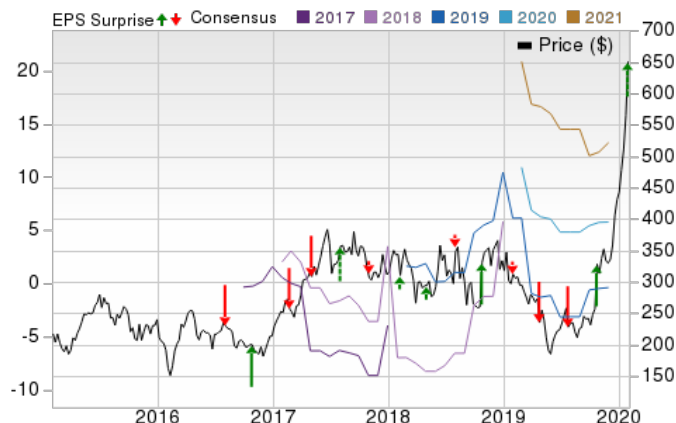
Growth: A

Momentum: B

Summary

Over the past year, shares of Tesla have massively outperformed the industry. This streak of the EV pioneer continued, following stellar fourth-quarter 2019 results, wherein it topped earnings and revenue estimates. With Model 3 sedan being its flagship vehicle, Tesla has established itself as a leader in the EV segment. Rising Model 3 delivery, which forms bulk of the automaker's overall deliveries, is aiding the company's top-line growth. Tesla's upcoming product launches, including Model Y and Semi Truck, are expected to further boost prospects. However, with China being an important market for Tesla, economic slowdown in the country is weighing on the firm. Tesla's massive debt and high capex also play spoilsports. Waning demand for Model S/X is another concern. Thus, investors are advised to wait for a better entry point.

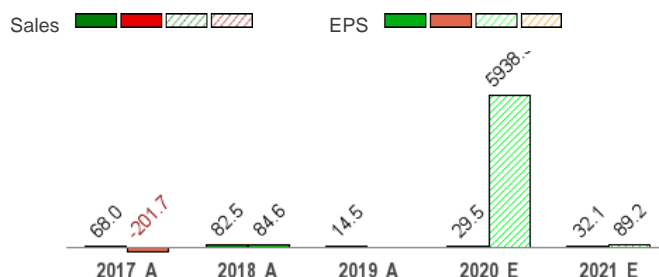
Price, Consensus & Surprise



Data Overview

| | |
|----------------------------|--|
| 52 Week High-Low | \$968.99 - \$176.99 |
| 20 Day Average Volume (sh) | 23,030,622 |
| Market Cap | \$159.9 B |
| YTD Price Change | 112.1% |
| Beta | 0.51 |
| Dividend / Div Yld | \$0.00 / 0.0% |
| Industry | Automotive - Domestic |
| Zacks Industry Rank | Bottom 23% (197 out of 255) |

Sales and EPS Growth Rates (Y/Y %)



| | |
|---------------------------|-------------------|
| Last EPS Surprise | 32.1% |
| Last Sales Surprise | 4.8% |
| EPS F1 Est- 4 week change | 7.4% |
| Expected Report Date | 04/22/2020 |
| Earnings ESP | 0.0% |
| P/E TTM | NA |
| P/E F1 | 113.0 |
| PEG F1 | 3.2 |
| P/S TTM | 6.5 |

Sales Estimates (millions of \$)

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|------|----------|----------|----------|----------|----------|
| 2021 | 10,831 E | 12,363 E | 13,152 E | 14,117 E | 42,058 E |
| 2020 | 6,665 E | 7,523 E | 8,522 E | 9,354 E | 31,835 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 | \$4.55 E | \$5.91 E | \$6.87 E | \$7.42 E | \$14.85 E |
| 2020 | \$0.82 E | \$1.56 E | \$2.84 E | \$3.71 E | \$7.85 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 02/04/2020. The reports text is as of 02/05/2020.

Overview

Palo Alto, CA-based Tesla, Inc. was incorporated in Delaware in July 2003. The company designs, produces and sells electric cars, solar energy generation systems and energy storage product.

The company operates under three segments: Automotive, Energy Generation & Storage and Financial Services. While automotive revenues accounted for 84.7% of 2019 revenues, energy generation and financial services constituted 6.2% and 9.1% of the total sales, respectively.

