

Tesla, Inc.(TSLA)

\$569.56 (As of 01/22/20)

Price Target (6-12 Months): **\$604.00**

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:D

Value: F

Growth: A

Momentum: D

Summary

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. In 2019, Tesla delivered 367,500 vehicles, reflecting an increase of 50%, year over year. The ahead of schedule Shanghai Gigafactory, wherein deliveries are ramping up, is also a positive catalyst for Tesla. However, with China being an important market for Tesla, slow economic growth of the country is weighing on the firm. Tesla's elevated leverage and high capex plans also play spoilsports. Worryingly, the relation between Tesla and its exclusive battery supplier Panasonic appears to be strained. As such, investors are recommended to wait for a better entry point.

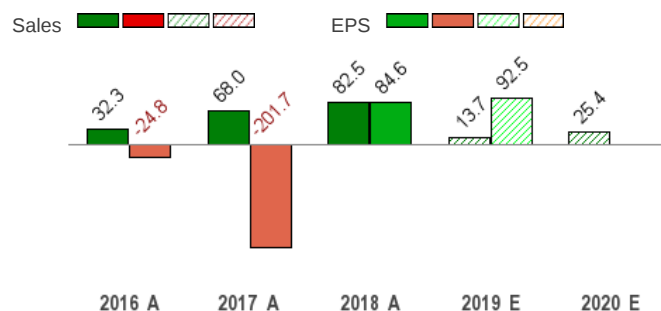
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$594.50 - \$176.99
20 Day Average Volume (sh)	16,467,410
Market Cap	\$102.7 B
YTD Price Change	36.2%
Beta	0.64
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Automotive - Domestic
Zacks Industry Rank	Top 27% (69 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1,340.0%
Last Sales Surprise	-3.3%
EPS F1 Est- 4 week change	1.9%
Expected Report Date	01/29/2020
Earnings ESP	3.3%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	7,021 E	7,653 E	8,810 E	9,628 E	30,598 E
2019	4,541 A	6,350 A	6,303 A	7,047 E	24,395 E
2018	3,409 A	4,002 A	6,824 A	7,226 A	21,461 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.55 E	\$1.33 E	\$2.75 E	\$3.96 E	\$6.35 E
2019	-\$2.90 A	-\$1.12 A	\$1.86 A	\$1.62 E	-\$0.10 E
2018	-\$3.35 A	-\$3.06 A	\$2.90 A	\$1.93 A	-\$1.33 A

*Quarterly figures may not add up to annual.

P/E TTM	NA
P/E F1	89.7
PEG F1	2.6
P/S TTM	4.2

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/22/2020. The reports text is as of 01/23/2020.

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. 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. The company started deliveries of Model 3, a lower-priced sedan designed for the mass market, in July 2017, and has significantly ramped its production. Very recently, the company has embarked on the delivery of Model 3 in international markets and trying to lower down the manufacturing costs while continuing to raise its production.

On April 2014, the automaker also started a subsidiary, Tesla Finance, to provide lease financing to business owners. Further, in April 2015, Tesla launched the Tesla Energy business with the unveiling of the industrial Powerpack and the residential Powerwall batteries. In October 2016, it unveiled new solar roof shingles that can store energy inside Powerwall 2.

In November 2016, Tesla completed the acquisition of solar installation firm SolarCity Corporation. The company believes this acquisition will help it to become the only vertically integrated energy company in the world offering end-to-end clean energy products. On Jan 3, 2017, the company acquired Grohmann Engineering GmbH (now Tesla Grohmann Automation GmbH or Grohmann) for \$109.5 million. Notably, Grohmann specializes in the design, development and sale of automated manufacturing systems. This acquisition is likely to improve the speed and efficiency of Tesla's manufacturing processes.

Tesla is also developing heavy-duty trucks and minibuses. In the long run, it also plans to offer car sharing services on autonomous vehicles.

In the second-quarter 2019, Tesla achieved record deliveries of 95,356 vehicles and record production of 87,048 vehicles.

Tesla undertakes marketing and servicing of vehicles through wholly owned subsidiaries in North America, Europe and Asia.



