

Stock of the Month: **Tesla, Inc.**

Pretty much everyone has heard of Tesla. Whether you have driven one, or read about Elon Musk's crazy plans for electric cars, sustainable energy, or space travel, we all know something about the company. It was founded in 2003 by a group of engineers who wanted to prove that people didn't need to compromise to drive electric – that electric vehicles can be better, quicker and more fun to drive than petrol cars. Today, Tesla builds not only all-electric vehicles but also infinitely scalable clean energy generation and storage products. Tesla believes the faster the world stops relying on fossil fuels and moves towards a zero-emission future, the better.

Launched in 2008, the Roadster unveiled Tesla's cutting-edge battery technology and electric powertrain. From there, Tesla designed the world's first ever premium all-electric sedan from the ground up – Model S – which has become the best car in its class in every category. Combining safety, performance, and efficiency, Model S has reset the world's expectations for the car of the 21st century with the longest range of any electric vehicle, over-the-air software updates that make it better over time, and a record 0-60 mph acceleration time of 2.28 seconds as measured by Motor Trend. In 2015, Tesla expanded its product line with Model X, the safest, quickest and most capable sport utility vehicle in history that holds 5-star safety ratings across every category from the National Highway Traffic Safety Administration. Completing CEO Elon Musk's "Secret Master Plan", in 2016, Tesla introduced Model 3, a low-priced, high-volume electric vehicle that began production in 2017. Soon after, Tesla unveiled the safest, most comfortable truck ever – Tesla Semi – which is designed to save owners at least \$200,000 over a million miles based on fuel costs alone. (source: [Tesla website](#))

Tesla, the stock, polarises investors. It has long been one of the most heavily shorted stocks, with many investors having presented why the stock will go bust; whether it's their cash burn, their lack of capital compared to its competitors (BMW, VW, Daimler, etc) in the quest for dominance in the rapidly growing electric vehicle (EV) market, their inability to produce enough cars to meet the demand, or a host of other reasons.

In the past month, the stock has doubled, even though the financials reported to the market weren't anything fantastic. It has now reported two consecutive quarters of positive earnings (not enough for inclusion in the S&P 500 index) and it seems more people are coming around to the idea that maybe Elon might just deliver on his promises.

Cathie Wood, from ARK Invest, pitched the stock as a buy at the Sohn Hearts & Minds Conference in November of last year. She describes herself as the most trolled portfolio manager on earth because of her views on Tesla. So why does she like it so much, and why does she think it will be worth \$7,000 by 2024?

According to Cathie, there were 1.5m EV cars sold worldwide in 2019, and she expects 2m to sell in 2020. Fast forward to 2024, and Cathie is predicting 37m EV cars to be sold. Why? Because they will be 30-40% cheaper than petrol cars, and they will be better.

Her bear case valuation for 2024 is \$700, roughly double where it was when she pitched the stock. This valuation is based off Tesla being purely an EV manufacturer, selling 2m cars p.a. (of the predicted 37m), and achieving a 25% gross margin. Her bull case on the other hand, assumes that Tesla is an EV manufacturer and also runs one of the most important autonomous taxi platforms in the world. This would mean they sell 6m cars a year in 2024 but achieve 80-90% gross margins due to the autonomous nature of the cars. This valuation is some 10x her bear case valuation.

Cathie told the audience that she believes Tesla has four distinct comparative advantages over its competitors:

1. Superior battery technology - they are about three years ahead of the competition
2. Over the air software updates - a Tesla bought last year is better, faster and safer than it was last year
3. Artificial intelligence chip - Tesla designed its own chip, which is the equivalent of 144 MacBook Pro's, which will be central for the autonomous driving vehicles
4. Data collection - Tesla has collected roughly 22 billion km of data from its 6,000 cars on the road, while its nearest competitor, Google, has roughly 20 million km.

If she is right, and recent events suggest she may well be, Tesla investors are in for a great ride.

Company information

Ticker code	TSLA US
Market capitalisation	USD \$140bn
Average daily volume	7m shares / day
52-week range	USD \$176.99- \$653.00
Bloomberg consensus	7 Buys, 12 Holds, 18 Sells
Average price target	USD \$470

TSLA US: 5 year share price history

