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Tesla Inc | North America

Crossing the \$600bn Mark: Tesla vs. Apple and Amazon

📈 Stock Rating	👁 Industry View	🎯 Price Target
Overweight	In-Line	\$540.00

We look back to see what Apple and Amazon were like when they crossed \$600bn market cap in terms of business size, valuations and market conditions and compare it to Tesla today. Tesla's valuation has confounded auto investors unfamiliar with the paradigm of installed base, ARPU and sub revenue.

A few observations:

- **Tesla reached the \$600bn market cap milestone on December 7th** (on a basic share count basis) **as a significantly smaller company (by revenue and EBITDA) than either Apple and Amazon when they achieved the same market cap milestone, respectively.** When compared to Apple's crossing of the \$600bn mark in August of 2012, Tesla is less than 1/4th the size of Apple in forward year revenue and roughly 1/7th the EBITDA of Apple at that time. Compared to Amazon's \$600bn market cap crossing in early 2018, Tesla is less than 1/5th the size of AMZN in forward year revenue and roughly 1/3rd in terms of forward year EBITDA.
- **Tesla's \$600bn milestone reflects a significant valuation premium vis-à-vis when Apple and Amazon achieved the same cap.** At \$600bn, Tesla trades at roughly 80x our forward year EBITDA estimate. Apple's valuation when it crossed \$600bn in August 2012 was ~8x forward year EV/EBITDA and Amazon was at ~22x forward year EV/EBITDA. Tesla's EV/EBITDA multiple is nearly 10-fold that of Apple and roughly ~3.5-fold that of Amazon when they achieved the milestone.
- **An inflation of the S&P 500 market multiple helps explain some of the valuation premium for Tesla.** The S&P 500 P/E multiple is ~75% and ~21% higher today than when Apple and Amazon reached their \$600bn milestones, respectively.
- **While harder to quantify, we also believe Tesla is garnering greater levels of enthusiasm from investors given its technological dominance (both demonstrated and perceived) vs. the established competition in the vast global transportation market.** Investors may argue that the step-function change in Tesla from a single-factory, niche EV producer to a global EV

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Tesla Inc (TSLA.O, TSLA US)

Autos & Shared Mobility / United States of America

Stock Rating	Overweight
Industry View	In-Line
Price target	\$540.00
Shr price, close (Dec 7, 2020)	\$641.76
Mkt cap, curr (mm)	\$709,145
52-Week Range	\$648.79-66.95

Fiscal Year Ending	12/19	12/20e	12/21e	12/22e
EPS (\$) **	0.21	2.36	4.65	5.82
Prior EPS (\$) **	-	-	-	-
ModelWare EPS (\$)	(0.97)	1.24	3.47	4.68

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework

** = Based on consensus methodology
e = Morgan Stanley Research estimates

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and Battery powerhouse with a far wider range of EV products and an emerging software/services model offers potentially greater optionality.

The overlay of important ESG/Climate related factors may also be a contributing influence where Tesla is widely seen as the 'main event' in renewables... akin to a full-stack sustainable ETF.

