



# TESLA Equity Analysis

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## Company Overview

Tesla, Inc., formerly Tesla Motors, Inc., incorporated on July 1, 2003, designs, develops, manufactures and sells fully electric vehicles, and energy storage systems, as well as installs, operates and maintains solar and energy storage products. The Company operates through two segments: automotive, and energy generation and storage. The automotive segment includes the design, development, manufacturing, and sales of electric vehicles. The energy generation and storage segment include the design, manufacture, installation, and sale or lease of stationary energy storage products and solar energy systems to residential and commercial customers, or sale of electricity generated by its solar energy systems to customers.



Tesla has broken new barriers in developing high-performance automobiles that are not only the world's best and highest-selling pure electric vehicles but also the safest, highest-rated cars on the road in the world. For the purpose of this analysis my focus will be on the automotive segment of TSLA as it is the driving force (literally). I will touch on the solar energy segment but not in as much detail as it makes up a much smaller part of Tesla.

Tesla currently offers three different vehicles. The Model S, a premium sedan released in 2012. The Model X, a modern SUV released in 2015 and the Model 3 which was released with the aim of making electric vehicles available to everyone, available at \$35,000 as of recently. While demand for these three models are still high, Tesla have their eye on the future with upcoming projects. Namely the Model Y, a crossover SUV, The Roadster and finally the Tesla Semi. All Tesla vehicles are produced at its Fremont, California factory where most of the vehicle's parts are also made.

To create an entire sustainable energy ecosystem, Tesla also manufactures a unique set of energy solutions, Powerwall, Powerpack and Solar Roof, enabling homeowners, businesses, and utilities to manage renewable energy generation, storage, and consumption. Supporting Tesla's automotive and energy products is Gigafactory 1 – a facility designed to significantly reduce battery cell costs. By bringing cell production in-house, Tesla manufactures batteries at the volumes required to meet production goals, while creating thousands of jobs.

# Highlights

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BATS:TESLA, D 291.81 ▲+5.93 (+2.07%) O:287.32 H:296.17 L:287.17 C:291.81



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**Recommendation:**  
**BUY**

Closing Price	\$285.88
52-week range	\$247.77-\$387.46
Market Cap	\$50.5B
YTD Return %	-7.8%
P/E	N/A
EPS	-\$5.72
Dividend	\$0.00

From taking an in depth look at this stock and the company behind it I am giving a buy recommendation. Tesla has reported better than expected earnings and sales figures for Q3 and Q4 of 2018. I believe going forward Tesla will improve on this and will turn profit for the foreseeable future.

Strong demand for Electric Plug-In Vehicles has improved Tesla's market position and I believe this will get stronger again as adoption of Electric vehicles becomes more mainstream.

With deliveries of the Model 3 to Europe and China beginning in early 2019 I believe this will be a huge driver going forward for Tesla as it opens the market up substantially. The Model 3 has already become the best selling electric vehicle in Europe even after logistical issues and not working at full capacity.

I believe Tesla faces a crucial time in its lifetime as it goes through some issues.

My buy recommendation is based on the hopes that:

USA-China trade war will not kick off again.

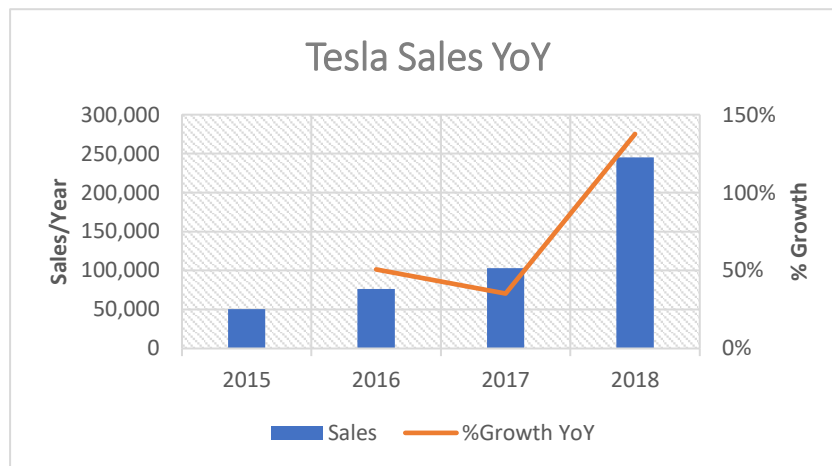
Elon Musk & Tesla deal with SEC probes in a professional and effective manner.

Model Y production process is smooth and scalable.

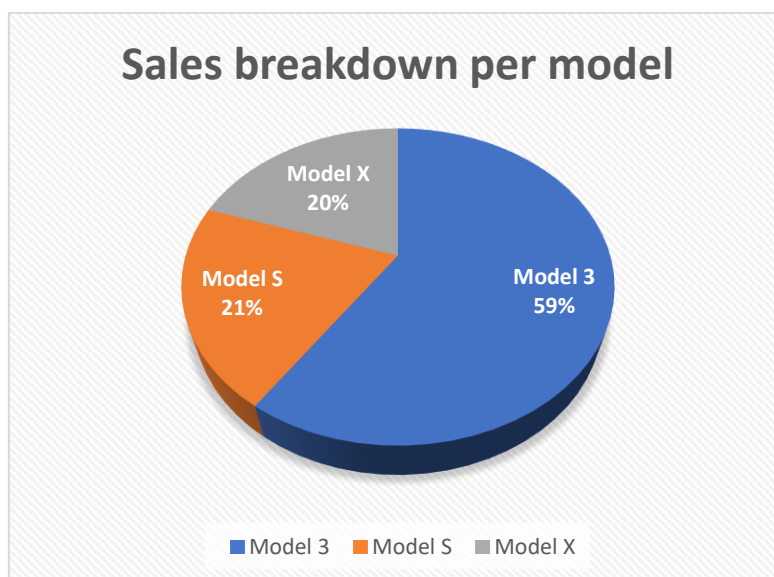
## Top line vs. Bottom line: A tale of 2 halves?

