

BondCliQ

Institutional Market Monitor

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You must SEE the market to BEAT the market

As measured by market capitalization, the value of Tesla, Inc. has skyrocketed in 2020. Against expectations, Tesla shares have grown nearly 300% year to date, compared to a ~1% rise in the S&P 500 index. The soaring stock elevated its market capitalization to over \$295b, now outweighing the value of Toyota, Honda, General Motors, Ford and Nissan combined.

However, the way in which Tesla made this meteoric rise has left many scratching their heads. Using BondTiQ, we can observe how bond investors are treating Tesla debt, and what this can tell us about the validity of the recent equity gains.

Unprecedented Growth

Tesla is now officially the most valuable automaker in the world. In just ten years, Tesla transformed from an experimental sustainable energy and transportation startup to a market share behemoth. To put this growth into perspective, as Tesla stock continued to rise in early July, Tesla's CEO Elon Musk became wealthier than Warren Buffett.

Using the BondTiQ Issuer page, we can observe the last four months of Tesla's debt performance leading up to their most recent earnings call:



Following last week's earnings announcement of Tesla's fourth straight profitable quarter, Tesla shares are now on a clear track to be included in the S&P 500, making them index fund eligible for the first time. This could be a catalyst to boost the share price even higher, as index funds will then be required to buy.

Let's Pump the Brakes

However, Tesla is barely breaking even from a profitability standpoint, and has yet to turn an annual profit since its inception. Tesla's revenues are less than 1% of those of Toyota's, and they have yet to sell over a million vehicles in a year.

Investors have taken notice too. Tesla now is the most shorted stock in US history, with close to \$20b in short interest. That is the largest short position in US stock market history and dwarfs the closest second of Apple at \$13b.

So how is a car company worth so much more than their competition without selling anywhere close to as many cars? And what is the long-term view on Tesla that the bond market, not the stock market, is pricing in?

Using BondTiQ's Issuer page, we can observe the relative performance, client flow and trade volume of the major US automaker's outstanding debt following last week's earnings announcement. As you can see, the bond market is telling a very different story than the stock market on the long-term outlook of Tesla:

F Client Flow: -8% Volume: 355.3MM Mkt. Share: 45.35%	GM Client Flow: 0% Volume: 220.7MM Mkt. Share: 28.16%	TOYOTA Client Flow: -4% Volume: 99.3MM Mkt. Share: 12.68%	HONDA Client Flow: +23% Volume: 54.7MM Mkt. Share: 6.98%	TSLA Client Flow: +3% Volume: 29.5MM Mkt. Share: 3.76%	VW Client Flow: +65% Volume: 24MM Mkt. Share: 3.07%
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Debt Structure

Although Tesla's debt (\$13b) is miniscule in comparison to its total market capitalization, it still heavily outweighs their net profits and free cash flow. Made up of fixed rate and convertible notes, Tesla debt has performed relatively well, albeit at risky levels. Specifically, Tesla's 2025 fixed rate bonds are six notches below investment grade (Moody's recently rated Tesla's debt B3).

Low interest rates and government subsidies over the past decade have made Tesla high risk borrowing possible. Currently, Tesla's five-year debt has spread levels around 400bps, and had reached wides of over 900bps at the peak of the crisis in March, implying a ~20% chance of default.

Using BondTiQ Heat Map, we can take a look at Tesla's debt across the curve on its earnings announcement date (arrow for illustrative purposes):



A Closer Look

It's been made clear that Tesla makes its billions by selling securities to investors, rather than selling cars to consumers. The rise in Tesla's value points to the significant bet many investors are taking - will the company be highly profitable in the future? And will it be able to deliver on its lofty expectations as a sustainably profitable automaker in the future?

At the time of this writing, we're actually seeing some downgrades to Tesla's stock, as Stanford Bernstein and Barrons are calling its valuation "mind-boggling." It will be very interesting to observe patterns in the way Tesla's debt trades as its stock price continues its rollercoaster ride. Using BondTiQ, you can easily observe the past and present trends of specific issuers like Tesla, and watch how bond investors are cautiously positioning themselves as Tesla's stock price continues to drive forward.

If you are interested in a free trial of BondTiQ, reach out to us at info@bondcliq.com.