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. With Model 3 sedan being its flagship vehicle, Tesla has established itself as a leader in the EV segment.

Tesla's 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). In January 2019, it began construction of our Gigafactory Shanghai in China. Tesla's new Shanghai plant will give the company direct access to this market and allow it to cut costs substantially. Tesla aims fourth Gigafactory in Berlin to boost output. Car production in the Berlin Gigafactory is expected to begin in late 2021.

Additionally, the EV pioneer leverages its technological expertise in batteries, power electronics, and integrated systems to manufacture and sell energy storage products. Solar Glass Roof, Powerwall and Powerpack are also expected to enhance its prospects.

Using the energy management technologies and manufacturing processes developed for vehicle powertrain systems, Tesla develops energy storage products for use in homes, commercial facilities and on the utility grid. Advances in battery architecture, thermal management and power electronics get leveraged in the energy storage products as well.

The company also offers financing arrangements for its vehicles in North America, Europe and Asia primarily through various financial institutions.



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. 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. Strong performance and impressive design of the firm's products are ramping up sales volumes.
- ▲ 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. 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 electric vehicle (EV) market, Tesla's ambitious plans to start production in the country bode well. The company has already begun deliveries from Gigafactory 3 plants in Shanghai. Markedly, Tesla is aiming to open Gigafactory in Europe to boost output. It recently announced plans to buy a 300-hectare property, wherein it aims at making electric vehicles starting 2021.
- ▲ Notably, the company's focus on expansion of product portfolio, introduction of car-sharing services and development of self-driving capability is commendable. Markedly, the production of Model Y is slated for 2020. The company recently stated that it is ahead of schedule on its long-awaited Model Y crossover, which it now expects to launch soon. At the same time, Tesla revealed that it is planning to make a limited run of the Tesla Semi truck in the second half of 2020.

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

Reasons To Sell:

- ▼ While Model 3 is 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 of more than 63.7% also plays a spoilsport.
- ▼ 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. As we know, the firm is investing heavily to increase production capacity, boost Model 3 sales, launch Model Y, construct Gigafactories and enhance Supercharger infrastructure. These initiatives may prove beneficial in the long term, but 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 this year, high spending plans may threaten Tesla's aim of generating positive cash flow in 2019.
- ▼ With China being the biggest EV market, the country's economic slowdown is likely to weigh on the company's prospects. Moreover, rising competition in the electric market and slowing global car sales remain headwinds. Further, Tesla Model 3 production is likely to get delayed in Shanghai as the company has temporarily suspended operations because of the deadly coronavirus outbreak.
- ▼ With Panasonic being the major battery supplier for Tesla cars, supply constraints of battery cells from the former — which has been struggling financially — remain a major headwind. The supply chain problems are restricting Tesla's ability to increase production. As it depends on Panasonic for many components, the inability of the supplier to increase volume to meet Tesla's rising demand may limit the automaker's ability to expand production capacity.

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

Last Earnings Report

Tesla Puts Up a Stellar Q4 Show

Tesla reported earnings per share of \$2.14 in fourth-quarter 2019, beating the Zacks Consensus Estimate of \$1.62. This outperformance stemmed from higher-than-expected automotive revenues, which came in at \$6.37 billion, beating the consensus mark of \$5.96 billion. The earnings figure also came in higher than the prior-year quarter's \$1.93 per share.

During the reported quarter, net income attributable to common shareholders amounted to \$105 million compared with the net income of \$140 million recorded in the year-ago quarter.

Revenues increased to \$7.38 billion from the \$7.22 billion registered in fourth-quarter 2018. Also, the revenue figure surpassed the Zacks Consensus Estimate of \$7.05 billion.

During the fourth quarter, Tesla reported record delivery of 112,095 vehicles.

Total automotive revenues, including that from automotive sales and leasing, inched up 1% year over year to \$6.37 billion in the quarter.

Energy generation and storage revenues increased from \$372 million in fourth-quarter 2018 to \$436 million in the reported quarter. Services and other revenues were up 9.23% year over year to \$580 million.

Tesla's fourth-quarter 2019 automotive gross margin was 22.5%, shrinking 179 basis points (bps) from fourth-quarter 2018.

Financial Position

Tesla had cash and cash equivalents of \$6.3 billion as of Dec 31, 2019, compared with \$3.69 billion as of Dec 31, 2018, driven by positive quarterly free cash flow of \$1 billion.