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. Meanwhile, strong performance and impressive design of its products are ramping up sales volumes.
- ▲ Notably, Tesla is making efforts to increase vehicle deliveries. In full-year 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. Higher volumes should enable Tesla to achieve cost and production efficiencies, thereby strengthening margins.
- ▲ 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 Gigafactories in Europe and a few other regions in an attempt to boost output. It also plans to soon announce the location of its European Gigafactory, 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 by next summer. At the same time, Tesla revealed that it is planning to make a limited run of the Tesla Semi truck next year.

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 is bearing the brunt of increasing research & development (R&D) and selling, general & administrative (SG&A) costs, which have been denting margins. Both R&D and SG&A expenses had increased in 2015, 2016, 2017 and 2018. Though the company displayed operational efficiency in the last reported quarter, it is yet to be seen if it can continue the trend amid high spending plans and new launches. The company's elevated leverage of more than 65% also plays a spoilsport.
- ▼ Tesla's projected capex for 2019 is \$2.5 billion, suggesting an uptick from \$2.1 billion in 2018. 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 in the last two reported quarters, 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. As it is, production and margins for Models S and X are on the decline.
- ▼ With Panasonic being the exclusive 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 a single-source supplier for many components, the inability of these suppliers to increase volume to meet Tesla's rising demand limits 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 Q3 Earnings Top, Down Y/Y

Tesla reported earnings per share of \$1.86 in third-quarter 2019, against the Zacks Consensus Estimate of loss of 15 cents. This outperformance resulted from continued volume growth and cost control, which is an important combination for achieving sustained, industry-leading profitability. The company had recorded earnings of \$2.90 per share in the prior-year quarter.

During the reported quarter, net income attributable to common shareholders amounted to \$143 million compared with the year-ago net income of \$311 million.

Revenues declined to \$6.3 billion from the \$6.82 billion registered in third-quarter 2018. The revenue figure missed the Zacks Consensus Estimate of \$6.52 billion.

During the quarter under review, Tesla reported record delivery of 97,000 vehicles and production of 96,000 units.

Total automotive revenues, including that from automotive sales and leasing, decreased 12% year over year to \$5.35 billion in the quarter.

Energy generation and storage revenues increased from \$399 million in third-quarter 2018 to \$402 million in the reported quarter. Services and other revenues were up significantly year over year to \$548 million.

Tesla's third-quarter 2019 automotive gross margin was 22.8%, shrinking 297 basis points (bps) from third-quarter 2018.

Financial Position

Tesla had cash and cash equivalents of \$5.34 billion as of Sep 30, 2019, compared with \$2.97 billion, as of Sep 30, 2018.

Net cash provided by operating activities amounted to \$756 million in third-quarter 2019 compared with \$1.39 billion of net cash used in third-quarter 2018. Capital expenditure declined to \$385 million from the year-ago quarter's \$510 million.

Model 3 Update

In third-quarter 2019, Tesla reported record Model 3 delivery of 79,703. During the quarter, the production rate of Model 3 continued to improve. Reducing waiting times and improving service experience are the company's top priorities. It opened 11 new service centers in the quarter and added 68 Mobile Service vehicles to their fleet.

Outlook

Tesla is making efforts to raise vehicle deliveries, sequentially and annually, with some expected fluctuations from seasonality. The company is highly confident in exceeding 360,000 vehicle deliveries in 2019. Importantly, it expects positive quarterly free cash flow as well as net income, in the upcoming period, with possible temporary exceptions, particularly around the launch and ramp-up of new products.

Quarter Ending **09/2019**

Report Date	Oct 23, 2019
Sales Surprise	-3.28%
EPS Surprise	1,340.00%
Quarterly EPS	1.86
Annual EPS (TTM)	-0.23

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's shares are up 95.4% in the trailing 12-month period. Stocks in the Zacks Automotive - Domestic industry and the Zacks Auto-Tires-Trucks sector are up 31.1% and 13% respectively, over the past year.

The S&P 500 index is up 24.9% in the past year.