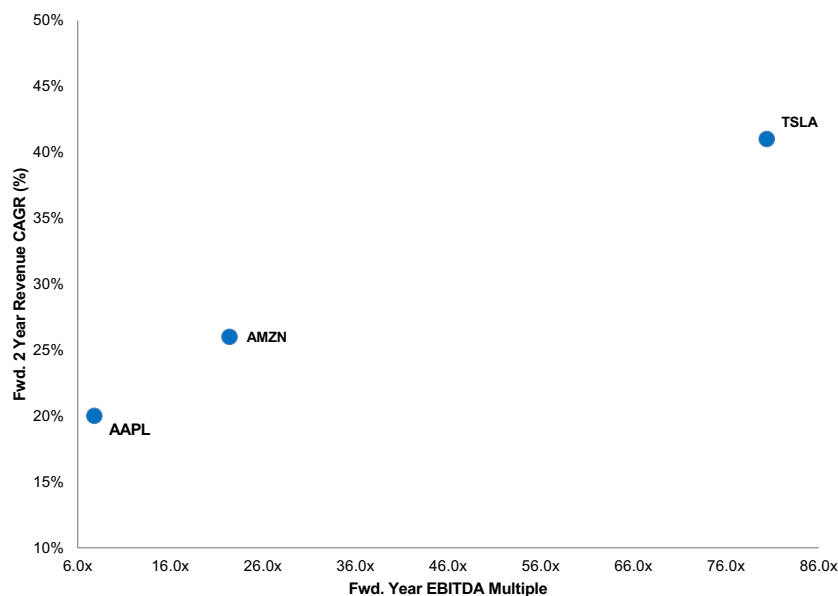
- **We asked Morgan Stanley's Apple analyst, Katy Huberty, to recall what the market narrative was at the time Apple reached \$600bn. Here's what she said:** "While it took Apple nearly 30 years to reach a \$300B market cap, it took just 18 months to grow from \$300B to \$600B in market cap in August of 2012. At the time, Apple was transitioning from a hyper- to a more sustainable-growth phase having just posted 5 consecutive years of 70%+ Y/Y iPhone shipment growth and 63% annual EPS growth. In the following two years, new CEO Tim Cook managed through a slower growth period while continuing to invest in innovation and initiate the first capital return plan. Services still represented 10% of revenue such that investors viewed Apple as a cyclical, product cycle driven hardware company represented by a <8x EV/EBITDA multiple compared to >20x today."
- **And here's what Morgan Stanley Internet analyst Brian Nowak said in regards to the mood around Amazon back in early 2018:** "Amazon's 2H17 saw a significant fulfillment network square footage build as well as the scaling of its high margin revenue streams, as the market began to adjust to a 5 part sum of the parts valuation (1P, 3P, AWS, subscription and advertising). Over the course of 2018, sustainable growth in core retail revenue and record margins justified this elevated investment in fulfillment capacity and allowed the market to appreciate AMZN's long-term addressable market and earnings power."

Exhibit 1: Tesla vs. Apple at \$600BN Market Cap

Company	Date Crossed \$600BN	Fwd. Year Revenue	Fwd. Year EBITDA (M\$)	Fwd. Year EBITDA Multiple	Fwd. 2 Year Revenue CAGR (%)	5xP500 Multiple (NTM) @ Time of \$600BN	10Yr Treasury @ Time of \$600BN	ERP @ Time of \$600BN
 TESLA	December 7th, 2020	\$46.3BN	\$10.3BN	80.4x	41%	22.1x	0.94%	449bps
	August 17th, 2012	\$190.2BN	\$73.8BN	7.8x	20%	12.6x	1.81%	641bps
 amazon	January 8th, 2018	\$232.8BN	\$27.7BN	22.4x	26%	18.3x	2.49%	590bps

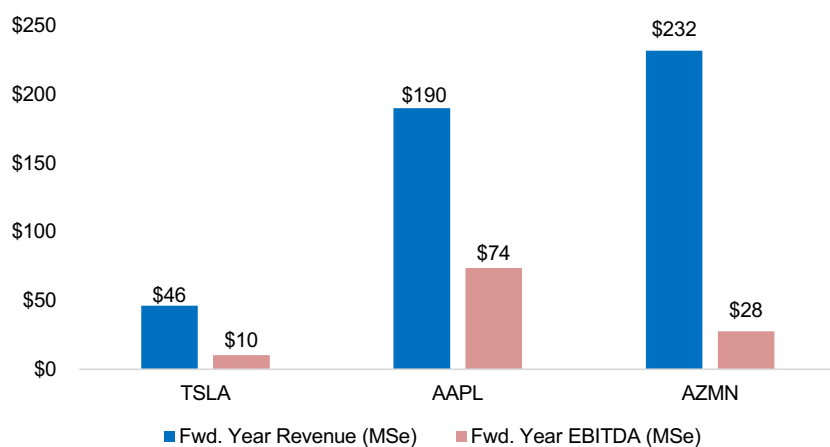
Source: FactSet, Morgan Stanley Research. Note: TSLA forward year EBITDA multiple uses diluted share count to be consistent with our model. MS Internet team excludes SBC from EBITDA calculation.

Exhibit 2: Tesla vs. Apple and Amazon Multiple/Growth when each passed \$600BN market cap



Source: FactSet, Morgan Stanley Research. Note: Multiples and Growth rate are at the respective dates each company passed \$600BN market cap. TSLA forward year EBITDA multiple uses diluted share count to be consistent with our model. MS Internet team excludes SBC from EBITDA calculation.

Exhibit 3: Tesla vs. Apple and Amazon Revenue and EBITDA when each passed \$600BN market cap



Source: FactSet, Morgan Stanley Research. Note: Revenue and EBITDA are at the respective dates each company passed \$600BN market cap. MS Internet team excludes SBC from EBITDA calculation.