Net cash provided by operating activities amounted to \$1.43 million in fourth-quarter 2019 compared with \$1.24 billion of net cash used in fourth-quarter 2018. Capital expenditure increased to \$412 million from the year-ago quarter's \$325 million, mainly due to investments in Gigafactory Shanghai and Model Y preparations in Fremont.

Model 3 & S/X Update

In fourth-quarter 2019, Tesla reported Model 3 production and deliveries of 86,958 and 92,620 units, reflecting year-over-year increase from 61,394 and 63,359 units, respectively. During the quarter, the production rate of Model 3 continued to improve.

Model S/X production and deliveries totaled 17,933 and 19,475 vehicles, down 29% year over year.

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. Due to ramp-up of Model 3 in Shanghai and Model Y in Fremont, production will likely outpace deliveries this year. Both solar and storage deployments will be up at least 50% in 2020.

Quarter Ending 12/2019

| Report Date | Jan 29, 2020 |
|------------------|--------------|
| Sales Surprise | 4.79% |
| EPS Surprise | 32.10% |
| Quarterly EPS | 2.14 |
| Annual EPS (TTM) | -0.02 |

Recent News

Tesla Achieves Record Production of 105K Vehicles in Q4

On **Jan 3**, Tesla unveiled its fourth quarter and full year 2019 sales report. The company registered record production and deliveries of 104,891 and 112,000 vehicles, respectively, in the fourth quarter of 2019.

Notably, the company's Model S/X and Model 3 reported record production and deliveries in the fourth quarter. The Model S/X division recorded production and delivery volume of 17,933 and 19,450 vehicles, respectively. The Model 3 division registered production of 86,958 vehicles, while 92,550 vehicles were delivered.

In 2019, Tesla delivered 367,500 vehicles, reflecting an increase of 50%, year over year, and nearly in line with the company's full-year guidance of 360,000 vehicles.

Valuation

Tesla shares are up 112.1% in the year-to-date period and 179.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Auto-Tires-Trucks sector are up 27.1% and 4.8% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 49.9% and 15.2%, respectively.

The S&P 500 index is up 1.1% in the year-to-date period and 20.7% in the past year.

The stock is currently trading at 4.92X forward 12-month price to sales ratio, which compares to 0.97X for the Zacks sub-industry, 0.69X for the Zacks sector and 3.45X 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 3.12X. Our Neutral recommendation indicates that the stock will perform in-line with than the market. Our \$940 price target reflects 5.21X 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 | 4.92 | 0.97 | 0.69 | 3.45 |
| | 5-Year High | 5.24 | 0.97 | 0.76 | 3.45 |
| | 5-Year Low | 1.1 | 0.52 | 0.5 | 2.54 |
| | 5-Year Median | 3.12 | 0.65 | 0.62 | 3 |
| P/B TTM | Current | 23.23 | 3.56 | 1.73 | 4.44 |
| | 5-Year High | 49.84 | 3.62 | 2.16 | 4.54 |
| | 5-Year Low | 5.69 | 2.09 | 1.38 | 2.85 |
| | 5-Year Median | 10.7 | 2.71 | 1.74 | 3.62 |
| EV/EBITDA TTM | Current | 60.42 | 10.99 | 8.7 | 11.95 |
| | 5-Year High | 497.3 | 16.37 | 11.34 | 12.85 |
| | 5-Year Low | NA | 6.48 | 7.05 | 8.49 |
| | 5-Year Median | 79.91 | 11.5 | 9.27 | 10.66 |

As of 02/04/2020

Industry Analysis Zacks Industry Rank: Bottom 23% (197 out of 255)



Top Peers

| | |
|---------------------------------------|--------------|
| Ford Motor Company (F) | Neutral |
| General Motors Company (GM) | Neutral |
| Honda Motor Co., Ltd. (HMC) | Neutral |
| NIO Inc. (NIO) | Neutral |
| Toyota Motor Corporation (TM) | Neutral |
| Volkswagen AG (VWAGY) | Neutral |
| Daimler AG (DDAIF) | Underperform |
| Fiat Chrysler Automobiles N.V. (FCAU) | Underperform |

