What an Exciting Time to be Long or Short Tesla

13 February 2020 | Michael Frazis, Frazis Capital Partners

There was something compelling about watching Tesla go parabolic last week:



It used to be fashionable to talk about catalysts. But you don't need much of a catalyst when there's tens of billions of dollars of short interest.

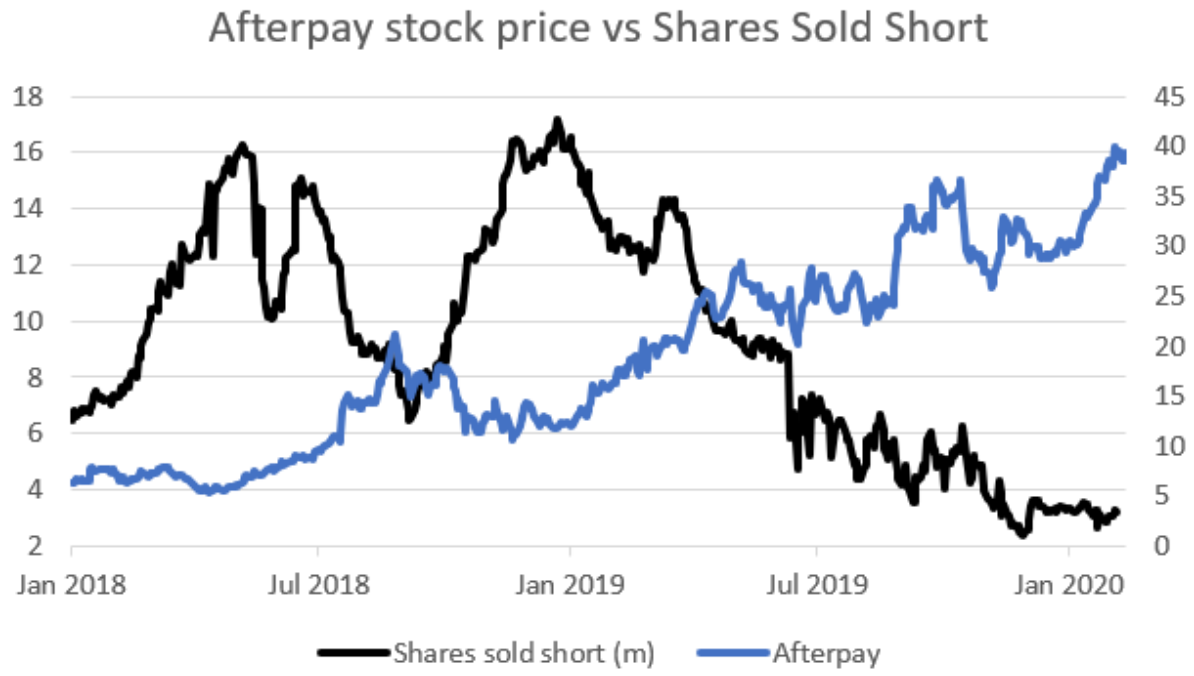
From the lows in 2019 to the recent peak, short sellers have lost over US$20 billion betting that the firm would fail. That's multiples more than the $6 billion of retained losses Tesla accumulated to revolutionize transport.*

Of all the ways to lose money, betting against companies like Tesla would have to be one of the worst. And if they made money instead, who would want to dance on Tesla's grave?

