

Tesla, Inc.(TSLA)

\$1,513.07 (As of 07/23/20)

Price Target (6-12 Months): **\$1,589.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 07/06/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: F

Growth: C

Momentum: B

Summary

Shares of Tesla have outperformed the industry over the past year. The red hot EV maker recently posted the fourth consecutive quarterly profit, which qualifies it for inclusion in the S&P 500 list. Tesla has a first-mover advantage in the EV space with high range vehicles, superior technology, and software edge. Robust Model 3 demand, ramp up of Model Y production, significant Shanghai Gigafactory progress, amazing line-up of upcoming products and aggressive expansion efforts bode well for the firm. However, high R&D, SG&A costs and massive capex may clip the margins. Tesla is investing heavily to increase production capacity, boost sales and construct Gigafactories, which are likely to strain its near-term prospects. Waning margins for Model S/X is another concern. Thus, investors should wait for a better entry point.

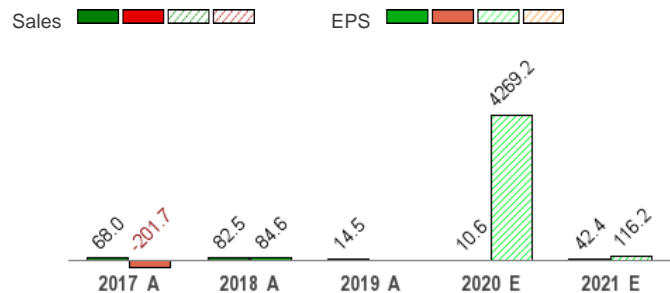
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$1,794.99 - \$211.00
20 Day Average Volume (sh)	16,647,973
Market Cap	\$280.5 B
YTD Price Change	261.7%
Beta	1.19
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Automotive - Domestic
Zacks Industry Rank	Bottom 34% (166 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	544.9%
Last Sales Surprise	21.6%
EPS F1 Est- 4 week change	5.4%
Expected Report Date	10/28/2020
Earnings ESP	67.2%
P/E TTM	203.9
P/E F1	266.4
PEG F1	7.3
P/S TTM	10.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	9,028 E	10,355 E	11,602 E	12,261 E	38,715 E
2020	5,985 A	6,036 A	6,993 E	8,412 E	27,181 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	\$2.37 E	\$2.92 E	\$3.84 E	\$4.71 E	\$12.28 E
2020	\$1.24 A	\$2.18 A	\$1.48 E	\$2.67 E	\$5.68 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 07/23/2020. The reports text is as of 07/24/2020.

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. On an encouraging note, the red hot EV maker smashed forecasts and posted the fourth consecutive quarterly profit in the latest quarter, which qualifies it for inclusion in the S&P 500 list.
- ▲ 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, rising deliveries of the Model Y is also contributing to the company's revenues. Moreover, model 3/Y installed capacity in Fremont is expected to extend from 400,000 to 500,000 units per year by the end of 2020, which further boosts optimism.
- ▲ 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, Tesla maintains the target of exceeding 500,000 vehicle deliveries despite the recent production interruptions amid 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. Further, the company announced during the second quarter earnings call that it has chosen Austin to build the fifth Gigafactory and preparations for that are underway.
- ▲ Low leverage of Tesla offers financial flexibility. Notably, its long-term debt-to-capital ratio stands at 0.24, lower than its industry's 0.82. Moreover, the company's times interest earned ratio of 1.07 is favorable to the industry ratio of 0.02.

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 is focusing 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/Y sales, construct Gigafactories and enhance Supercharger infrastructure. These initiatives are likely to strain near-term financial prospects of the firm.
- ▼ High capital spending is marring Tesla's cash flows. Capital expenses in the second quarter of 2020 increased both yearly and sequentially and the trend is expected to continue, thereby marring cash flow and profit levels. Also, even though the company has progressed well so far this year, concerns regarding economic slowdown and spike in coronavirus infections loom large. To this end, Tesla refrained from providing any profit 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. During the second quarter, Model S/X deliveries declined 13% and 40% on a quarterly and yearly basis, respectively. This resulted in lower year over year total deliveries in the latest quarter. The declining trend is likely to result in lost revenues.
- ▼ 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 six months of 2020, the EV maker reported negative FCF of \$477 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.
- ▼ Stretched valuation of Tesla is a concern. The stunning gains in the stock price of Tesla have pushed its market value exuberantly. Going by the EV/EBITDA (Enterprise Value/ Earnings before Interest, Tax, Depreciation and Amortization) multiple, which is often used to value auto stocks, Tesla is currently trading at a trailing 12-month EV/EBITDA multiple of 89.95, way higher than the industry average of 19.8. As such, the stock appears to be quite pricey and investors might not want to pay more for it at the moment.