### Sales & Revenue

Tesla has seen a meteoric rise in terms of both sales volume and revenue. 2018 was Tesla's biggest year yet in terms of both, crushing previous years. Previously, Tesla found it difficult to ramp production up to meet the demand of its customers, but this seems to have been overcome this in 2018 especially in the second half of the year (174,425 units). Sales growth YoY is convincing with growth of 137.60% from 2017 to 2018.

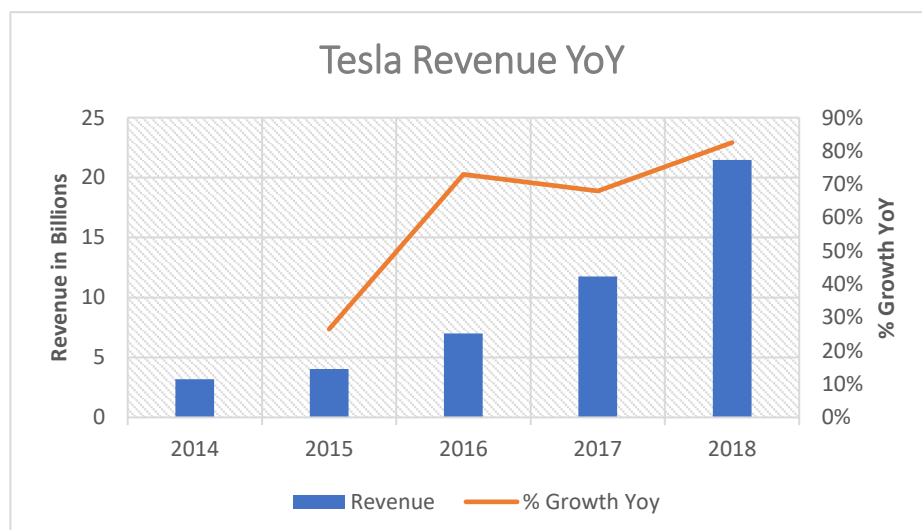


It is important to note that Tesla has primarily been operating its distribution of Model 3's just in North America. In January 2019, Tesla began to produce Model 3 vehicles for China and Europe meaning it now has a much larger customer base. The Model 3 has been the driving force in 2018 and will continue to do so in 2019.



It is interesting to note that with the release of new models, total sales have increased massively. The added variations and options open Tesla to the ever-changing consumer tastes. The upcoming Model Y crossover SUV further diversifies the Tesla catalogue and I believe this will lead to a further increase of sales/revenue. Obviously, it will be difficult to maintain growth rates similar to what has been seen in recent years as it becomes much harder to beat these figures year after year.

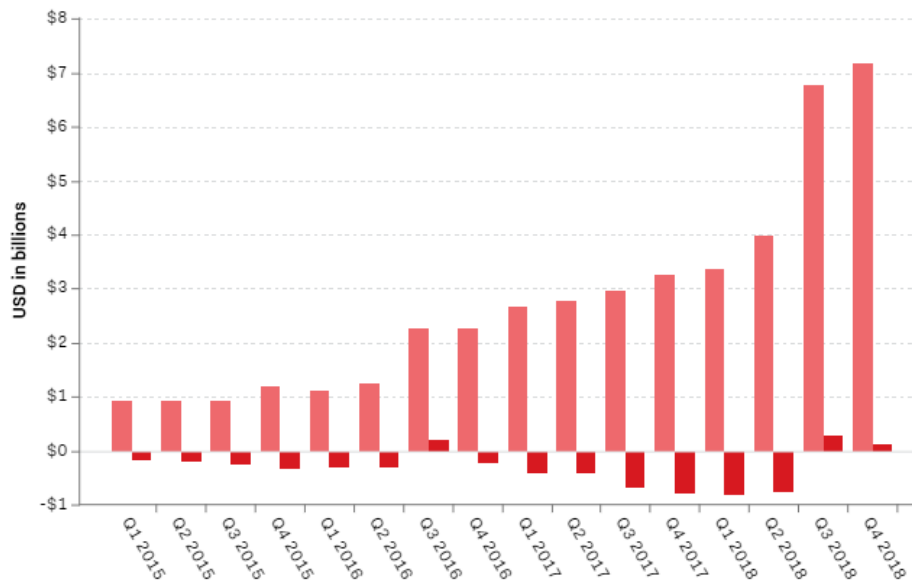
Tesla have reached their long-term goal of 7,000 vehicles produced per week, something they haven't been able to do in their existence. Fortunately for Tesla, demand is high, and people are willing to wait. Tesla's Model 3 has gone on to become the bestselling premium vehicle in the US for 2018, edging out world leaders such as Audi, Mercedes and BMW models and was also the highest selling electric vehicle in the world nearly doubling the sales of the Nissan Leaf.



Tesla's revenue has been increasing in each of the last 5 years. Revenue in 2018 amounted to 21.4 billion dollars a record high for the company. When we compare this to the 3.2 billion dollars revenue in 2014, we can see the extreme growth and promise ahead for Tesla. This is an increase of 571% in the last five years, truly astonishing.