Please see relevant TSLA reports below:

- [Tesla Inc: Time to Value Tesla's Software & Services Business: Upgrade to OW, Price Target to \\$540](#) (18 Nov 2020)
- [Tesla Inc: Crossing the \\$300bn Mark: Tesla vs. Apple and Amazon](#) (21 Jul 2020)
- [Tesla Inc: Tesla \\$2k? Lessons from the Tech Stack](#) (13 Jul 2020)

Valuation Methodology and Risks

Apple, Inc.(AAPL.O)

Our \$136 price target is sum-of-the-parts driven. We apply a 5.9x EV/Sales multiple on Apple's Product business (iPhone, iPad, Mac, and Wearables) and a 10.5x EV/Sales multiple on Apple's Services business, in-line with their respective peer groups. This results in an implied 6.7x target FY21 EV/Sales multiple and a 33.3x target FY21 P/E multiple.

Risks to Upside

- Positive FY21 consensus estimate revisions from 5G iPhone cycle, WFH demand, and/or Services strength
- New product launches outperform expectations
- Stronger ecosystem engagement
- iPhone share gains from Huawei restrictions

Risks to Downside

- Weaker global consumer spending due to resurgence of COVID-19
- Underwhelming 5G iPhone reception
- Stiffer smartphone competition
- Increased regulation, particularly around App Store

Amazon.com Inc(AMZN.O)

We apply a sum-of-the-parts valuation on AMZN's five businesses (1P, 3P, AWS, Subscription, and Advertising/Other). We value core retail at ~\$835bn based on 1P reaching 1.25% '22 op margins and 3P reaching a 20% EBITDA margin. AWS is worth ~\$640bn, Prime sub revenues are worth ~\$220bn and AMZN's ad business is ~\$195bn.

Risks to Upside

- Faster than expected AWS rev growth and margin expansion
- 1-day shipping cost transition goes faster than expected
- Amazon succeeds in expanding its TAM (logistics, advertising, grocery, etc)

Risks to Downside

- Investments step up and continue for longer than expected
- Unit growth slows
- AWS revenue decelerates and/or margins decline

Tesla Inc(TSLA.O)

Our PT of \$540 is comprised of 6 components: **(1)** \$254/share for core Tesla Auto business on 3.8mm units in 2030, 8% WACC, 13x 2030 exit EBITDA multiple, & exit EBITDA margin of 18.7%. **(2)** Tesla Mobility at \$38 on DCF with 500k cars at \$1.7/mile by 2030. **(3)** Tesla as a 3rd party powertrain supplier at \$58/share. **(4)** Energy at \$12/share, **(5)** Insurance at \$15/share, & **(6)** Network Services at \$164, 12mm connected fleet at \$100 ARPU by 2030, 20% discount

Risks to Upside

- Disclosure on service revs
- Increased FSD attach rate
- Cost milestones on new battery
- New model intro (Cybertruck, multivan, Semi)
- 3rd party battery win
- Geographic penetration& new capacity

Risks to Downside

- Competition from legacy OEMs/Chinese domestics/mega-tech
- Execution risk with multiple factory ramps
- Failure for market to recognize services op & lower than expected attach rate & ARPU
- China/US risks
- Dilution

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(as of November 30, 2020)

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STOCK RATING CATEGORY	COVERAGE UNIVERSE		INVESTMENT BANKING CLIENTS (IBC)			OTHER MATERIAL INVESTMENT SERVICES CLIENTS (MISC)	
	COUNT	% OF TOTAL	COUNT	% OF TOTAL IBC	% OF RATING CATEGORY	COUNT	% OF TOTAL OTHER MSC
Overweight/Buy	1404	41%	372	46%	26%	620	41%
Equal-weight/Hold	1448	43%	346	43%	24%	666	44%
Not-Rated/Hold	5	0%	1	0%	20%	4	0%
Underweight/Sell	536	16%	85	11%	16%	219	15%
TOTAL	3,393		804			1509	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

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Stock Price, Price Target and Rating History (See Rating Definitions)

Amazon.com Inc (AMZN.O) - As of 12/9/20 in USD
Industry : Internet



Stock Rating History: 12/1/15 : O/A; 9/12/16 : O/I; 10/16/17 : O/A; 1/10/18 : O/I

