Twitter Thread by Gary Black



Gary Black
@garyblack00

Open letter to all S&P 500 benchmarked managers:

On Friday 12/18 at market close, $TSLA will enter the S&P 500 Index at an approximate 1.5% weight - the sixth largest weight in the S&P 500 index after $AAPL, $MSFT, $AMZN, $GOOGL, and $FB.

2/Goldman says 90% of you don't own $TSLA, and you probably never had much interest in owning it, since it trades at 169x consensus 2021 EPS, and is +665% YTD. Surely you can ignore it for a little longer, and wait for it to come back down to Earth.

That would be a huge mistake.

3/ CNBC talking heads who know nothing about $TSLA have long proclaimed it to be overvalued. Celebrity shorts and sell side analysts who blindly compare it to other auto companies have been wrong about TSLA for years. Investors who I think are smart sound like empty suits...

4/ when they try to explain why $TSLA keeps going up.

I'll tell you why $TSLA keeps going up, and why it could double again in 2021 (at 1.5% wt, a double will cost you 150 bp performance).

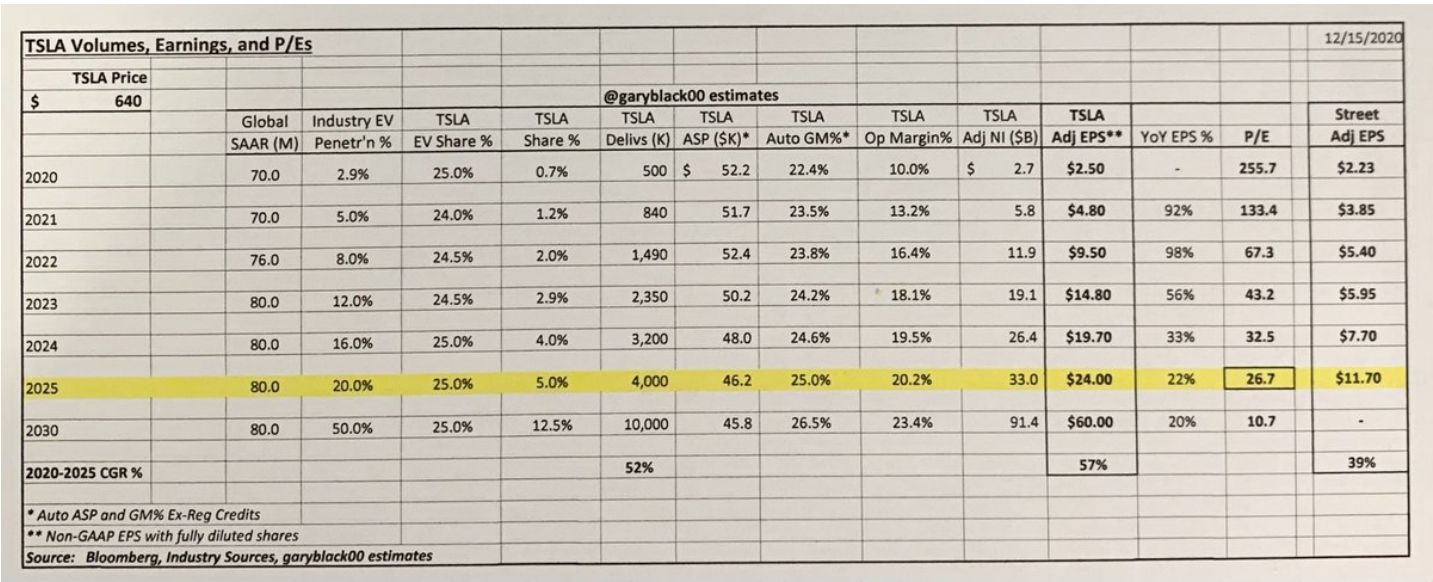
First, EVs will soon replace gas-powered cars, yet EVs today are just 3% of global SAAR.

5/ As with IPhone, once a customer goes EV, he/she never goes back. By 2025, EVs are likely to be 20% of global SAAR. Do the math: 20/3 = 6.7x = 46% CAGR.

Second, $TSLA is by far the global EV market leader, with 25% YTD global EV share. TSLA continues to grow its share...

6/ because $TSLA keeps increasing its TAM. The Y CUV almost tripled US TAM from 24% to 65%; in 2021, the Cybertruck iwill expand it to 86%. Like iPhone, ICE-brand EVs can't compete with TSLA's iconic brand, battery range, power, FSD/software, and cost. And ICE-brands are tainted.

7/ Valuation: This is where normally smart people get off track. With $TSLA vols and EPS growing by 50%+ per year, no portfolio mgr would put a auto mfr P/E of 8-10x on TSLA. If one looks at 2022/2023, my P/Es are 67x 2022 EPS and 43x 2023 EPS. That's a 2022 PEG of 1.3x.