| Industry Comparison Industry: Automotive - Domestic | | | | Industry Peers | | |
|---|--------------|------------|-----------|----------------|------------|------------|
| | TSLA Neutral | X Industry | S&P 500 | F Neutral | GM Neutral | TM Neutral |
| VGM Score | C | - | - | B | A | A |
| Market Cap | 159.89 B | 5.29 B | 24.31 B | 36.40 B | 49.11 B | 199.05 B |
| # of Analysts | 11 | 6 | 13 | 7 | 7 | 3 |
| Dividend Yield | 0.00% | 0.00% | 1.78% | 6.54% | 4.42% | 2.30% |
| Value Score | F | - | - | A | A | A |
| Cash/Price | 0.05 | 0.13 | 0.04 | 1.07 | 0.56 | 0.29 |
| EV/EBITDA | 96.40 | 7.99 | 13.98 | 7.10 | 4.44 | 6.43 |
| PEG Ratio | 2.80 | 1.46 | 2.01 | 1.04 | 0.52 | 1.13 |
| Price/Book (P/B) | 23.23 | 2.82 | 3.29 | 1.06 | 1.01 | 1.04 |
| Price/Cash Flow (P/CF) | 140.57 | 7.60 | 13.58 | 2.70 | 2.09 | 6.23 |
| P/E (F1) | 97.96 | 12.34 | 18.82 | 7.56 | 5.63 | 9.44 |
| Price/Sales (P/S) | 6.51 | 0.83 | 2.66 | 0.23 | 0.34 | 0.71 |
| Earnings Yield | 0.88% | 8.15% | 5.30% | 13.18% | 17.78% | 10.60% |
| Debt/Equity | 1.64 | 0.69 | 0.71 | 2.81 | 1.43 | 0.50 |
| Cash Flow (\$/share) | 6.31 | 4.51 | 6.92 | 3.39 | 16.46 | 22.62 |
| Growth Score | A | - | - | C | C | C |
| Hist. EPS Growth (3-5 yrs) | NA% | 6.49% | 10.80% | -0.36% | 12.25% | 2.44% |
| Proj. EPS Growth (F1/F0) | 5,935.00% | 9.90% | 7.40% | 2.04% | 29.11% | 27.45% |
| Curr. Cash Flow Growth | -713.59% | -6.09% | 10.22% | -13.28% | 4.80% | -12.84% |
| Hist. Cash Flow Growth (3-5 yrs) | 50.43% | 5.42% | 8.55% | 0.48% | 12.08% | 1.76% |
| Current Ratio | 1.08 | 1.17 | 1.21 | 1.17 | 0.96 | 1.06 |
| Debt/Capital | 63.38% | 58.99% | 42.91% | 73.77% | 58.83% | 33.53% |
| Net Margin | -3.51% | 4.78% | 11.79% | 0.03% | 6.19% | 6.25% |
| Return on Equity | -13.68% | 16.68% | 17.24% | 13.57% | 19.78% | 9.58% |
| Sales/Assets | 0.79 | 0.94 | 0.55 | 0.60 | 0.63 | 0.60 |
| Proj. Sales Growth (F1/F0) | 29.52% | 3.64% | 4.10% | -1.75% | 3.83% | 1.04% |
| Momentum Score | B | - | - | D | D | D |
| Daily Price Chg | 13.73% | 1.93% | 1.49% | 2.23% | 1.93% | 1.46% |
| 1 Week Price Chg | 15.18% | -2.62% | -2.60% | -2.00% | -2.68% | -2.75% |
| 4 Week Price Chg | 89.11% | -2.23% | 0.51% | -0.76% | -2.22% | -0.40% |
| 12 Week Price Chg | 153.50% | -4.09% | 4.44% | 1.55% | -10.94% | -2.48% |
| 52 Week Price Chg | 176.04% | -1.70% | 14.65% | 4.91% | -12.55% | 14.16% |
| 20 Day Average Volume | 23,030,622 | 979,749 | 1,935,862 | 53,486,760 | 9,832,662 | 148,689 |
| (F1) EPS Est 1 week change | 5.40% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| (F1) EPS Est 4 week change | 7.40% | 0.00% | 0.00% | -1.88% | -2.30% | -3.63% |
| (F1) EPS Est 12 week change | 27.73% | -2.71% | -0.10% | -3.44% | -3.04% | -0.99% |
| (Q1) EPS Est Mthly Chg | -94.28% | -4.37% | 0.00% | NA | NA | 0.00% |

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 | A |
| Momentum Score | B |
| VGM Score | C |

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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