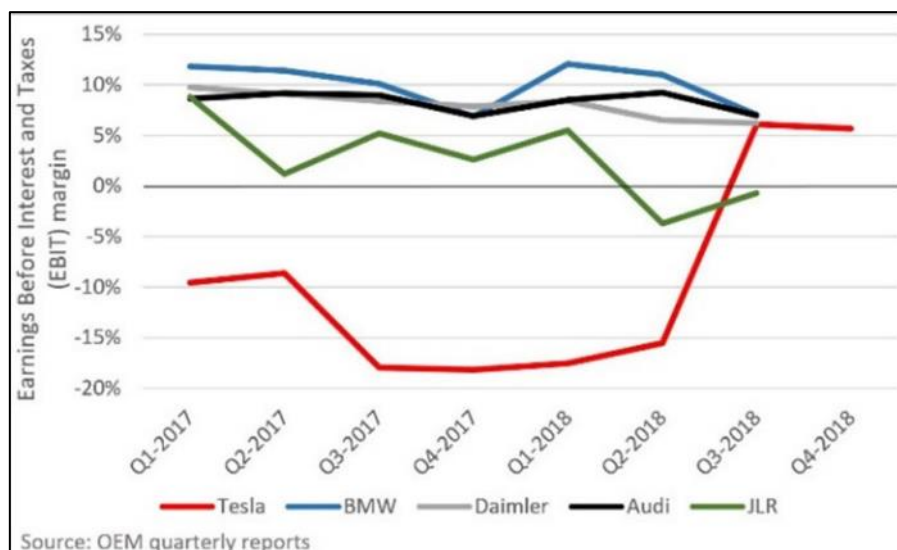
Everything looks amazing for Tesla when we look at top line aspects but when we look at bottom line metrics, we get a different insight into Tesla's growth-(pains)!

## TESLA REVENUE VERSUS PROFIT/LOSS

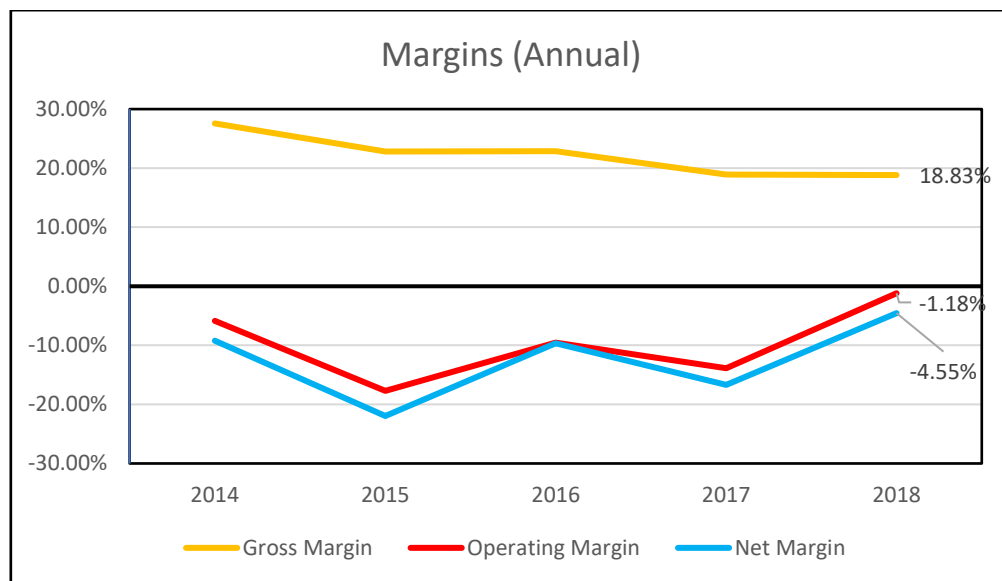


Source: <https://www.theverge.com/2019/1/30/18203886/tesla-earnings-q1-revenue-profit-record-model-3>

Above is a graph representing Tesla's Revenue vs Profit/Loss over the last 4 years. Revenue can be seen to increase each quarter, but net loss is also increasing up until Q3 of 2018, in line with when Tesla finally started to produce larger amounts of the Model 3. Tesla has encountered many problems ranging from battery production bottlenecks to machine downtime. Due to the high amount of automation within the Tesla factory, this can cause huge problems. Elon Musk and Tesla are now estimating profitable quarters from now on. A huge milestone will be Q1 financials of 2019 to see if they can maintain high sales/production or was the last two quarters of 2018 just a push to make Tesla look like it is in a better state than it is.



Tesla included this graph in their Q4 2018 update letter. I think this makes a huge statement going forward as it shows that Tesla can now compete with these larger, more established automotive companies. It is also important to point out that EBIT margins have all been decreasing since Q1 2018 for the other carmakers, but Tesla has been going against the grain and has increased their EBIT margin drastically within 2018.



It is interesting to note that Tesla's Gross margin has been decreasing but Operating and Net margins have been increasing. Tesla's declining gross margin has been attributed to higher labour content in certain areas due to automation problems, higher material costs due to recently imposed tariffs, commodity price increases and a weaker US dollar which I will discuss later. Production was in the early stages of the ramp, allocation of full operating costs and depreciation made its gross margin negative. However, with declining gross margins, operating and net margins have increased, showing more effective production and allocation of resources. These improvements can be attributed to more efficient production of the vehicles. Tesla has been able to produce numbers it hadn't been able to do in previous years.