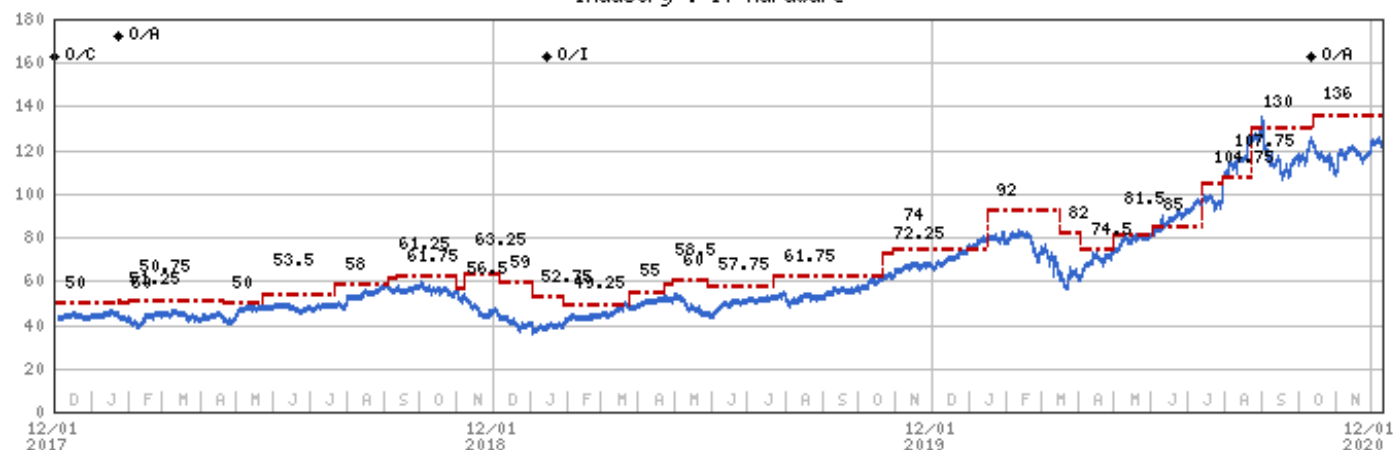
Price Target History: 11/11/15 : 800; 10/5/16 : 950; 2/2/17 : 900; 4/5/17 : 975; 7/20/17 : 1200; 7/27/17 : 1150; 10/27/17 : 1250; 1/26/18 : 1400; 2/1/18 : 1500; 4/19/18 : 1550; 4/27/18 : 1700; 7/26/18 : 1850; 8/29/18 : 2500; 10/26/18 : 2400; 2/1/19 : 2200; 4/26/19 : 2100; 7/15/19 : 2300; 9/22/19 : 2200; 10/25/19 : 2100; 1/16/20 : 2200; 1/31/20 : 2400; 5/1/20 : 2600; 5/31/20 : 2800; 7/16/20 : 3450; 7/31/20 : 3750; 10/15/20 : 3750

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target --- No Price Target Assigned (NA)
Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) —
Stock and Industry Ratings (abbreviations below) appear as ♦ Stock Rating/Industry View
Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)
Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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Apple, Inc. (AAPL.O) - As of 12/9/20 in USD
Industry : IT Hardware



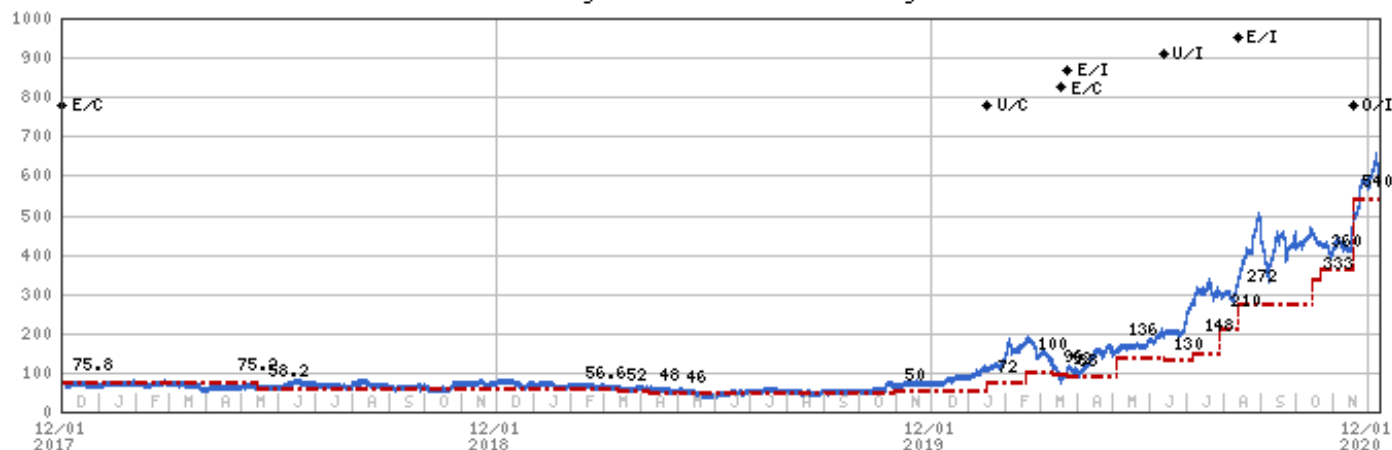
Stock Rating History: 12/1/15 : O/C; 1/23/18 : O/A; 1/15/19 : O/I; 10/12/20 : O/A

