

Tesla Motors: from '0' to Wall Street darling faster than a 'Model S'

☒ Some of us – of whom yours truly happens to be an especially indicative example – enjoy driving cars, motorcycles and most other transportation emitting an appealing mechanical whine, requiring a certain skill in managing a manual gear shift and a clutch pedal. Even more of us want to make sure their vehicles can reach the intended destination without running out of 'power'. Even for the more compromising majority of people who still affect this 'primitive' affliction, electric cars are a hard sale. The majority of electric cars is small and has awkward 'faux-futuristic' designs; most electric vehicles also have very limited range.

Tesla Motors founded by Silicon Valley prince Elon Musk, founder of PayPal set out, some ten years ago, to change all that introducing an all electric Lotus two-seater based sports car, the Roadster, capable of blistering performance. The car made headlines and put Tesla Motors on the proverbial map despite some early teething problems. Tesla has now introduced a proper four door sedan with ample space and equally impressive performance. Like the Roadster the 'S' looks like a real luxury car and performs just as well. Costing anywhere between USD\$ 70,000-100,000, the Tesla 'S' is not cheap, but it is comparable to the Japanese and German luxury sedans from which it will draw some customers away and despite some bad reviews, most owners, automotive journalists and specialists who have driven it are very impressed.

What is even more impressive, however, is Tesla's stock performance. It is simply on a level unseen since the likes of Microsoft, Apple or the main protagonists of the technology

bubble of the late 1990's. Not surprisingly, Tesla is based in California and is a Company founded and operated with the same drive, passion and strategy of its software and computer technology 'peers'. Tesla Motors (NASDAQ: TSLA) has literally bewitched Wall Street, which has simply gone wild with its shares. Tesla is the new 'golden goose'. In first quarter of 2013, Tesla sold 4,900 cars (very small compared to the millions sold by the mainstream manufacturers such as GM, Ford, Toyota or Fiat-Chrysler), yet the value of the share has almost doubled since January, continuing to rise sharply. Yesterday the New York Stock Exchange, the title was quoted \$ 70.48. Today it is trading at close to USD\$ 78/share. Its market capitalization is even more staggering, having reached more than 8 billion; compare this to, for example, General Motors' USD \$43.4 billion market cap – which sold 2.3 million cars in the first quarter of 2013 – and the fact that at eight billion, Tesla's market cap is higher than Fiat SpA, owner of Chrysler and such historic and iconic marques as Alfa Romeo, Ferrari and Maserati and the picture becomes clearer. Tesla Motors might become the stock market phenomenon of the year – if not the decade, given that the company plans to expand and introduce a more affordable line-up.

Few analysts could ever have predicted that a startup company, in the automotive field no less, would be capable of generating such stock market excitement. As to whether or not the excitement is warranted, that is a more complicated matter. Yet, as hinted, Tesla has not sold many cars and its production numbers are minimal, insignificant compared to the mass of conventional cars or even hybrids. Logic would suggest that investors would not be paying much attention to Tesla's shares; some would even be discouraged; instead, the stock has accelerated faster than a fully charged Model S. How much of a 'charge' does the stock have is tough to predict. It would not be unfair to question the validity of the enthusiasm and to state that Tesla's shares are over-valuated with an imminent risk of collapse. Those arguing against the possibility of a

Tesla crash would argue that Tesla Motors benefits from California law, which has established a series of consumer incentives that can amount to rebates of USD\$ 35,000 for each Tesla S sold. There are some US Federal incentives as well. In addition, there is also the important issue of environmental credits required by U.S. law. Such credits are granted to manufacturers based on the environmental characteristics of the vehicles they sell. All automobile companies have no trouble meeting the environmental standards imposed in California, but the credits give Tesla a strong advantage.

The Contrarian view, meanwhile, would point to the fact that Tesla has only just made a profit in the last quarter and that it, in fact, accumulated rather substantial losses in 2012. Tesla Motors then seems to be hanging at the mercy of speculators, idealist wealthy environmentalists and US and California laws. Apart from the idealists, driven by unquestioned belief in man-made climate change, the laws and the speculators can change and withdraw their support faster than a Model S can stop from 100 – 0 km/h, deflating its currently staggering valuation. Nevertheless, Tesla is not a crash and burn proposition; it has solid backing. Daimler Benz, parent of Mercedes Benz, has invested in Tesla, forming a partnership in 2009. Tesla is regarded as one of the most technologically advanced manufacturer of electric cars.

The high development costs and the start-up of production were responsible for the many losses. Now, it seems, investors' persistence has started to pay off. Perhaps, it has paid off too quickly. Nevertheless, Tesla's products are still premium and getting them to the mass of consumers is a challenge. Premium automobiles typically generate significant profits for the established manufacturers; however, Tesla's current profits and survival have been funded courtesy of US tax payers. Should the U.S. government withdraw this support, Tesla will have a problem. At that point Toyota or Daimler could pick it up for a song, but not at the current market

valuation...

Those wanting to gain access to Tesla's current gravy train at a much lower entry price should consider what the Company represents for Electric cars and battery technology. Tesla has shown, to die-in the wool 'petrolheads', such as myself, that entertaining, beautiful and practical electric automobiles are achievable. There is room for electric cars and it is likely that they will become increasingly complementary to more traditionally propelled vehicles, perhaps replacing them outright one day, notwithstanding the fact that more technology advancements our imagination has not conceived are on the horizon as well.

Batteries are the heart of the matter and the sine-qua-non needed for the evolution of electric transportation and their increased consumer acceptance. Graphite, already ten times more prevalent in Li-ion batteries than lithium, is one of the key materials to make batteries. The discovery of high grade mineral graphite sources such as identified by Focus Graphite (TSXV: FMS | OTCQX: FCSMF), Zenyatta Ventures (TSXV: ZEN) or Mason Graphite (TSXV: LLG) to mention a few will make it possible to further advance battery technology thanks to higher purity levels and its offshoots into graphene. Other raw materials such as vanadium will make it possible to store more energy and facilitate renewable energy generation, making wind and solar power more practical. The long term investor might want to wait for some of the hype to fade on Tesla, while also keeping a keen eye on the emerging graphite producers.