Fidelity Asia Stock Pitch Competition 2024

Student Name: Chang Boon Poh (Ryan)
Name of University: National University of Singapore
Major: Master of Science in Finance
Expected Year of Graduation: 2026

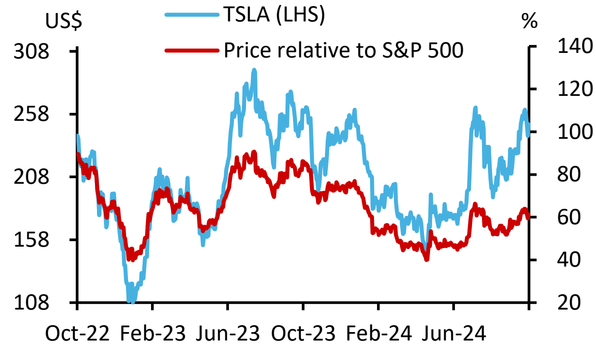
Company: Tesla, Inc. (NASDAQ: TSLA) **Sector: Consumer Discretionary (Automotives)**

SELL

Current Price: $250.08
Target Price (16-24 Months): **US$88.07 (Downside 57%)**

Market Data

52W Range (US$): 138.8 - 271.0
Market Cap (US$): 797.55B
Avg Daily Volume (M): 90.358
Shares Out. (M): 3,190.0
LTM P/E (x): 70.24 LTM P/B (x): 11.87



Company Summary

Tesla operates in two main business segments with a direct sales approach that includes servicing and charging its electric vehicles (EVs), setting it apart from other automakers. This Texas-based innovator owns and leases seven massive Gigafactories and Megafactories to support production worldwide.

As of 2023Y, most of Tesla's revenue comes from the Automotive segment, which accounted for **93.8% of total sales**, with a greater focus on the **Model 3, Model Y, and Cybertruck targeting a global mass demographic**. Besides automotive sales, revenue also comprises **trading of regulatory credits (1.9%) and leasing programs (2.2%).**

Additionally, the rapidly growing **Energy Storage business segment (6.2%)** focuses on lithium-ion battery energy storage products such as **Powerwall and Megapack,** and retrofitting solar energy systems through power purchase agreements. **Solar Roof** are sold directly to customers and channel partners for real estate projects. The **Services and Other segment (8.6%),** which constitutes the remaining value, includes after-sales services, parts, paid Supercharging, and other offerings.

Comparable Analysis

Peers / Companies	Market Cap (US$B)	NTM EV/ Revenue	NTM EV / EBITDA	NTM P/E	NTM P/B
General Motors Company	50.55	0.24	2.31	4.51	0.63
Ford Motor Company	41.54	0.19	2.04	5.63	0.84
NIO	13.98	0.98	-8.14	-6.77	10.31
BYD	122.612	0.48	3.71	20.30	4.62
Median (Excluding Tesla)	**46.05**	**0.36**	**2.175**	**5.07**	**2.73**
Tesla	**767.51**	**6.85**	**42.87**	**88.26**	**10.82**
Trading Premium	**1567%**	**1803%**	**1871%**	**1641%**	**296%**

Tesla is **currently at a premium of minimum 296% above the peer's median and is considered relatively overvalued** among its peers within the automotive spaces.

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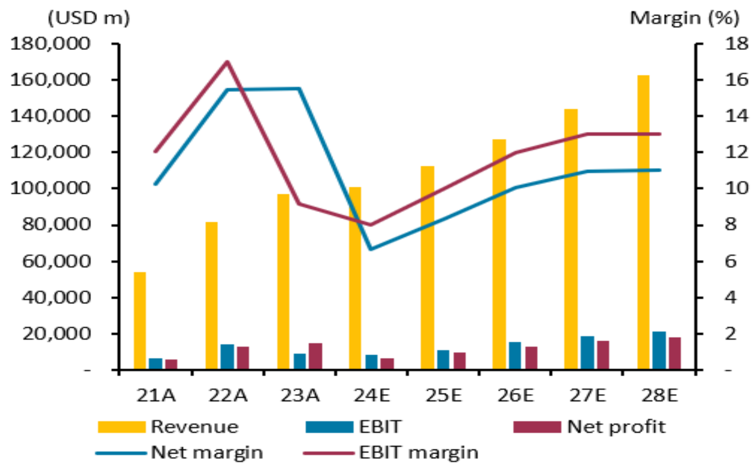
Key Opinions