Price Target History: 10/28/15 : 38; 12/13/15 : 35.75; 1/26/16 : 33.75; 4/27/16 : 30; 7/26/16 : 30.75; 10/14/16 : 31; 10/25/16 : 37; 1/31/17 : 37.5; 2/21/17 : 38.5; 4/19/17 : 40.25; 5/17/17 : 44.25; 7/16/17 : 45.5; 9/19/17 : 48.5; 10/10/17 : 49.75; 11/2/17 : 50; 1/23/18 : 51.25; 1/25/18 : 50; 2/1/18 : 50.75; 4/20/18 : 50; 5/23/18 : 53.5; 7/23/18 : 58; 9/5/18 : 61.25; 9/12/18 : 61.75; 11/1/18 : 56.5; 11/7/18 : 63.25; 12/7/18 : 59; 1/2/19 : 52.75; 1/29/19 : 49.25; 3/25/19 : 55; 4/23/19 : 58.5; 4/30/19 : 60; 5/29/19 : 57.75; 7/22/19 : 61.75; 10/22/19 : 72.25; 10/30/19 : 74; 1/16/20 : 92; 3/16/20 : 82; 4/3/20 : 74.5; 4/30/20 : 81.5; 6/2/20 : 85; 7/13/20 : 104.75; 7/30/20 : 107.75; 8/23/20 : 130; 10/13/20 : 136

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Tesla Inc (TSLA.O) - As of 12/9/20 in USD
Industry : Autos & Shared Mobility

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target -- No Price Target Assigned (NA)
 Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) —
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 Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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INDUSTRY COVERAGE: Autos & Shared Mobility

COMPANY (TICKER)	RATING (AS OF)	PRICE* (12/09/2020)
Adam Jonas, CFA		
Adient PLC (ADNT.N)	E (02/12/2020)	\$37.35
American Axle & Manufacturing Holdings Inc (AXL.N)	E (03/30/2020)	\$8.29
Aptiv Plc (APT.V.N)	O (03/30/2020)	\$123.73
Asbury Automotive Group Inc (ABG.N)	O (12/07/2020)	\$143.97
AutoNation Inc. (AN.N)	U (07/10/2018)	\$67.30
Avis Budget Group Inc (CAR.O)	O (07/02/2020)	\$39.33
BorgWarner Inc. (BWA.N)	U (11/09/2020)	\$39.86
Carmax Inc (KMX.N)	O (07/10/2018)	\$94.87
Carvana Co (CVNA.N)	E (10/01/2020)	\$255.50
Ferrari NV (RACE.N)	O (05/09/2019)	\$214.95
Fiat Chrysler Automobiles NV (FCHAM)	++	€13.83
Fiat Chrysler Automobiles NV (FCAU.N)	++	\$16.56
Ford Motor Company (F.N)	E (11/25/2020)	\$9.45
Garrett Motion Inc (GTMMQ.PK)	++	\$4.52
General Motors Company (GM.N)	O (04/09/2018)	\$44.43
Goodyear Tire & Rubber Company (GT.O)	E (08/13/2018)	\$10.75
Group 1 Automotive, Inc (GPI.N)	O (05/06/2019)	\$125.01
Harley-Davidson Inc (HOG.N)	E (10/27/2020)	\$39.77
Lear Corporation (LEA.N)	O (11/09/2020)	\$158.64
Lithia Motors Inc. (LAD.N)	E (12/07/2020)	\$279.26
Magna International Inc. (MGAN)	U (11/09/2020)	\$63.04
Penske Automotive Group, Inc (PAG.N)	O (07/10/2018)	\$58.83
Sonic Automotive Inc (SAH.N)	E (11/14/2019)	\$43.30
Tenneco Inc. (TEN.N)	U (03/30/2020)	\$10.60
Tesla Inc (TSLA.O)	O (11/18/2020)	\$604.48
Visteon Corporation (VC.O)	U (03/22/2018)	\$127.07

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* Historical prices are not split adjusted.