

Twitter Thread by Gary Black



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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 will 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/E's are 67x 2022 EPS and 43x 2023 EPS. That's a 2022 PEG of 1.3x.

TSLA Volumes, Earnings, and P/E's														12/15/2020	
TSLA Price															
\$ 640					@garyblack00 estimates										
		Global	Industry EV	TSLA	TSLA	TSLA	TSLA	TSLA	TSLA	TSLA	TSLA	TSLA		Street	
		SAAR (M)	Penetr'n %	EV Share %	Share %	Delivs (K)	ASP (\$K)*	Auto GM%*	Op Margin%	Adj NI (\$B)	Adj EPS**	YoY EPS %	P/E	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.