**EPS:**

	2018	2017	2016	2015	2014
Revenue	\$21.461b	\$11.758b	\$7.00b	\$4.046b	\$3.198b
EPS	-5.72	-11.83	-4.68	-6.93	-2.36
Dividend	N/A	N/A	N/A	N/A	N/A

Earnings per share came to -\$5.72 in 2018. I believe from 2018 onwards this will improve due to the Model 3 production levels and also exports to Europe and China. 2017 saw EPS of -11.83 which can be attributed to start-up costs of the Model 3 development process as mentioned previously. Due to new Model there was high costs associated. Tesla are also looking to the future investing in large projects such as Gigafactory 1 and Gigafactory 3 in China. These both have huge costs associated but are believed to be key to Tesla's future in the long run.

**Dividend:**

As can be seen in the illustration above, Tesla hasn't paid any dividends over the last 5 years, or any other year. They also don't plan on doing so. I have taken a statement from their Investor FAQ section on their website.

“Tesla has never declared dividends on our common stock. We intend on retaining all future earnings to finance future growth and therefore, do not anticipate paying any cash dividends in the foreseeable future.”

I think this is a sign that there is confidence in the company. Investors are still pumping money into TSLA stock with knowledge of no future dividends. This means they are solely investing with an increase of share price in mind, supporting my Buy recommendation.

**Liquidity****Current Ratio**

The current ratio is used to help measure the liquidity of a company. It does so by measuring the size of current assets with short term liabilities. If a company for any reason needed to pay off their short-term liabilities in a urgently they could liquidate their current assets to do so. The formula is  

$$\text{Current Ratio} = \text{Current Assets} / \text{Current Liabilities}.$$



**Current Assets: 8,306,308**

**Current Liabilities: 9,992,136**

Tesla had a current ratio of **0.83** for the financial year of 2018. This indicates that the company has 83 cent of current assets for every dollar of current liabilities, indicating that Tesla may find it difficult to meet short term obligations. Low values, however, do not indicate a critical problem. Tesla has borrowed large sums in the past and has met the repayment dates also indicating that going forward, the current ratio is not a large problem. Although not ideal it should not hinder company performance. As discussed above, Tesla is only reaching profits now which will allow it to become more self-sustainable. Large liabilities such as interest repayments may decrease as a result hence decreasing current ratio etc.

### **Quick Ratio / Acid Test**

Similar to the current ratio, this is another measure of liquidity. However, the problem with the current ratio, however, is that some current assets may not be worth the value stated on the company's financial reports. This is most often the case with inventories, which include fully and partially finished products that haven't been sold yet. Quick ratio is by definition the ratio of current assets less inventories, divided by current liabilities.

Tesla has cash of \$3.7 billion and receivables of \$950 million. They are holding \$3.1 billion in inventory and another \$365 million tied up as "prepaid expenses and other current assets".

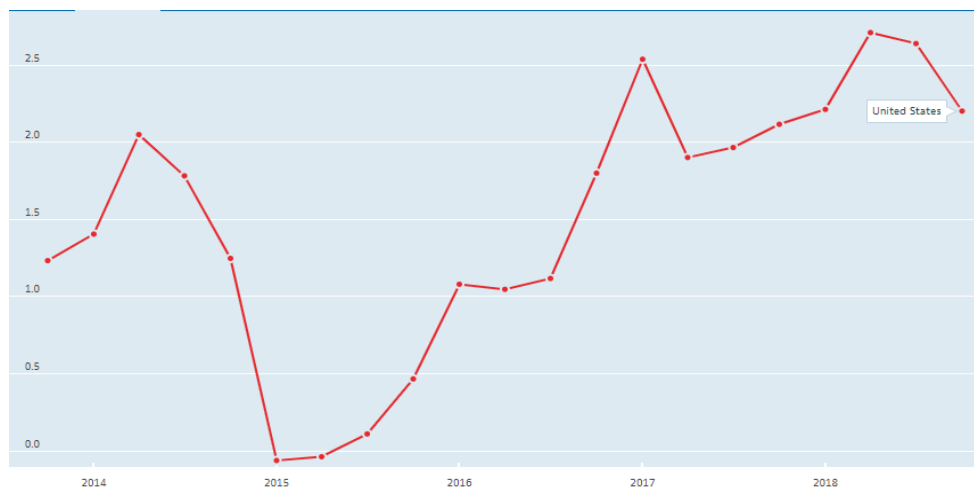
Tesla also has payables of \$5.5 billion, customer deposits of \$792 million (some of which is refundable), \$2.57 billion of long term debt due within a year, \$2.1 billion in "accrued liabilities and other", \$502 million in resale value guarantees which is money pledged to buying back older vehicles, and \$630 million in deferred revenues.

As of December 2018, Tesla's quick ratio was **0.52** meaning Tesla cannot currently pay back its current liabilities in a quick manner. The industry average here is 1.02 showing Tesla has a long way to go.

# Macroeconomic Environment

## Inflation

Inflation has been increasing at a rate of around 2% (Federal Reserve Target). This trend has been increasing from the beginning of 2015. Increased inflation means purchasing power is now less than before. ie. Your money is now worth less than it was before. Rising prices, known as [inflation](#), impact the [cost of living](#), the cost of doing business, borrowing money, mortgages, corporate and government [bond yields](#), and every other facet of the economy.



