

Tesla

(TSLA.US/TSLA US)

Outperform · Initiated

Price as of July 30 (US\$)	687
3M target price (US\$)	729
12M target price (US\$)	855
Previous target price (US\$)	N/A
Unchanged / Revised up (down) (%)	N/A
Upside/downside (%)	24.4

Trading data

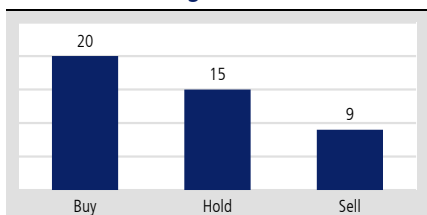
Mkt cap (US\$bn)	680.3
Outstanding shares (mn)	990
Institutional ownership (%)	55.6
3M avg. daily trading (mn)	25.5
52-week trading range (US\$)	273.0-900.4

Performance	3M	6M	12M
Absolute (%)	(3.1)	(18.2)	140.2
Relative (%)	(8.3)	(33.0)	105.8

Share price chart



Consensus rating



12M street target price	Low	Average	High
Target price (US\$)	67	649	1,200
Return potential (%)	(90.3)	(5.6)	74.6

Source: Bloomberg

Asiamoney Brokers Poll 2021

The poll runs between June 1 and August 20. Please vote for KGI Securities

[Vote Here](#)

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See the last page for important disclosures.

Clear EV leader with multiple earnings growth engines

Event

We initiate coverage of Tesla (US), a leading EV maker with plans to create a sustainable energy ecosystem. We are positive on the stock for the long-term as we believe the firm's ambition and technological advantages will foster multiple earnings growth engines.

Impact

EV business to stay ahead of competition due to software and hardware technological advantages. Tesla targets annual EV sales growth CAGR of 50% in the multi-year horizon, with 115% sales growth achieved in 1H21. Despite EV models flourishing in the market, we believe Tesla will stay ahead of the competition due to its technological advantages in both software and hardware. As the first to launch over-the-air (OTA) software updates and to develop full-self driving (FSD) application-specific IC (ASIC), Tesla has strong AI development capabilities and unmatched data volume for machine learning, which will allow it to maintain a lead over its peers in terms of autonomous driving. Furthermore, the firm revolutionized EV structural and component design and manufacturing, such as unibody castings and structural battery packs, boosting not only cost reductions, but also vehicle safety in the event of a crash. Tesla reported the eighth consecutive profitable quarter in 2Q21, with non-GAAP EPS of US\$1.45. We see a strong earnings outlook for the firm's automotive business, supported by new capacity ramp-up, new model launches, and margin expansion.

Sustainable energy ecosystem in the making; multiple earnings growth engines.

Tesla is creating a sustainable energy ecosystem through its solar, energy storage, and EV businesses. With less than 10% of revenue contribution in 2020, the solar and energy storage businesses have the potential to outgrow the company's EV business in terms of scale, according to the firm. We also believe the Tesla's investment in software and EV infrastructure will become new revenue and earnings streams in the mid- to long-term as the company is planning to allow other automakers to use its Supercharger network, and is in preliminary discussions to license Autopilot.

Valuation & Action

We initiate coverage of Tesla with an Outperform rating and 12M target price of US\$855, based on 80x 2023F non-GAAP EPS of US\$10.69. We expect strong earnings growth and new business opportunities to support its rich valuation.

Risks

Automotive IC shortage; delayed construction of Berlin and Texas Gigafactories.

Key financials and valuations

	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Revenue (US\$m)	24,578	31,536	49,610	69,187	89,604
Gross profit (US\$m)	4,069	6,630	11,837	16,679	22,071
Operating profit (US\$m)	(69)	1,994	5,208	9,141	12,985
EBITDA (US\$m)	2,085	4,316	8,360	13,841	18,485
Net profit (US\$m)	36	2,424	6,146	8,946	11,957
EPS (US\$)	0.04	2.24	5.48	7.99	10.69
Revenue growth (%)	14.5	28.3	57.3	39.5	29.5
EPS growth (%)	N.A.	5,437.4	144.7	46.0	33.7
Gross margin (%)	16.6	21.0	23.9	24.1	24.6
Operating margin (%)	(0.3)	6.3	10.5	13.2	14.5
EBITDA margin (%)	8.5	13.7	16.9	20.0	20.6
Net debt to equity (%)	83.6	Net cash	Net cash	Net cash	Net cash
Return on average equity (%)	(12.0)	4.3	15.1	17.7	19.3

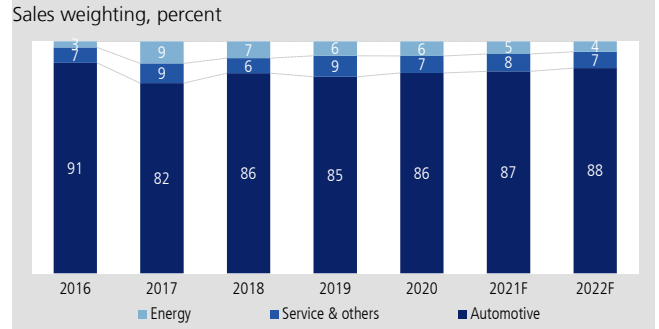
Source: Company data, KGI Research estimates

Figure 1: Company profile

Established in 2003, Tesla was once a dedicated electric vehicle maker before entering the solar business when the company acquired SolarCity (US) in November 2016. As of 2020, Tesla was the largest EV vendor worldwide with sales of 499.6k units, representing 16% of EV market share. Headquartered in Palo Alto, California, Tesla opened its first Gigafactory in Fremont, California in 2010, and has been starting its global expansion footprint since 2019. Gigafactory Shanghai commenced first deliveries in January 2020, while two more factories in Berlin and Texas are currently under construction, scheduled for initial production in late-2021.