The stock is currently trading at 3.3X forward 12-month price to sales ratio, which compares to 0.83X for the Zacks sub-industry, 0.67X for the Zacks sector and 3.56X 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 \$604 price target reflects 3.5X 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	3.3	0.83	0.67	3.56
	5-Year High	5.24	0.83	0.76	3.56
	5-Year Low	1.1	0.52	0.5	2.54
	5-Year Median	3.12	0.65	0.62	3
EV/EBITDA TTM	Current	47.43	10.55	8.73	12.38
	5-Year High	497.3	16.37	11.33	12.86
	5-Year Low	NA	6.48	7.05	8.48
	5-Year Median	80.73	11.18	9.27	10.67
P/B TTM	Current	14.92	3.06	1.7	4.54
	5-Year High	49.84	3.62	2.16	4.55
	5-Year Low	5.69	2.09	1.38	2.85
	5-Year Median	10.7	2.71	1.74	3.61

As of 01/22/2020

Industry Analysis Zacks Industry Rank: Top 27% (69 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	D	-	-	A	B	B
Market Cap	102.66 B	5.43 B	24.65 B	36.32 B	49.88 B	199.91 B
# of Analysts	7	5	13	7	7	3
Dividend Yield	0.00%	0.00%	1.77%	6.55%	4.35%	2.29%
Value Score	F	-	-	A	A	A
Cash/Price	0.06	0.12	0.04	1.03	0.53	0.29
EV/EBITDA	63.09	7.84	13.98	7.10	4.48	6.45
PEG Ratio	2.56	1.37	2.05	1.02	0.52	1.09
Price/Book (P/B)	14.92	2.84	3.38	1.06	1.02	1.05
Price/Cash Flow (P/CF)	90.26	8.30	13.60	2.70	2.12	6.26
P/E (F1)	89.69	11.98	19.07	7.46	5.68	9.16
Price/Sales (P/S)	4.20	0.85	2.69	0.23	0.34	0.71
Earnings Yield	1.11%	8.50%	5.24%	13.43%	17.59%	10.91%
Debt/Equity	1.64	0.67	0.72	2.81	1.43	0.50
Cash Flow (\$/share)	6.31	4.72	6.94	3.39	16.46	22.62
Growth Score	A	-	-	B	C	C
Hist. EPS Growth (3-5 yrs)	NA%	5.43%	10.60%	-0.36%	12.25%	2.44%
Proj. EPS Growth (F1/F0)	6,192.24%	8.82%	7.53%	-1.37%	29.00%	31.85%
Curr. Cash Flow Growth	-713.59%	6.06%	13.90%	-13.28%	4.80%	-12.84%
Hist. Cash Flow Growth (3-5 yrs)	50.43%	5.91%	9.00%	0.48%	12.08%	1.76%
Current Ratio	1.08	1.13	1.22	1.17	0.96	1.06
Debt/Capital	63.38%	61.11%	42.99%	73.77%	58.83%	33.53%
Net Margin	-3.39%	4.74%	11.21%	1.01%	6.19%	6.25%
Return on Equity	-13.42%	17.66%	17.16%	15.53%	19.78%	9.58%
Sales/Assets	0.79	0.97	0.55	0.61	0.63	0.60
Proj. Sales Growth (F1/F0)	25.43%	3.90%	4.08%	-1.49%	3.70%	2.03%
Momentum Score	D	-	-	F	F	D
Daily Price Chg	4.09%	0.00%	-0.04%	-0.54%	-0.23%	-0.58%
1 Week Price Chg	6.77%	0.81%	2.29%	-0.97%	2.74%	0.22%
4 Week Price Chg	33.94%	-4.57%	2.05%	-3.27%	-4.57%	0.16%
12 Week Price Chg	80.81%	0.62%	6.92%	7.26%	-7.91%	1.83%
52 Week Price Chg	98.05%	5.44%	21.50%	9.83%	-7.33%	15.59%
20 Day Average Volume	16,467,410	956,028	1,518,423	38,171,732	7,719,971	112,761
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-0.72%	-0.30%
(F1) EPS Est 4 week change	1.90%	0.00%	0.00%	-0.72%	-1.73%	-0.30%
(F1) EPS Est 12 week change	21.18%	-2.12%	-0.23%	-3.17%	-3.75%	2.43%
(Q1) EPS Est Mthly Chg	-55.42%	0.00%	0.00%	NA	NA	0.00%

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	A
Momentum Score	D
VGM Score	D

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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