## Real Disposable Income

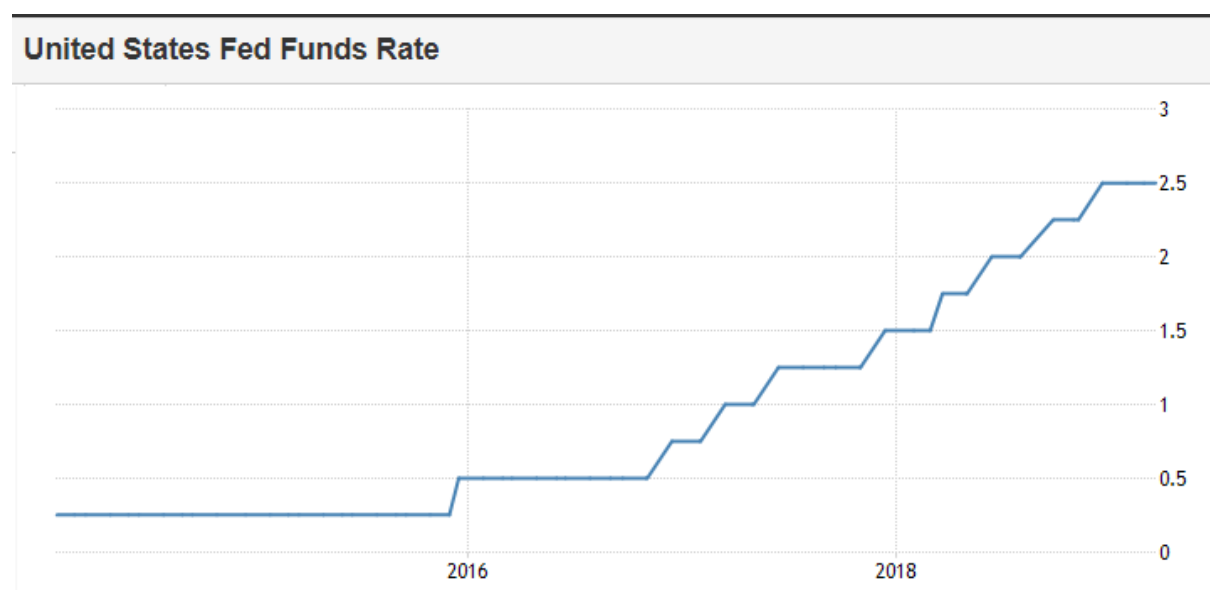
Real disposable income is the post-tax and benefit income available to households after an adjustment has been made for price changes. Changes in real disposable income are thought to have a strong relationship over time with the level of consumer spending on goods and services.



Real disposable income has been increasing over the last few years. Further increases will encourage more consumer spending. It is important to note that inflation is accounted for in real disposable income so although inflation is increasing, this is not having much of an effect on consumer spending as real disposable income is also increasing. Tesla's aren't a necessity so disposable income levels play a big role in demand for the luxury vehicles.

### **Interest Rates**

Interest rates can have significant impact on all industries but especially in the automotive industry. High interest rates may discourage people from borrowing to fund the purchase of a new car. Many people rely on bank loans to purchase new cars so increasing interest rates will have a negative impact on the automotive industry and for Tesla.



In recent years the Fed has been raising rates to the current rate of 2.5%. Federal Reserve policymakers expect rates to remain at current levels this year, compared to December's projection of two hikes. The stable interest rates may encourage borrowing and as a result, stronger automotive sales.

## Government Regulations

Government decisions and regulations may have a big impact on industries with the automotive industry not being an exemption.

Donald Trump is not the biggest believer in climate change and has pulled the United States out of The Paris Agreement as a result. Electric vehicles have a market share of around 1.2% of the total market which is quite low compared to other countries.



## **Industry & Peer Analysis**

The automotive industry is an industry packed full of competition. Billions of dollars are invested in research and development and every company is looking find the next advancement in technology. Tesla is a much younger company than its competitors and has much less of a financial pull. This amazes me because Tesla is leading the race in electric vehicles sales, substantially. Below I have discussed some other factors that may effect Tesla and the industry as a whole going forward.

## Exchange Rates

As Tesla open up sales to other countries, they become liable to exchange rate losses. Tesla is based in the USA, so their profits/losses are denominated in US Dollars. Tesla has estimated a loss of 22.7 million dollars due to “exchange rate changes on cash and cash equivalents and restricted cash”. Model 3 distribution has only opened up to Europe and China in recent months, so the effects of the exchange rate changes are yet to be witnessed in full flow. 2018 has been a strong year for the US Dollar. It has improved against the EURO and Chinese Yuan. I am not going to discuss GBP/USD as Tesla are currently not offering right hand drive variations of the Model 3.

With Tesla looking to expand into the European market with the Model 3, exchange rates may have a big impact in the future.

The Euro has lost value against the US Dollar in 2018. This can be attributed to lower economic growth and a very long, inefficient Brexit agreement. Uncertainty of Brexit has caused uncertainty in Europe and hence weakened the Euro. EURUSD is currently trading around 1.125 compared to this time last year where it was trading around 1.235.



The same can be seen in terms of USD/CNY where the dollar has gained a lot of value over the Yen. This is bad for Tesla as China is currently one of their biggest export markets. Large sales and revenue volume from the Chinese market will be eaten into if this exchange rate continues in its current trend. The USD has appreciated over 7% over the Yen in the past 12 months. This may lead Tesla to increase prices in China, potentially hindering demand.



The increasing strength of the US Dollar has meant Tesla has adjusted prices regularly on their exports. European models have had price structures changed a couple of times to account for this. Increasing prices too much may impact demand although it hasn't seemed to have done so as of yet.

US Dollar Price	EURUSD Exchange Rate	Euro Price Equivalent
\$35,000	1.2	€29,167
\$35,000	1.125	€31,111
€29,167 x 1.125 = \$32,813		\$35,000 - \$32,813 = \$2,187.