High R&D and SG&A costs and massive capex plans are likely to hurt margins and cash flows of the firm.

Last Earnings Report

Tesla Posts Q2 Profit, Tops Sales Estimates

Quarter Ending 06/2020

Report Date	Jul 22, 2020
Sales Surprise	21.59%
EPS Surprise	544.90%
Quarterly EPS	2.18
Annual EPS (TTM)	7.42

Tesla reported earnings per share of \$2.18 in second-quarter 2020 against the Zacks Consensus Estimate of a loss of 49 cents. This outperformance stemmed from higher-than-anticipated revenues, which came in at \$6,036 million, beating the consensus mark of \$4,964 million. While the bottom line improved significantly from the prior-year quarter's loss of \$1.12 per share, the top line recorded a decline of 5%.

Key Takeaways

During the second quarter, Tesla reported delivery and production of 90,891 and 82,272 vehicles, respectively, reflecting a year-over-year decrease of 5% for both metrics. The downside mainly resulted from a decline in the level of production due to coronavirus-led shutdown of its main factory in Fremont during the quarter. Though delivery was down from the year-ago quarter, the figure beat analysts' estimates and was higher than 88,496 deliveries recorded in the first quarter.

Model 3/Y registered production and deliveries of 75,946 vehicles and 80,277, pointing to a year-over-year increase of 5% and 3%, respectively. While the production rate and deliveries of Model 3/Y persistently improved, Model S/X production and deliveries totaled 6,326 and 10,614 vehicles, down 56% and 40% year over year, respectively.

Total automotive revenues slid 4% year over year to \$5,179 million in the reported quarter. This included \$428 million from the sale of regulatory credits for electric vehicles, which increased a whopping 286% year over year. Tesla expects regulatory credit revenues to double year over year in 2020. Tesla's second-quarter 2020 automotive gross margin was 25.4%, improving 653 basis points (bps) from second-quarter 2019.

Energy generation and storage revenues came in at \$370 million in second-quarter 2020 compared with \$369 million in the year-ago period. Services and other revenues were down 19.5% year over year to \$605 million.

Total operating expenses totaled \$940 million during the quarter under review, down from \$1,088 million in the corresponding period of 2019.

Financials

Tesla had cash and cash equivalents of \$8,615 million as of Jun 30, 2020 compared with \$8,080 million on Mar 31, 2020. Net cash provided by operating activities amounted to \$964 million in second-quarter 2020 compared with \$864 million in prior-year period. Capital expenditure increased to \$546 million from the year-ago quarter's \$250 million. Importantly, the firm generated free cash flow (FCF) of \$418 million during the quarter. The prior-quarter FCF was negative 895 million. However, the reported figure declined 32% from the year-ago level.

Outlook

Tesla maintains the target of exceeding 500,000 vehicle deliveries despite the recent production interruptions. However, amid coronavirus-related setbacks, Tesla refrained from providing any profit or cash flow forecast. Nonetheless, the company's progress in the first half of 2020 has positioned it well for the second half of the year.

Model 3/Y installed capacity in Fremont is expected to extend from 400,000 to 500,000 units per year by the end of 2020. The construction of Model Y lines in Shanghai and Berlin Gigafactories are progressing well, and deliveries are expected to begin in 2021. Furthermore, deliveries for Tesla Semi are anticipated to begin in 2021. The company announced that it has chosen Austin to build the fifth Gigafactory.

Valuation

Tesla shares are up 261.7% in the year-to-date period and up 561.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Auto-Tires-Trucks sector are up 89.8% and 21% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 123.5% and 32.1%, respectively.

The S&P 500 index is up 1.9% in the year-to-date period and 9.9% in the past year.