1. **A year of resurgence for TSLA amid price wars.**

The company delivered 462,890 vehicles in Q3 2024, driven by low-interest and low-cost monthly leases for Model 3. I expect the favorable macro-environment to **continue supporting the company's growth (at 11.5% in 2025)** as well as the industry's, along with its continued price-cutting strategy and free charging offerings that are expected to hit Tesla's sweet spot and boost its deliveries into the next quarter. Additionally, TSLA is expected to enjoy a full year of Cybertruck deliveries, which will **prop up demand and full capacity due to the FSD upgrade attractions, representing an estimate of 39,000 units,** as well as the **slow production ramp-up of the updated flagship Model 3 and Model Y.**

2. **Gradual market share shrinkage is still a concern.**

Our biggest concern, the **cutthroat competition, is expected to be alleviated due to new market expansion in Southeast Asia**, but not in China (target to maintain at 7% since June 2024; it was 11.2% in 2023). As hybrid cars gradually gain ground in the U.S. and China, it would be better if Tesla **continues strategically positioning itself as a unique innovator** in the industry instead of just being a pure automaker. Despite TSLA also being expected to continue its **reinvestments in R&D for next-gen platform for new cheaper models and Optimus humanoid robots for productions use,** which will potentially begin to increase its cost efficiency as early as 2025, the **intensifying price war would still contribute as a major growth constraint** for the firm before more players exit the game after the market "craze" over the EV incentives. Hence, we think a **possible small improvement of only 10% in gross profit margin** from 2023Y to 2025Y.

3. **Weaker profitability by virtue of margin declines, but Energy Storage to further spark growth.**

I am concerned that TSLA's overall **profitability would be further shrink** to a **predicted net margin of only 6.7% vs consensus 7.0%**. The margin could have been estimated even lower without its **Energy Storage segment's growth as support**, which has the potential to become a more significant income stream for the company. Since other large automakers such as General Motors and Mercedes have **adopted and worked on transitions to the North American Charging Standard (NACS)**, Tesla's Energy Storage business segment is poised for **further growth of 239% to $14B in 2025 due to the growing global grid of over 50,000 superchargers.**

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Valuation Methodology & Recommendations

EV / NTM EBITDA of 15.9x yields an Enterprise Value of US$285B and Share Price of US$88.07. We recommend a 'Sell' rating for TSLA stock because: (i) I predict the company **will take longer than two years** to finally recoup and realize stable growth and cost efficiencies in both lines of business, including EV and Energy Storage, with the help of the Optimus. (ii) The company **continues to reinvest in R&D, which further consumes resources and cash flows for its real expansion and production,** making it more challenging to fulfill market demand under the favorable macro-environment. (iii) The company is a far more expensive investment for investors to hold at **LTM P/E ratio of 70.24x** and **EV/EBITDA of 49.38x,** compared to **peers' medians of 4.94x and 4.42x, respectively.** These factors signal the current overvalued price of TSLA stocks and may not be a good timing to hold or buy.

Analyst Recommendations	# of Recommendations	% of Total
1. Buy	22	40.7%
2. Hold	19	35.2%
3. Sell	13	24.1%
Consensus Recommendation	**1.83**	**100%**

Source: Refinitiv

We are different from market consensus, and here's the value that we see

I deem the market consensus to be **overvalued and over-optimistic** about TSLA's recovery in profitability, notably regarding the upcoming 'Robotaxi' event. Our valuation and recommendation **focus more on its margins, competitive advantages, and the transformation in production powered by Optimus,** which is expected to take place in 2025 and become more material and cost-efficient by 2027, thanks to more mature AI and robotic technology developments. Therefore, my EPS estimates of $2.11 and $2.92 in 2024E and 2025E respectively (vs $2.27 and $3.07) lead to my recommendation **rated "Sell" vs "Hold" by a majority 35% of the street expectations.**

Risks to the Recommendation

1. **Geopolitical and supply chain risks with semiconductors and precious metals**

   As TSLA becomes increasingly dependent on supply of chips and battery metals such as lithium for its production and AI-related innovations, there are currently no alternatives available. If there are any significant supply chain disruptions in chip, lithium, or other raw materials, potential delays in production and deliveries might occur, directly harming revenues by increasing fixed costs.

2. **Uncertain future government policies and economic incentives continuation**

   Especially in 2023 and the current year, TSLA has benefited from incentives offered by various countries, including China (more than 10% revenue), the EU, and many others. This makes TSLA more susceptible to changes in relevant policies such as increasing tariffs (which have been implemented by the EU for units produced in China) and reduction in incentives.

3. **Inability to recoup its massive R&D expenditures**

   TSLA's consistent, massive reinvestments in R&D and CapEx in expansions can result in no realized returns. We should not be overly optimistic or underestimate how this could consume valuable resources of the company.