From the table above, if EURUSD rate goes from 1.2 to 1.125, Tesla will be losing out on approximately \$2187 per car sold. This is why Tesla routinely changes prices and price structures for their models across the world.

Most of Tesla's costs are denominated in USD, and an increasing amount of the company's revenue are denominated in foreign currencies (EUR, CAD, GBP, CNY) as it begins to export more cars abroad. As a result, a significant appreciation in the USD which has been seen in 2018 and continued into 2019 decreases the value of revenue when the foreign currency is translated to the native US Dollar.

### **Tariffs**

The trade war between USA and China could potentially be catastrophic for Tesla. China lowered import tariffs to 15 percent on autos and components. However, they then decided to increase the duty to 40% for American cars in retaliation against Trump's trade actions. Thankfully for Tesla, China has temporarily dropped the extra 25% tariff as they continue to solve problems between them and the USA.

Tesla hiked prices in China this summer by about 150,000 yuan to 250,000 yuan (or around \$22,600 to \$37,600) after the government in Beijing installed that 25 percent tariff. But the company relented slightly in November by reducing those prices and eating some of the cost of the import tax amid reports of sagging sales. Tesla also struck a deal this summer to build its third Gigafactory in China, which means the company will eventually be able to produce cars locally and get around the tariff completely.

It is not known yet what the future holds between USA and China, return of a 40% tariff would be terrible news for Tesla. Many of their competitors produce vehicles in China so they are not subject to the higher tariff while Tesla currently only produces in USA.

## **Commodity Prices**

The price of oil may also have an impact on Tesla going forward. One of Tesla's main selling points is that it will save to customer significant money that would otherwise be spent on gas. If a gas car is cheaper to run than an electric car, many will opt for the gas if they have no other reasons for buying.



Above is a chart showing the price of crude oil over the last 20 months or so. Changes in gasoline and diesel prices mirror changes in crude oil prices as it is the highest input cost of gas/diesel. Those changes are determined in the global crude oil market by the worldwide demand for and supply of crude oil. Per-barrel costs for crude oil

With solid economic growth, U.S. petroleum demand (20.5 million barrels per day in 2018) ran at its highest level since 2007 and was up by more than 500,000 barrels per day from 2017. Since then oil prices have fallen to 2017 levels again but have since been on the rise since the beginning of 2019. High oil prices are good for Tesla as it may encourage more sales. If oil prices get to very high levels, this may boost sales substantially.

## **Ban on Petrol & Diesel vehicle sales**

MANY European countries have pledged to phase out Petrol and Diesel vehicles sales over the next few decades. Countries such as Norway have a target of no new gasoline or diesel vehicles sales by 2025 while France, Ireland and Netherlands have plans to do so by 2030. Athens, Paris, Madrid and Mexico City are looking to end use of all diesel cars by 2025. The UK are hoping to have no sales of conventional petrol and diesel cars and vans by 2040 and reduce national vehicle emissions to zero by 2050. China, the world's largest vehicle market hopes to ban production of these cars in the near future also.

This is excellent news for Tesla. The demand for electric vehicles will increase drastically if there is a ban on petrol and diesel vehicles. Norway is already shifting to all electric vehicles with 58.4% of all new car sales being electric and a third being Teslas. Many of Tesla's competitors are behind them and scrambling to catch up with the technology they have been working on now for over 10 years. After only a couple of weeks exporting Model 3s to Europe, it has already claimed the top spot

beating rivals such as the Nissan Leaf, Renault Zoe and BMW i3 in February deliveries. Tesla isn't working at full capacity and March figures are expected to be a big increase. Q1 Sales and Production figures are also expected to be released in the coming days.

## **Peer Analysis**

	Tesla	Nissan
Gross Margin	18.83%	17.42%
Operating Margin	-1.18%	4.81%
Net Margin	-4.55%	6.25%
EPS	-\$5.72	\$3.33
Dividend	\$0.00	\$0.51
Current Ratio	0.83	1.73
Quick Ratio	0.52	1.54

When comparing the two companies side by side it is clear that Nissan is in a much better financial position. Each metric above Nissan has edged out Tesla apart from gross margin. Even though Tesla has a higher gross margin it still ended up with a lower net margin compared to Nissan. This is because Nissan is more established. They are benefiting largely from economies of scales and they have a much wider customer base.

Sales Volume Change (%)	Tesla	Nissan
2016	+50.61	+3.7%
2017	+35.23	+2.55%
2018	+137.60	-7.03% *

Estimate, Nissan fiscal year 2018 finished 31/3/18

Interestingly, Nissan sales growth has been falling in the past few years and is expected to take a big hit for it's most recent years accounts. In comparison, Tesla's sales growth is improving and is on course to improve again next year.

