



Tesla Inc. (TSLA)

Updated July 7th, 2019 by Josh Arnold

Key Metrics

Current Price:	\$233	5 Year CAGR Estimate:	7.8%	Volatility Percentile:	93.8%
Fair Value Price:	\$189	5 Year Growth Estimate:	12.0%	Momentum Percentile:	9.2%
% Fair Value:	124%	5 Year Valuation Multiple Estimate:	-4.2%	Growth Percentile:	95.1%
Dividend Yield:	0.0%	5 Year Price Target	\$332	Valuation Percentile:	27.0%
Dividend Risk Score:	NA	Retirement Suitability Score:	NA	Total Return Percentile:	46.6%

Overview & Current Events

Tesla was founded in 2003 by famed entrepreneur Elon Musk. The company started out as a fledgling electric car maker but used some initial success to grow into its current \$42 billion market capitalization. Tesla now has a growing lineup of different models and price points, and is looking into expanding that lineup further to become a full-line automaker. Since coming public in 2010 at just \$17 per share, Tesla has produced outstanding returns for shareholders on hopes of massive future growth. Tesla does not pay a dividend.

Tesla reported Q1 earnings on 4/24/19 and results were mixed. The company's GAAP operating loss came in at \$522 million, while its GAAP net loss was \$702 million, which included \$188 million of non-recurring charges. About two-thirds of that non-recurring charge was due to higher than expected returns on the company's Model X and Model S cars, so Tesla is accruing against future losses under its Residual Value and Buy Back Guarantee programs.

Automotive revenue rose 36% year-over-year to \$3.7 billion as gains in the Model 3 were partially offset by volume reductions in the Model S and Model X lineups, respectively. Automotive gross margin rose 43bps against the year-ago period, rising to 20.2% of revenue. The company is targeting 25% gross margins long-term, so Q1's results show that it has some distance to cover to get there.

Tesla reaffirmed its outlook of 360,000 to 400,000 deliveries this year, but much higher production totals. This would represent a gain of between 45% and 65% against last year's deliveries, owed to the much higher rate of Model 3 production than what was possible last year. Tesla is now shipping Model 3's all over the world, and is facing some logistical challenges in doing so. However, the increased volumes should not only generate revenue, but much needed cash as well.

Tesla's liquidity has been an issue for some time, and that remains the case now. The company ended Q1 with \$2.2 billion of cash, down from \$3.7 billion a year ago. Tesla's immense capex needs to fund expansion of the Model 3 and other initiatives continues to weigh on the company. Indeed, it recently offered up nearly 4 million shares of common stock and a convertible senior note worth \$1.8 billion, which is similar to past capital raises. Tesla's nearly constant capital raises are a concern due to their explicit cost and the dilution they inflict upon existing holders.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
RPS	---	\$1.23	\$1.95	\$3.61	\$16.36	\$25.43	\$30.79	\$43.33	\$69.66	\$124.34	\$145.00	\$255.54
DPS	---	---	---	---	---	---	---	---	---	---	---	---
Shares	---	95	105	115	123	126	131	162	169	173	175	200

The company hasn't reported positive earnings for a full year since it came public, so earnings-per-share isn't particularly important for Tesla at this point. It is still investing heavily in growth, so we'll use revenue per share as the preferred valuation metric. We believe this better reflects where Tesla is in the lifecycle of its business.

Tesla's growth in revenue per share has been nothing short of outstanding. It produced about a hundred times more revenue per share last year than 2010, the year it came public. That level of growth is difficult to find anywhere, and it is why Tesla's shares have performed so well. However, we see much slower growth ahead, projecting 12% expansion for

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the next five years. We see growth slowing due to already-high production levels, as well as newfound concerns that the supply of Tesla models may be nearing demand. Tesla's vehicles are out of reach for many consumers due to their price point, so the demand curve of Teslas is different than mainstream vehicles. We don't think Tesla is done growing revenue, but the triple-digit gains of years past are gone.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/R	---	19.0	13.7	8.6	6.4	8.8	7.5	4.8	4.5	2.6	1.6	1.3
Avg. Yld.	---	---	---	---	---	---	---	---	---	---	---	---

Tesla's valuation has come down enormously since 2010, falling from 19 times revenue to 1.6 times revenue today. We see fair value at 1.3 times revenue as Tesla continues to grow at slower rates, and as investors will, at some point, expect profits to begin accruing. With this being the case, we see Tesla as overvalued at 1.6 times sales and see a 4.2% headwind to total returns from the lower valuation over time.