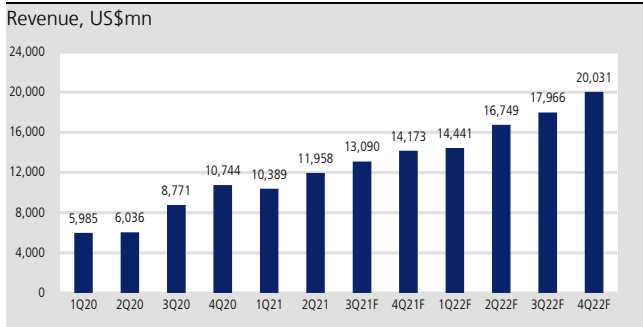
Source: Company data; KGI Research

Figure 2: Revenue by business



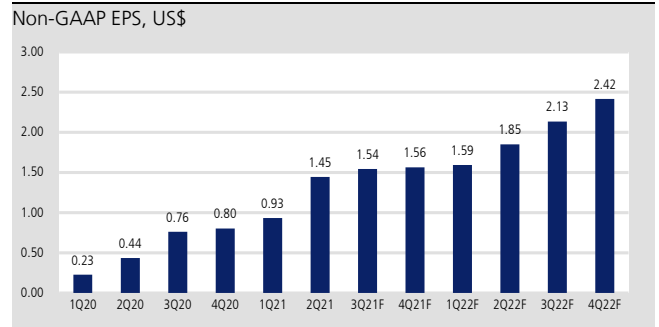
Source: Company data; KGI Research

Figure 3: Revenue



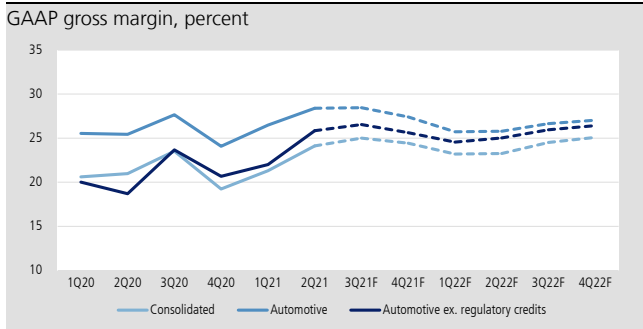
Source: Company data; KGI Research

Figure 4: Non-GAAP EPS



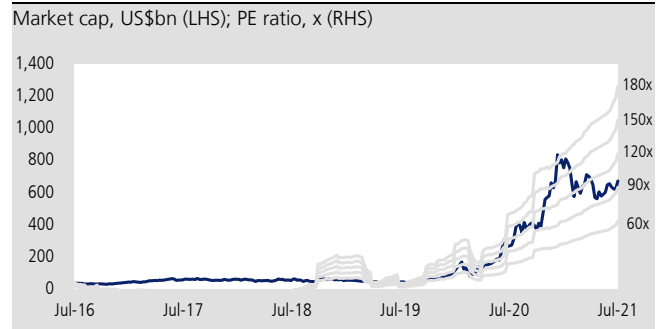
Source: Company data; KGI Research

Figure 5: GAAP gross margin



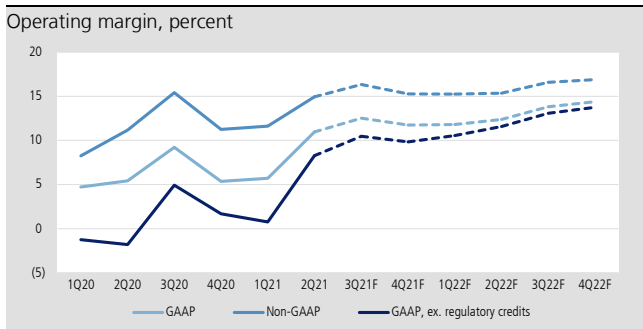
Source: Company data; KGI Research

Figure 6: 12M forward PE band



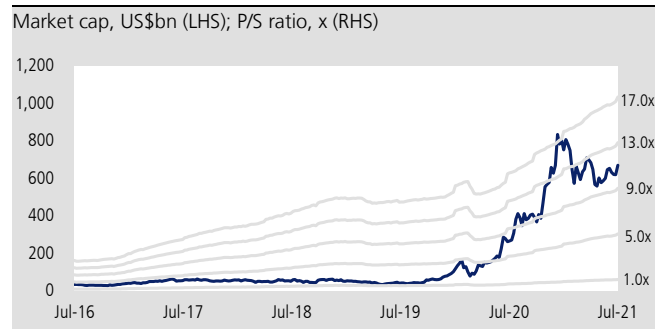
Source: Bloomberg; KGI Research

Figure 7: Operating margin



Source: Company data; KGI Research

Figure 8: 12M forward P/S band



Source: Company data; KGI Research

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Outperform (OP)	We take a positive view on the stock. The stock is expected to outperform the expected total return* of the KGI coverage universe in the related market over a 12-month investment horizon.
Neutral (N)	We take a neutral view on the stock. The stock is expected to perform in line with the expected total return* of the KGI coverage universe in the related market over a 12-month investment horizon.
Underperform (U)	We take a negative view on the stock. The stock is expected to underperform the expected total return* of the KGI coverage universe in the related market over a 12-month investment horizon.
Not Rated (NR)	The stock is not rated by KGI Securities.
Restricted (R)	KGI policy and/or applicable law regulations preclude certain types of communications, including an investment recommendation, during the course of KGI's engagement in an investment banking transaction and in certain other circumstances.
	<i>Total return = (12M target price - current price) / current price</i>

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