TSLA Volumes, Earnings, and P/Es — 12/15/2020

TSLA Price $ 640 — @garyblack00 estimates

	Global SAAR (M)	Industry EV Penetr'n %	TSLA EV Share %	TSLA Share %	TSLA Delivs (K)	TSLA ASP ($K)*	TSLA Auto GM%*	TSLA Op Margin%	TSLA Adj NI ($B)	TSLA Adj EPS**	YoY EPS %	P/E	Street Adj EPS
2020	70.0	2.9%	25.0%	0.7%	500	$ 52.2	22.4%	10.0%	$ 2.7	$2.50	-	255.7	$2.23
2021	70.0	5.0%	24.0%	1.2%	840	51.7	23.5%	13.2%	5.8	$4.80	92%	133.4	$3.85
2022	76.0	8.0%	24.5%	2.0%	1,490	52.4	23.8%	16.4%	11.9	$9.50	98%	67.3	$5.40
2023	80.0	12.0%	24.5%	2.9%	2,350	50.2	24.2%	18.1%	19.1	$14.80	56%	43.2	$5.95
2024	80.0	16.0%	25.0%	4.0%	3,200	48.0	24.6%	19.5%	26.4	$19.70	33%	32.5	$7.70
2025	80.0	20.0%	25.0%	5.0%	4,000	46.2	25.0%	20.2%	33.0	$24.00	22%	26.7	$11.70
2030	80.0	50.0%	25.0%	12.5%	10,000	45.8	26.5%	23.4%	91.4	$60.00	20%	10.7	-
2020-2025 CGR %					52%					57%			39%

** Auto ASP and GM% Ex-Reg Credits*
*** Non-GAAP EPS with fully diluted shares*
Source: Bloomberg, Industry Sources, garyblack00 estimates

8/ There are no mega cap growth companies forecasted to grow by 50%+ per year trading at $TSLA 's 1.3X 2022 PEG. FB has the cheapest PEG at 1.1x; AMZN and GOOG are both at 1.3x, but all with lower growth. R1000G trades at 2x forward growth. S&P 500 trades at 3x forward growth.

Growth Stock Valuations										15-Dec-20
Based on Avg. Sell-Side Estimates Except TSLA										
		Price		2022		2021-25		P/E-to		Memo:
		15-Dec-20		P/E		EPS CGR %		Growth		Beta vs SP500
AAPL		$ 122		27.6	x	10%		2.8	H	1.0
MSFT		214		27.0		14%		1.9		0.9
GOOGL		1,752		21.4		16%		1.3		0.9
FB		274		20.6		18%		1.1	L	1.0
AMZN		3,157		39.5		30%		1.3		0.8
NFLX		522		41.1		30%		1.4		0.9
TWTR		52		45.2		22%		2.1		1.2
LULU		352		46.0		22%		2.1		1.2
CMG		1,310		45.8		25%		1.8		1.1
NVDA		533		41.1		18%		2.3		1.1
PYPL		221		39.5		20%		2.0		1.0
TSLA 2022 EPS $4.80 (GB est.)		**640**		**67.4**		**52%**		**1.3**		**1.5**
TSLA 2022 EPS $3.80 (Street est.)				*118.5*		*39%*		*3.0*		
Russell 1000 Growth		**2,344**		**35.9**		**18%**		**2.0**		**1.0**
S&P 500 *		**3,647**		**20.7**	x	**7%**		**3.0**		**1.0**
*** 2022 S&P 500 P/E based on consensus 2022 EPS of $176**										
Source: Bloomberg										

9/ What is $TSLA worth? With an 2025 EV adoption rate of 20% and assuming TSLA holds its 25% EV share, with lower ASP, and no Reg Credits, I get 2025 EPS of $24. At a 50x P/E (2x PEG), that's $1,200 by 2025. At a 9.5% disct rate, that's $830. With a 100x P/E, both values double.

10/ Between now and Friday 12/18 at the close, the trade for S&P index funds will be: Buy $TSLA, sell everything else in the S&P 500 benchmark.

You might want to think about doing the same. Then you can sleep at night, knowing that holding TSLA at a 1.5% weight can't hurt you.


TSLA US $ Market
Prev 639.83 Vol 8,509
Q636.01/637.72P 1x1
TSLA US Equity 95) Compare 96) Actions 97) Edit Line Chart
Period 1 Range 1 09:30 - 16:15 Overnight Lst Trd/Lst P Mov Avgs Key Events
1D 3D 1M 6M YTD 1Y 5Y Max 1 Min Table Edit Chart
Track Annotate News Zoom
3700 3690 3680 3670 3660 3650 3647.49
645 639.83 635 630 625 620 615 610
+29.84 4.89%
Last Price
TSLA US Equity (R1) 639.83
Close on 12/11 ---- 609.99
SPX Index (L1) 3647.49
TSLA US Equity - #Ticks 0.878M
0.878M 0.5M 0.151M 0
10:00 10:30 11:00 11:30 12:00 12:30 13:00 13:30 14:00 14:30 15:00 15:30 16:00
14 Dec 2020