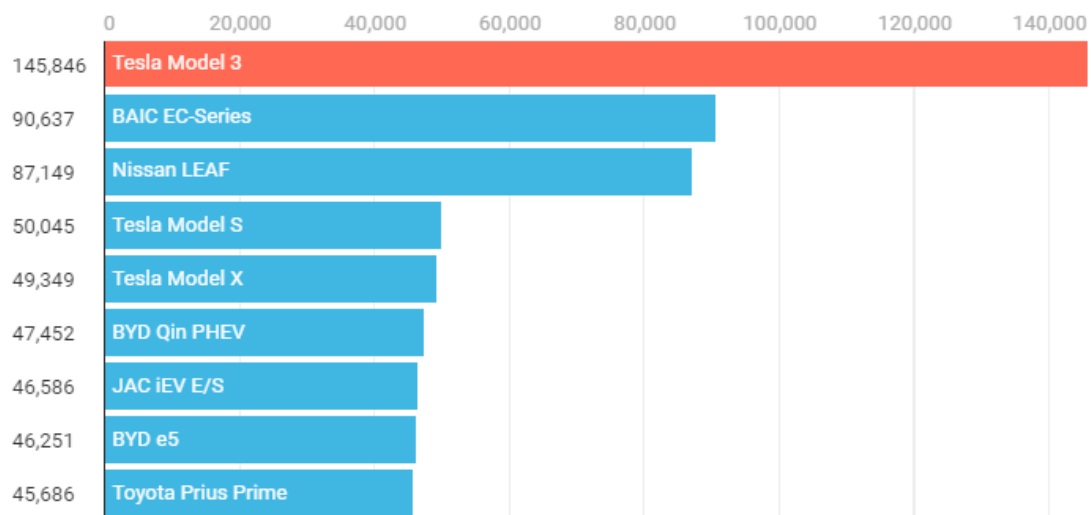
Market Cap (Billions)	Tesla	Nissan
	50.5B	32.933B



Ironically, even though Nissan has sales figures of over 5.5 million per year it is still worth less than Tesla that has sales figures of around 245,000 units per year.

However, an area in which Tesla dominates Nissan is in the electric vehicle area. Tesla has outsold Nissan by nearly 3 times in this market.

### Top 20 Electric Cars – Worldwide Sales (2018)



<https://cleantechnica.com/2019/02/09/tesla-model-3-1-best-selling-electric-car-in-world-7-of-global-ev-market/>

More and more people are moving to electric vehicles and Teslas are the first choice. Tesla has 7% of the EV market while the Nissan Leaf has about 4% and is declining in 2018. Tesla has 7% market share while not even selling their best selling Model 3 in China and Europe as they only began in early 2019. It is clear from this graph that Tesla is the leading electric vehicles producer with no company coming close to its dominance in 2018. 2019 figure are set to be even better, and market share is set to increase even more in a rapidly growing segment of the industry.

# Technical and Fundamental Analysis

## Technical Analysis

For the purpose of Technical analysis, I am going to discuss 1 leading indicator (RSI) and 2 lagging indicators (Moving Average + Bollinger Bands)

### Relative Strength Index

The Relative Strength Index (RSI) indicates the momentum of a stock by comparing recent gains and losses to measure the speed of price movements.  $RSI = 100 - 100 / (1 + RS)$

Where  $RSI = \text{Average gain of up periods during the specified time frame} / \text{Average loss of down periods during the specified time frame}$ . Results vary from 0 – 100, where anything below 30 is commonly interpreted as an indication that the stock is being oversold or undervalued and anything above 70 is an indication of the opposite, the stock is being overbought and overvalued.

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BATS:TSLA, D 294.10 ▲ +8.22 (+2.88%) O:287.32 H:294.10 L:286.24 C:294.10



The RSI can be used in two different ways to trade and predict future moves, crossovers and divergence which both have been illustrated on the above image. In each of the three crossover cases I have outlined with yellow circles you can see that price has reversed at these points. ie. When RSI crossed above 70, it was followed by a decline in price and when RSI crossed under 30, an increase in price followed. (Oversold/Overbought).

Divergence can be used as a technical indicator also, this is illustrated with the purple lines on the price chart and RSI chart. As you can see, the RSI has seemed to have topped out, yet price is still pushing up. This can indicate to traders that buying pressure is decreasing and a break to the downside may proceed, and this is exactly what happened.

The RSI can be useful at predicting tops/bottoms but you cannot depend solely on this indicator.

### Exponential Moving Average

The exponential moving average (EMA) is a weighted moving average that gives more weighting, or importance, to recent price data than the simple moving average does. The EMA responds more quickly to recent price changes than the SMA. The formula for calculating the EMA just involves using a multiplier and starting with the SMA.

I have decided to go with an Exponential moving average as I think it is better suited to TSLA stock volatility.

The mathematical formula looks like this:

$$\text{SMA} = 10\text{-period sum} \div 10$$

The formula for calculating the weighting multiplier looks like this:

$$2 \div (\text{selected time period} + 1) = [2 \div (10 + 1)] = 0.1818 \text{ or } 18.18\%$$

(In both cases, we're assuming a 10-day SMA.)

I have attached an image showing 3 different EMAs on the one chart. Short term, medium term and long term. (20, 50, 200)



The moving average evens out volatility and makes it easier to identify trends. Generally, if the moving average is pointing upwards, this is an indication that there is a bullish bias (buy) and when the moving average is pointing downwards this indicates bearish momentum (sell). I have used 3 different moving averages to allow us to determine short and long term trends and trend changes. A short term trend change can be identified when the 20EMA crosses over the 50EMA while a longer term, stronger trend could be identified when the 50EMA crosses over the 200EMA. This has been illustrated with the yellow circles on the image.

Moving averages can also act as a dynamic support/resistance. Prices tend to respect moving averages either bouncing off them or else breaking them and retesting before continuing the move. This is shown with the blue circles. This is a lagging indicator and a function of price itself so it also cannot be relied on by itself.

## **Bollinger Bands**

Bollinger bands measure the volatility of a stock. Where the bands widen, it indicates the stock is currently more volatile. In contrast, where the bands tighten it indicates a period of stability with little movements in price. As you can see in the graph below, there is yet again an upper and lower band. These are set at a given standard deviation (generally 2) away from a 20-day moving average. It is generally interpreted that prices are relatively high where stock price approaches upper band and relatively low where stock price approaches lower band.

