

Tesla Inc

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Tesla Inc: A new year, but the same old shorts for Elon?

Tesla Inc (NASDAQ:TSLA) joined Wall Street's prestigious S&P 500 index on December 21 as its sixth-largest member, becoming the latest tech inductee alongside the likes of Amazon, Apple and Facebook.

Here in the first of a three-part series, our chief feature writer Oli Haill looks at what lies in store for the intrepid Elon Musk and his team of innovators in 2021.

Weather for shorts?

With quarterly sales of \$8.8bn and a market cap 65-70 times that, there are many investors who think Tesla is massively overvalued and riding for a fall, with the company often called the world's most shorted stock.

These short-sellers have not had a great year, it has to be said. Tesla short positions lost a combined US\$1.6bn in a single day in November, according to data from Ortex Analytics.

Overall, with the price topping US\$655, short-sellers have now lost a whopping US\$28.5bn on betting against the company over the year.

"It's been painful," veteran US short-seller Jim Chanos, who has been betting against Tesla for five years, recently told Bloomberg, while another UK fund manager and long-time Tesla bear lost his job due to his bad taste in shorts.

But most short-sellers have been jumping ship ahead of the S&P 500 debut next week, with numbers hitting a record low for 2020, according to Ortex's calculations.

"Tesla's much-anticipated entry to the S&P 500 has been closely watched by traders this year," said Peter Hillerberg, co-founder of Ortex Analytics.

"Our analysis suggests that entry alone could trigger \$40bn of buy orders from tracker funds.

"As a result, a large number of short-sellers have closed their positions, wanting to avoid the 'hype premium' that is so often associated with Elon Musk's company. However, the battle is far from over, we expect many to be waiting on the sidelines looking to pounce when the hype dies down."

But while down from a peak of 93.6m recorded in January, there are still more than 31mln Tesla shares being shorted.

Another long-time Tesla bear, David Einhorn, has continued to predicted tech stocks will tumble - which is what he hopes as his Greenlight Capital Re fund's short position in Tesla has weighed heavily on performance. Like the Monty Python's Black Knight, he will not admit defeat and told investors: "It is our view that we are now in the early stages of the bubble popping."

Price: 742.02

Market Cap: \$712.23 billion

1 Year Share Price Graph



Share Information

Code: TSLA

Listing: NASDAQ

52 week High Low
900.265 70.102

Sector: Manufacturing & engineering

Website: www.tesla.com

Company Synopsis:

Tesla Inc. was founded in 2003 by a group of Silicon Valley engineers who set out to develop a new electric vehicle company. Tesla Inc. uses proprietary technology, world-class design and state-of-the-art manufacturing processes to create a new generation of highway capable electric vehicles. We utilize an innovative distribution model based on company-owned sales and service centers.

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Eyes on earnings and targets

One of the first things next year that Tesla followers will be looking for is fourth-quarter numbers, which are due in late January.

For 2020 as a whole, Musk set a target of selling 500,000 cars, having delivered 139,300 vehicles in the third quarter to reach 318,000 for the first nine months of the year.

That quarter marked a fifth consecutive period of profits, with revenue of \$8.77bn up 39% year-on-year and profits before tax and one-off items of US\$331m.

It looked unlikely that the half a million deliveries could be reached, but some were optimistic, including the analysts at Wedbush.

The Wedbush number-crunchers said a continued surge in demand from China in December could be the key, after roughly 22,000 Model 3 vehicles were sold in November.

"We believe the company is tracking to another strong month of December in China which could be the tipping point to get Musk & Co. to hit/exceed its 500k annual delivery target, an achievement not even on the map for the Street going back to the late spring/summer timeframe," said Wedbush's Dan Ives, who lifted his 'bull case' scenario for Tesla's share price to \$1,000.

Vampire Squid

Goldman Sachs also turned more bullish in December, with the Model Y SUV unlocking the door to higher profit margins. This model sells in the \$50,000 range versus \$40,000 for the Model 3 but the Goldman analysts calculate that it costs roughly the same to build. Forecasting that deliveries in 2021 could be 40% made up of the Model Y, this would boost automotive margins from about 22% this year to nearly 25% by the following year.

Tesla should also be able to deliver around 1m vehicles by 2022 and 15m by 2040, the Vampire Squid reckons, with such bullishness resulting in their \$4.80 earnings per share estimate for 2021 being over 30% higher than the current Wall Street average.

Elsewhere there remain some investor concerns about the group's valuation, which recently topped US\$600bn - and even Musk admits it's over the top.

"If Tesla is going to justify its share price it needs to grow really fast, and that means hitting these quarterly production numbers again and again," said William Ryder, equity analyst at Hargreaves Lansdown. "However, the valuation seems so high that Tesla investors may still wind up being disappointed. There's certainly no margin for error."

Cut costs or get 'hit like a sledgehammer'

It must have been music to the short-sellers ears early in December when Musk told staff that they need to cut costs or the share price could be "crushed like a soufflé under a sledgehammer".

Despite posted five quarters of profits in a row, the South Africa-born entrepreneur sent an email to staff saying: "Investors are giving us a lot of credit for future profitability but if, at any point, they conclude that's not going to happen, our stock will immediately get crushed like a souffle under a sledgehammer!"

READ MORE: Part II - will Plaid be in fashion for 2021? and Part III - the Boring Company and his journey to centre of the earth (or beneath the streets of Las Vegas, at least

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