Tesla Inc

09:37 21 Jul 2020

Tesla and Microsoft earnings put US tech sector in the spotlight on Wednesday

Two generations of tech giant will report earnings on Wednesday, in the form of trillion-dollar IT titan Microsoft Corporation (NASDAQ:MSFT) and rapidly rising electric car manufacturer Tesla Inc (NASDAQ:TSLA).

Bill Gates's venerable venture has seen its stock rise a respectable 30%-plus since the start of the year, and over the past three years it is up almost 190% to notch a market value north of US$1.6trn.

READ: 'Tera-caps' Apple, Microsoft, Amazon and Alphabet will continue to get bigger and bigger

Tesla's turbocharged gains of late put that rise in the shade, with the stock having risen more than 280% so far in 2020 and roughly 400% over three years, making it the largest auto company in the world by market cap — more than three times the size of carmaker rivals GM and Ford put together.

The stock's strong performance has come amid expectations of a surge in buying from index-tracking funds if it is added to the S&P 500, which it will be able to do once it has shown a profit over the previous 12 months, including its newest earning figures.

Current analyst estimates, however, suggest that boss Elon Musk will report a second-quarter loss of US$53mln, or US$1.79 per share.

But **recent production and delivery numbers**, which were well ahead of analyst expectations, suggest that the Street's estimates may be too conservative, Barclays analysts said, forecasting a net profit of US$42mln.

With current levels the stock trades for around 190 times earnings, "an eye watering level that we struggle to see as justified", analyst Nicholas Hyett at Hargreaves Lansdown said half-year results on Wednesday are an important test of whether the market's extreme optimism is justified.

"Sales and deliveries are all well and good, automotive manufacturing is a scale game after all, but ultimately Tesla needs to deliver profits and free cash flow."

Price: 420.28

Market Cap: $392.35 billion

1 Year Share Price Graph

Share Information

Code:		TSLA
Listing:		NASDAQ
52 week	**High**	**Low**
	502.42	**61.852**
Sector:		**Manufacturing & engineering**
Website:		**www.tesla.com**

Company Synopsis:

Tesla Inc. was founded in 2003 by a group of Silicon Valley engineers who set out to develop a new electric vehicle company. Tesla Inc. uses proprietary technology, world-class design and state-of-the-art manufacturing processes to create a new generation of highway capable electric vehicles. We utilize an innovative distribution model based on company-owned sales and service centers.

action@proactiveinvestors.com

Disruption to production caused by lockdowns in Fremont, California and the blip in sales are expected to put a dent in margins for the second quarter.

"But, if Tesla can deliver some good news in an economic backdrop that's hardly ideal for selling premium priced cars that might go some way towards justifying the bulls," Hyett said.

READ: Microsoft cloud sales get big boost in demand from lockdown workers

As for Microsoft, which will report its fourth-quarter numbers after the bell, Wall Street is expecting revenues of

US$36.5bn and pro forma EPS of US$1.37.

Back in April, the tech titan said sales of its services had been boosted by greater demand for its Azure cloud service and cloud-based versions of Office software, the Teams collaboration and online meeting programmes and its Xbox gaming services as the coronavirus pandemic forced more people to stay in and work from home.

This was partly offset by some problems with "supply chain issues" in China, which delayed some spending to build Azure data centres, but this improved late in the third quarter.

Boss Satya Nadella said there had been "two years' worth of digital transformation in two months", however this week we heard that the group is planning to cut 960 jobs or 6% of the global workforce at its LinkedIn arm, which it bought for US$26bn in 2016.

Analysts at broker Wedbush said they expect strong Azure growth as the work from home environment encourages more businesses to make the strategic shift to the cloud with Microsoft.

"In many cases we are seeing enterprises accelerate their digital transformation and cloud strategy with Microsoft by 6 to 12 months as the prospects of a heavy remote workforce for the foreseeable future now looks in the cards with this COVID-19 backdrop," analysts said.

"To this point, we believe Azure's cloud momentum is still in its early days of playing out within the company's massive installed base and the Office 365 transition for both consumer/enterprise is providing growth tailwinds over the next few years."

With 33% of workloads in the cloud today, this is expected to hit 55% by 2022, "we believe this WFH shift could clearly accelerate the cloud trend by roughly a year as more CIOs are now being forced to face the new normal/reality for their respective organizations looking ahead".

Tesla and the S&P 500

If Tesla is allowed into the S&P 500, on the basis of free-float it would enter the S&P 500 in 18th place, wedged between Netflix and Berkshire Hathaway.

"When this happens, it will no doubt be a massive moment for the company and its investors," said Peter Hillerberg of Ortex Analytics, which calculates that there is just under US$3trn in transparent mutual funds and ETFs that directly track the composition of the S&P 500 and at least a further US$5trn of assets in funds which benchmark against the index.

Although these funds don't necessarily need to buy or sell stocks as the composition of the index changes, for a company newly added to the index Hillerberg said it does tend to lead to a flurry of activity as fund managers decide if they want to remain underweight or overweight.

However, Hillberg said investors may have to show patience over the coming months and wait until the next quarter before the S&P green light is given, allowing the group to "supercharge" the index.

Looking to later in the year, some analysts noted that Democrat presidential candidate Joe Biden's proposals include a positive policy position on EVs, with plans to invest in 500,000 electric vehicle charging stations.

Biden's goal is to combine going green with economic recovery to 'build back better', promising to create a million new jobs in the auto industry, domestic auto supply chains, and auto infrastructure, from parts to materials to electric vehicle charging stations, which will depend on the repurposing of the auto industry from oil combustion to EV.

Proactive Investors facilitate the largest global investor network across 4 continents in 4 languages. With a team of analysts journalists & professional investors Proactive produce independent coverage on 1000's of companies across every sector for private investors, private client brokers, fund managers and international investor communities.

Contact us +44 (0)207 989 0813 action@proactiveinvestors.com

No investment advice

The Company is a publisher. You understand and agree that no content published on the Site constitutes a recommendation that any particular security, portfolio of securities, transaction, or investment strategy is suitable or advisable for any specific person. You understand that the Content on the Site is provided for information purposes only, and none of the information contained on the Site constitutes an offer, solicitation or recommendation to buy or sell a security. You understand that the Company receives either monetary or securities compensation for our services. We stand to benefit from any volume which any Content on the Site may generate.

You further understand that none of the information providers or their affiliates will advise you personally concerning the nature, potential, advisability, value, suitability or profitability of any particular security, portfolio of securities, transaction, investment, investment strategy, or other matter.

You understand that the Site may contain opinions from time to time with regard to securities mentioned in other products, including Company-related products, and that those opinions may be different from those obtained by using another product related to the Company. You understand and agree that contributors may write about securities in which they or their firms have a position, and that they may trade such securities for their own account. In cases where the position is held at the time of publication and such position is known to the Company, appropriate disclosure is made. However, you understand and agree that at the time of any transaction that you make, one or more contributors may have a position in the securities written about. You understand that price and other data is supplied by sources believed to be reliable, that the calculations herein are made using such data, and that neither such data nor such calculations are guaranteed by these sources, the Company, the information providers or any other person or entity, and may not be complete or accurate.

From time to time, reference may be made in our marketing materials to prior articles and opinions we have published. These references may be selective, may reference only a portion of an article or recommendation, and are likely not to be current. As markets change continuously, previously published information and data may not be current and should not be relied upon.

The Site does not, and is not intended to, provide investment, tax, accounting, legal or insurance advice, and is not and should not be construed as providing any of the foregoing. You should consult an attorney or other relevant professional regarding your specific legal, tax, investment or other needs as tailored to your specific situation.