The Four Horsemen Of A Teslapocalypse

| About: Tesla Motors (TSLA)

THE FINAL DAYS OF TESLA ARE UPON US!

UncleBrian Research

Growth, tech, software, value

Summary

Tesla supporters focus on the “good news” of the future from the Gospel of Elon Musk.

However, Tesla’s ability to remain solvent (never mind grow) depends entirely on its ability to raise capital via equity offerings.

It's fine to have faith in the Gospel, but keep an eye out for the Four Horsemen of Tesla's Apocalypse.

For some of these Revelations, the question is not if they will arrive, but when.

Goldman Sachs appears to be heeding the warnings. Should you?

Tesla Motors (NASDAQ:TSLA) has a tough row to hoe. It's a tiny auto manufacturer with dreams of dominating not only its own highly capital-intensive and competitive industry, but several other industries it hasn't even entered yet.

Indeed, it is the hope and faith of investors in Tesla's ability to achieve these goals that supports the stock price. And for Tesla, supporting the stock price is of paramount importance.

Reverend Elon preaches the Tesla Gospel (photo courtesy BusinessInsider)

Tesla doesn't make any money to reinvest in its own growth. Rather, the company has survived and grown because it has been able to sell ever more stock.

There has already been substantial dilution, but - up until now, at least - Tesla's sky-high valuation has buffered the effects of each successive equity raise.

Take a look at Tesla's share price over the last three years:

Chart courtesy of nasdaq.com with additional edits performed using Fotor

To date, the

company has been fortunate enough to not be in dire need of capital during those valleys, and has definitely taken advantage of the peaks.

The vital importance of an inflated valuation brings into sharp focus a key point for all Tesla investors: What happens to shareholders, and ultimately, the long-term value of a position in TSLA, if the stock takes a dive at the wrong time?

Why Does It Matter?

The recent explosion of a SpaceX (Private:SPACE) rocket, and resulting hit to Tesla's share at a potentially inconvenient time, highlight a major risk to investors in each of the Three Musk-eteers: Tesla, SpaceX, and SolarCity (NASDAQ:SCTY))

Stocks that trade on stories rather than fundamentals are highly susceptible to swings in perception, and swings in perception are difficult to control.

Tesla is about to use stock to acquire SolarCity. It will need to issue stock to cover its operating losses in 2016 and probably 2017-18. It will also need to issue stock to support SolarCity once the merger is complete.

And covering operating losses isn't even the largest need. Tesla needs billions more in capital to finish the Gigafactory and upgrade the Fremont factory for high-volume production.

In other words, Tesla is going to be selling a lot of stock over the coming years, because funding those items isn't going to come from profits.

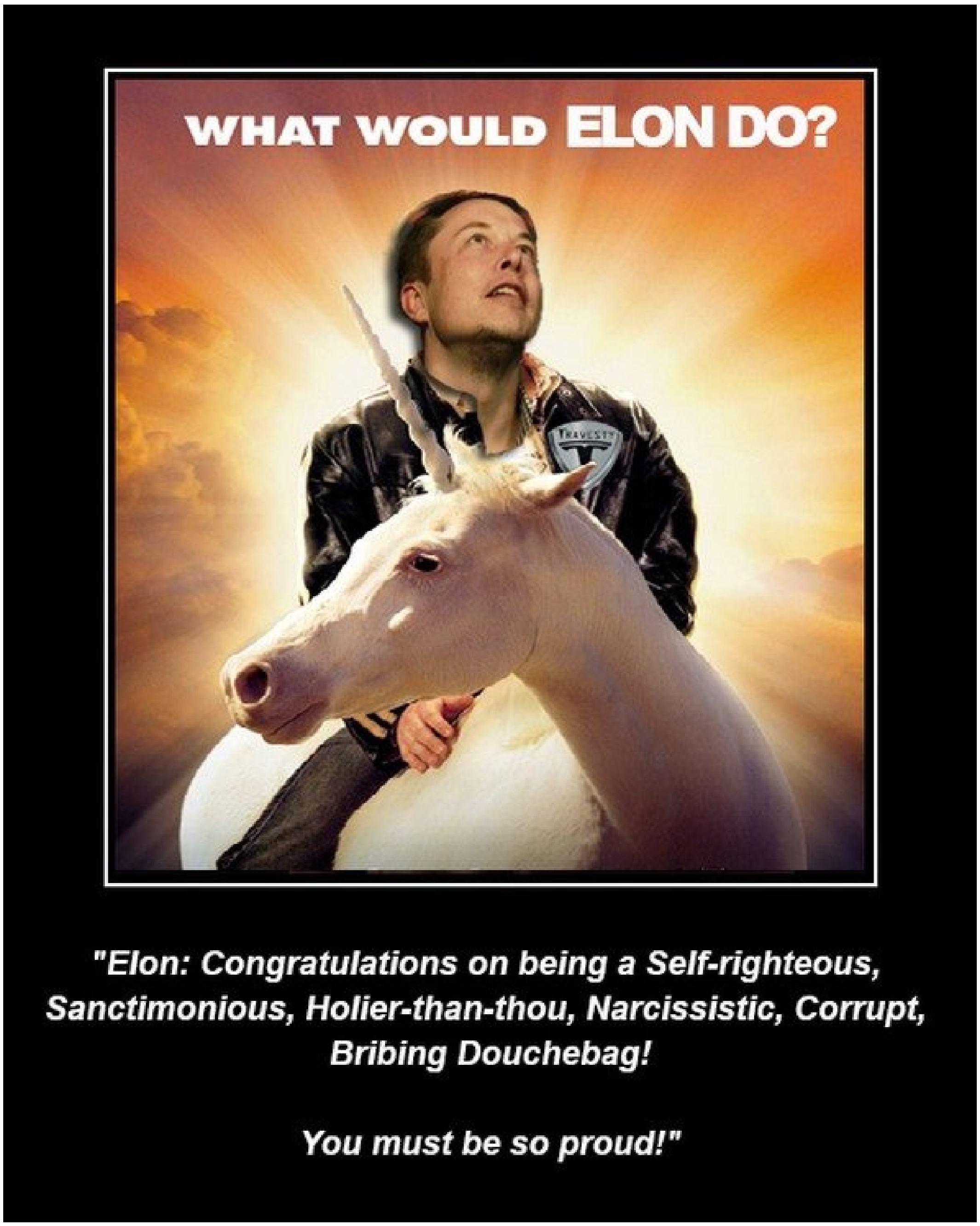
It's All About Ownership (And Dilution)

The risk that Tesla will need to raise capital during times of poor stock performance is a big one.

In a previous article, I was incredibly optimistic (pro-Tesla) in predicting the company would only need $8 billion in outside capital over the next few years for the reasons I outlined above.

Of course, the dilution required to raise billions of dollars is inversely proportional to the share price. Higher share price, less dilution; lower share price, more dilution. Simple.

And while dilution doesn't seem to affect TSLA in the short run, you better believe it will matter in the long run. And that's why investors need to care about TSLA share price, regardless of their investment horizons.. READ MORE AT SEEKING ALPHA…



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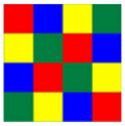
- 

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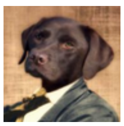
- 

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