The stock is currently trading at 8.33X forward 12-month price to sales ratio, which compares to 1.65X for the Zacks sub-industry, 0.9X for the Zacks sector and 3.62X for the S&P 500 index.

Over the past five years, the stock has traded as high as 9.08X 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 the market. Our \$1,589 price target reflects 8.74X 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	8.33	1.65	0.9	3.62
	5-Year High	9.08	1.65	0.89	3.62
	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	89.95	19.8	11.77	12.19
	5-Year High	511	20	11.8	12.86
	5-Year Low	NA	6.37	6.94	8.25
	5-Year Median	71.6	12.07	9.31	10.88
P/B F12M	Current	27.94	5.8	2.07	4.49
	5-Year High	47.69	5.89	2.13	4.56
	5-Year Low	5.69	1.97	1.13	2.83
	5-Year Median	10.58	2.7	1.72	3.71

As of 07/23/2020

Industry Analysis Zacks Industry Rank: Bottom 34% (166 out of 252)



Top Peers

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

Industry Comparison Industry: Automotive - Domestic				Industry Peers		
	TSLA	X Industry	S&P 500	HOG	PCAR	PII
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	D	-	-	D	C	C
Market Cap	280.48 B	5.52 B	22.58 B	4.45 B	29.75 B	5.88 B
# of Analysts	9	5	14	7	9	6
Dividend Yield	0.00%	0.00%	1.81%	0.28%	1.49%	2.58%
Value Score	F	-	-	B	B	C
Cash/Price	0.03	0.09	0.06	0.36	0.16	0.07
EV/EBITDA	119.87	10.46	13.13	8.16	7.46	10.46
PEG Ratio	7.30	4.07	3.04	4.70	2.38	NA
Price/Book (P/B)	27.94	3.04	3.15	2.63	3.04	5.87
Price/Cash Flow (P/CF)	184.27	8.97	12.33	5.28	8.59	9.35
P/E (F1)	266.39	27.59	22.09	28.18	27.00	25.39
Price/Sales (P/S)	10.91	0.86	2.41	0.84	1.44	0.88
Earnings Yield	0.38%	2.67%	4.30%	3.54%	3.71%	3.93%
Debt/Equity	1.07	1.07	0.76	2.67	0.74	2.07
Cash Flow (\$/share)	8.21	3.23	7.01	5.50	10.02	10.27
Growth Score	C	-	-	F	D	D
Hist. EPS Growth (3-5 yrs)	NA%	1.90%	10.82%	-2.92%	12.44%	2.14%
Proj. EPS Growth (F1/F0)	4,267.54%	-41.79%	-9.01%	-61.51%	-53.60%	-40.14%
Curr. Cash Flow Growth	36.54%	7.98%	5.47%	-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	1.31	1.09	1.32	1.31
Debt/Capital	53.08%	53.08%	44.41%	72.75%	42.85%	67.41%
Net Margin	1.43%	3.82%	10.46%	6.93%	7.95%	4.04%
Return on Equity	4.53%	12.73%	15.13%	24.99%	16.85%	33.41%
Sales/Assets	0.74	0.75	0.54	0.49	0.75	1.48
Proj. Sales Growth (F1/F0)	10.59%	-13.10%	-2.06%	-19.56%	-37.56%	-10.14%
Momentum Score	B	-	-	C	A	A
Daily Price Chg	-4.98%	0.00%	-0.20%	1.54%	0.95%	-1.29%
1 Week Price Chg	-2.84%	2.89%	3.82%	8.45%	5.57%	2.57%
4 Week Price Chg	53.46%	5.66%	6.02%	19.09%	17.49%	3.30%
12 Week Price Chg	93.52%	28.74%	10.03%	33.17%	24.31%	35.44%
52 Week Price Chg	561.25%	-15.02%	-2.89%	-18.27%	20.08%	3.09%
20 Day Average Volume	16,647,973	1,519,239	2,026,477	3,360,163	1,923,222	649,333
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	12.55%	0.00%
(F1) EPS Est 4 week change	5.36%	0.00%	0.15%	-0.99%	10.83%	7.48%
(F1) EPS Est 12 week change	72.40%	-11.39%	-3.24%	-9.87%	6.17%	1.11%
(Q1) EPS Est Mthly Chg	-21.62%	0.00%	0.00%	5.32%	42.15%	13.14%

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	B
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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