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BATS:TSLA, D 292.82 ▲ +6.94 (+2.43%) O: 287.32 H: 296.17 L: 286.24 C: 292.82



The red line indicates the 20 day SMA, giving an insight into the overall trend of the stock. Yellow circles indicate where price has reached the higher/lower band and retraced from that area. Again, this is a lagging indicator, and should not be solely relied on. Essentially it is a function of past prices which doesn't give a certain indication of future prices.

### **Summary**

Overall TSLA stock has been ranging between \$270 to \$380 per share over the last 12 months. TSLA is currently in a downtrend since December 2018 where it fell from \$380 to the current price of \$290. In the short term I believe the price may decrease to around \$260 per share where it has found support multiple times over the past 12 months. From there I believe it will begin a bullish trend back towards levels of \$380 per share. Sales figures for TSLA are expected in the next few days so this could have a big impact on share price. Due to TSLA's volatility it is quite hard to perform accurate technical analysis as one big news event can cause price to change drastically.

### **Fundamental Analysis**

#### **P/E**

P/E Ratio is a ratio of a company's share price to the company's EPS. It gives an indication of the value of companies and whether the company is overvalued/undervalued.

As stated earlier, Tesla has been operating at a loss since it was incorporated. In order to calculate a price to earnings ratio, a company must have earnings, something which Tesla does not have. As a result, Tesla doesn't have a P/E ratio and it is showcased as N/A on websites such as Reuters and Yahoo Finance. Estimates from Thomson Reuters suggest a forward P/E ratio of 32.38. (5yr).

Although this is 5 years from now it is based on realistic targets. When we compare this to the S&P500 figure of around 23 we see that Tesla has the potential to become a very valuable, well priced stock.

Nissan has a current P/E ratio of 5.07 which is extremely low. This shows that there is quite good earnings per share in relation to price. This, however, could be an indication of lower future projected gains. Whereas the high P/E ratio of Tesla could indicate that there will be higher earnings in the future.

## **P/B**

Companies use the price-to-book ratio to compare a firm's market to book value by dividing price per share by book value per share. The P/B ratio is more useful when trying to value a company which has negative earnings or companies with large value intangible assets like a utility company.

Tesla has a P/B ratio of 11.67. Nissan has a P/B ratio of just 0.68 while the industry average is 1.68.

Tesla's high P/B ratio indicates that investors believe the company can create more value than what it is currently worth. A P/B ratio of 11.67 means that for every \$1 of tangible assets there is \$11.67 of market value. Nissan's low score of 0.68 states that the company is undervalued but also shows poor projected growth over the next few years while the industry average of 1.68 is a relatively moderate score.

## **Dividend Yield**

TSLA: 0%	As stated earlier, Tesla doesn't pay dividends and doesn't plan on doing so. Nissan pays quite a good dividend relative to their share price compared to others in the industry and more than the S&P 500 average. This could come at a cost in terms of growth and links in to previous points above. Tesla isn't paying dividends in order to reinvest while Nissan seem to be paying a lot of dividends.
NISSAN: 5.9%	
Industry: 2.79%	
S&P500: 1.93%	

## **Summary:**

Due to Tesla's poor financial position and negative earnings it is quite difficult to benchmark the company against rivals in the industry and the S&P500. Tesla's fundamentals are poor to say the least but the fact that share price is remaining high shows that investors are expecting returns in the future. It shows that although financials are poor, there is real potential in the company going forward for many years to come.

## **News Events**

### **Model Y unveiling**

On March 14, Elon Musk unveiled the newest addition to the Tesla line, the Model Y. The model Y is a crossover SUV that will sell for \$39,000 to \$60,000.

The morning after the unveiling, TSLA opened down 5% which can be largely attributed to the unveiling the night before. Many investors believed the unveiling was out of desperation and to take attention away from other issues within the company.



TSLA has since recovered from the losses suffered. SUV market share has been increasing rapidly in the last few years so I believe the Model Y will be a huge success if they can sell it for the prices they have announced.

### **Marijuana Incident**

Tesla CEO Elon Musk was seen smoking a 'blunt' on a live, Joe Rogan podcast. As a result of this, Tesla shares dropped 10% in a single day, its worst trading day since 2016. The shares quickly recovered and made gains thereafter. However, on the same day, Tesla's chief accountant stepped down after just one month in the job. He said in a securities filing, "Since I joined Tesla on August 6th, the level of public attention placed on the company, as well as the pace within the company, have exceeded my expectations,". It is unclear if it was directly because of this incident but he has not been the only senior member of staff to leave Tesla unexpectedly.

### **SEC**

Elon Musk has been on the SEC's radar now for a couple of months after a controversial tweet about taking Tesla private at \$420 per share. Since the tweet he has settled with the SEC for \$20 million and forced to step down as company chairman for 3 years. Fast forward to February and Musk tweets about projected vehicle production. The SEC accused Musk of violating their agreement and are now pursuing a case. Attorneys for Elon Musk and the SEC will make their case on April 4.

TSLA stock has been in a downtrend and the increased uncertainty around the company and its CEO have caused investors to lose confidence leading to a sell off.

## **Analyst Recommendation vs. S&P 500**

I believe TSLA will outperform the S&P500 in the next 12 months. The US economy has started to grow at a slower rate than previous years. I believe with sales to China and Europe, Tesla will be able to maintain profits from now on. The production of Gigafactory 3 in China has begun, and this will allow Tesla to become a big player in the Chinese market (largest vehicle market).

The S&P500 has been making consistent gains since the beginning of 2019 and I believe this growth will reduce and a correction is in store while I believe Tesla will reach support levels and continue to all time high of around \$380 per share in the coming months.