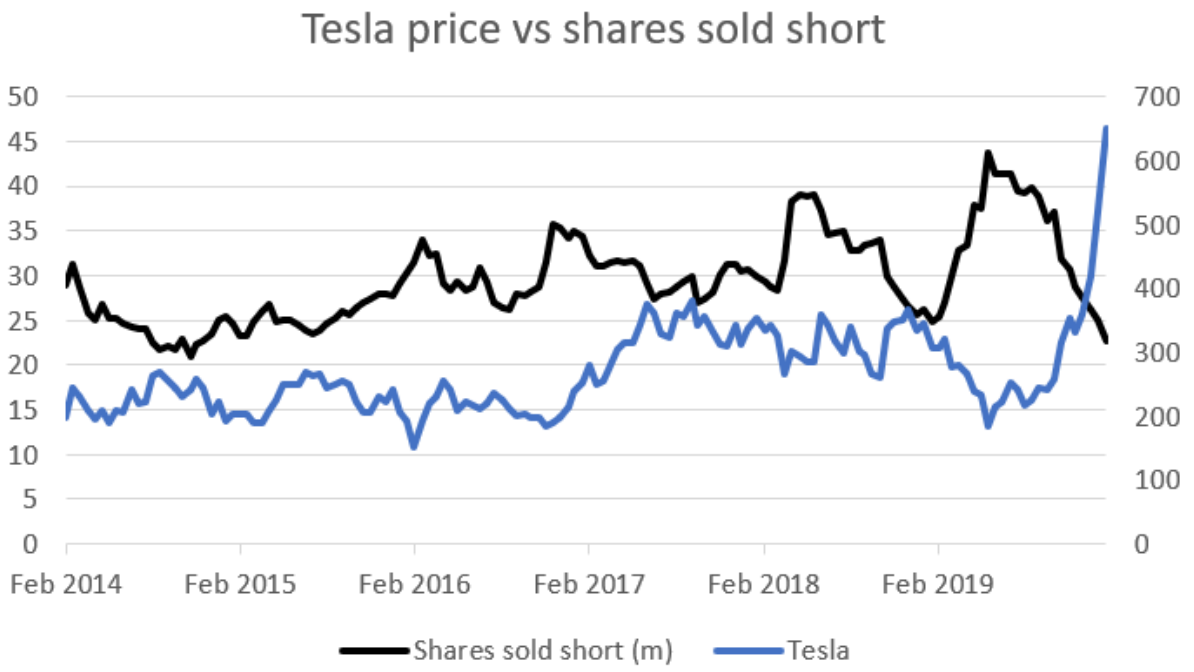
We've certainly had far more luck *buying* heavily shorted stocks, like Carvana, Alteryx and Afterpay.

The Afterpay sell-offs in 2018 coincided with significant short interest... almost all of which had to be bought back at higher prices.

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And unlike shorting, investing in these companies actually supports the real people trying to build new businesses.



At first glance, the parabolic move last week looks like one of those situations where each move higher triggers incremental buying from short-sellers and momentum-chasers.

But there's certainly real value here.

I'm no blind Tesla fanboy.

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There's something Trumpian about Musk, in the way he insulted that cave diver, then when the cave diver sued, used his financial resources to beat him in court. This is no way to behave, even if you are a multibillionaire changing the world (perhaps *especially* if you are a multibillionaire changing the world).

Yet even when things looked bleakest, Tesla was a terrible short. The firm displays the two characteristics we actually like to see most: explosive growth and widely loved products.

Tesla sold 30,000 cars in 2014, 50,000 cars in 2015, 100,000 cars in 2017, and over 360,000 over the last twelve months.

In Millions of USD except Per Share	2014 Y	2015 Y	2016 Y	2017 Y	2018 Y	2019 Y*
12 Months Ending	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2018	12/31/2019
Vehicles Sold						
▸ Worldwide	31,655.00	50,658.00	76,285.00	103,181.00	245,296.00	367,561.00
Growth (YoY)	40.83	60.03	50.59	35.26	137.73	49.84

That is explosive growth.

Furthermore, the Model S was widely regarded as one of the best cars ever built, and Tesla owners are true fans: they place deposits in their hundreds of thousands for pre-orders of new models that are only at the concept stage.

That is true customer love.

Despite the move, Tesla's EV/Sales (blue line) is actually still below where it was years ago:



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Tesla is now profitable on an after-tax basis - and not by a trivial amount either: the firm might post $4 billion of EBITDA this year. Most likely they will invest that, and come in far lower.

I don't know if this justifies $150 billion market cap today... but it was certainly a steal sub $40 billion, where it traded only last year.

Some seem to be scratching their heads as to why Tesla is worth so much more than GM, Ford and the countless other car companies locked in bitter competition over price and features.

But companies like Ferrari, with widely loved products that people will actually pay *extra* for, have traded extremely well:



Ferrari is now at 7.6x 2019 sales vs Tesla, which for all the hype, is trading at 4.0x. That's not crazy.

The most likely outcome in autos may be something like what happened in smartphones.

Apple's brand was the only one strong enough to charge a premium - and that premium often represented the profit margin of the entire industry. There's a very big difference between a brand (Ford, GM) and customer love (Ferrari, Tesla).

I'm hesitant to write about Tesla as it's so polarizing and my emails are about to light up.

But opinion aside, Tesla's car sales are up by more than 10x since 2014, and the firm has flipped into

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profitability. It shouldn't be *too* surprising that the stock is up.

The Tesla short became so common in certain professional circles, that those caught out in 2020 committed one of the least forgivable sins in finance: unoriginality.

Michael

P.S. - not that we haven't had plenty of our own lessons to learn here, not least for selling our early investment in Tesla at $190-$240.

*I know, I know, there are other ways to calculate this. But however you measure it, the point stands.

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