Safety, Quality, Competitive Advantage, & Recession Resiliency

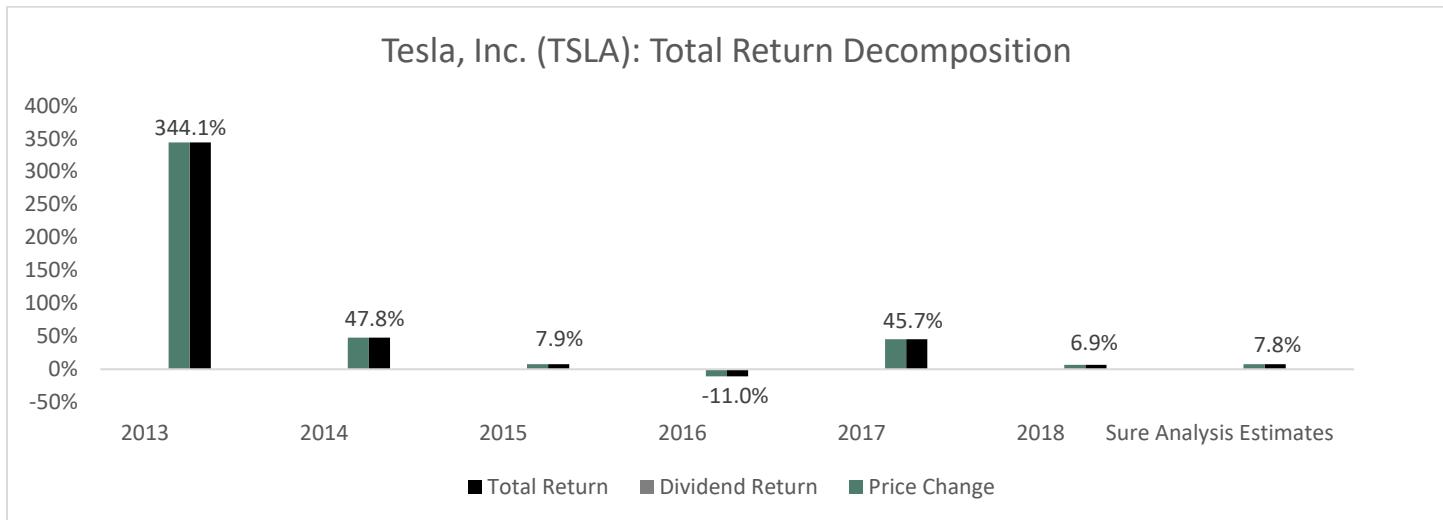
Tesla's obvious competitive advantage is its world class electric vehicles. The company's cars afford consumers ranges that they cannot get anywhere else, and are comparable to many gas and diesel vehicles. The company's ultra-high-tech interiors are a differentiating factor as well, giving the company a forward-looking brand against legacy automakers.

However, the company's capital position and constant liquidity concerns are a problem, particularly if a recession strikes. Tesla wasn't public during the Great Recession, and was a very different company then anyway. We see a recession as potentially devastating for Tesla given its liquidity concerns when sales are booming; a reduction in volumes and/or pricing could lead to a severe cash crunch.

Final Thoughts & Recommendation

We see total returns for Tesla at 7.8% annually for the next five years, consisting of the 12% growth rate and a 4.2% headwind from a lower valuation. Tesla doesn't pay a dividend and we don't expect it will anytime soon; it cannot afford to do so. While we like the growth potential of the company, concerns about supply and demand converging, as well as constant capital raises make us cautious. Given what we see as potentially devastating susceptibility to recessions, we rate Tesla a sell. We'd wait for a much lower price before owning this risky stock.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	112	117	204	413	2013	3198	4046	7000	11759	21461
Gross Profit	10	31	62	30	456	882	924	1599	2222	4042
Gross Margin	8.5%	26.3%	30.2%	7.3%	22.7%	27.6%	22.8%	22.8%	18.9%	18.8%
SG&A Exp.	42	85	104	150	286	604	922	1432	2477	2834
D&A Exp.	7	11	17	29	106	232	423	947	1636	1901
Operating Profit	-52	-147	-251	-394	-61	-187	-717	-667	-1632	-253
Operating Margin	-46.4%	-126%	-123%	-95.4%	-3.0%	-5.8%	-17.7%	-9.5%	-13.9%	-1.2%
Net Profit	-56	-154	-254	-396	-74	-294	-889	-675	-1961	-976
Net Margin	-49.8%	-132%	-125%	-95.9%	-3.7%	-9.2%	-22.0%	-9.6%	-16.7%	-4.5%
Free Cash Flow	-93	-233	-312	-503	1	-1027	-2159	-1564	-4142	-222
Income Tax	0	0	0	0	3	9	13	27	32	58

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	130	386	713	1114	2417	5831	8068	22664	28655	29740
Cash & Equivalents	70	100	255	202	846	1906	1197	3393	3368	3686
Accounts Receivable	3	7	10	27	49	227	169	499	515	949
Inventories	23	45	50	269	340	954	1278	2067	2264	3113
Goodwill & Int. Ass.			15	14			13	376	422	351
Total Liabilities	384	179	489	989	1750	4919	6984	17126	23421	23982
Accounts Payable	15	29	56	303	304	778	916	1860	2390	3404
Long-Term Debt	0	72	276	452	586	2488	2696	7128	10315	11971
Shareholder's Equity	-254	207	224	125	667	912	1084	4753	4237	4923
D/E Ratio	0.00	0.35	1.23	3.63	0.88	2.73	2.49	1.50	2.43	2.43

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	-61%	-59.8%	-46.3%	-43.4%	-4.2%	-7.1%	-12.8%	-4.4%	-7.6%	-3.3%
Return on Equity	24.6%	664.1%	-118%	-227%	-18.7%	-37.2%	-89.1%	-23.1%	-43.6%	-21.3%
ROIC	28.0%	-1217%	-65.3%	-73.6%	-8.1%	-12.6%	-24.8%	-8.2%	-13.9%	-5.9%
Shares Out.	---	95	105	115	123	126	131	162	169	173
Revenue/Share	1.44	2.30	2.03	3.85	16.86	25.68	31.56	48.54	70.94	125.85
FCF/Share	-1.19	-4.60	-3.11	-4.69	0.00	-8.25	-16.84	-10.85	-24.99	-1.30

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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