



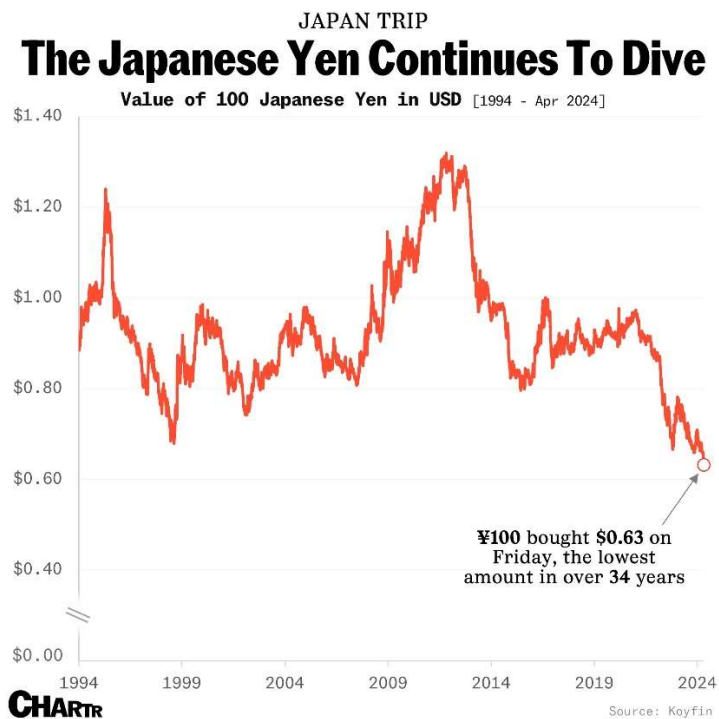
## WEEKEND READING

Shedding the light on what's happening - our world - our finances - our times

### Home on the range?

A common theme in investment portfolio management these days is International Diversification. We regularly read 'Buy Japan, Far East, Latin America, Europe...' etc. This notion says given the economic importance of these areas, not being exposed risks missing out on investment opportunity. Why have we have kept our \$'s in North America?.

### The Japanese Yen hits a 34-year low



ChartR explains the impact of a falling yen.

<https://sherwood.news/markets/japans-currency-continues-to-dive/>

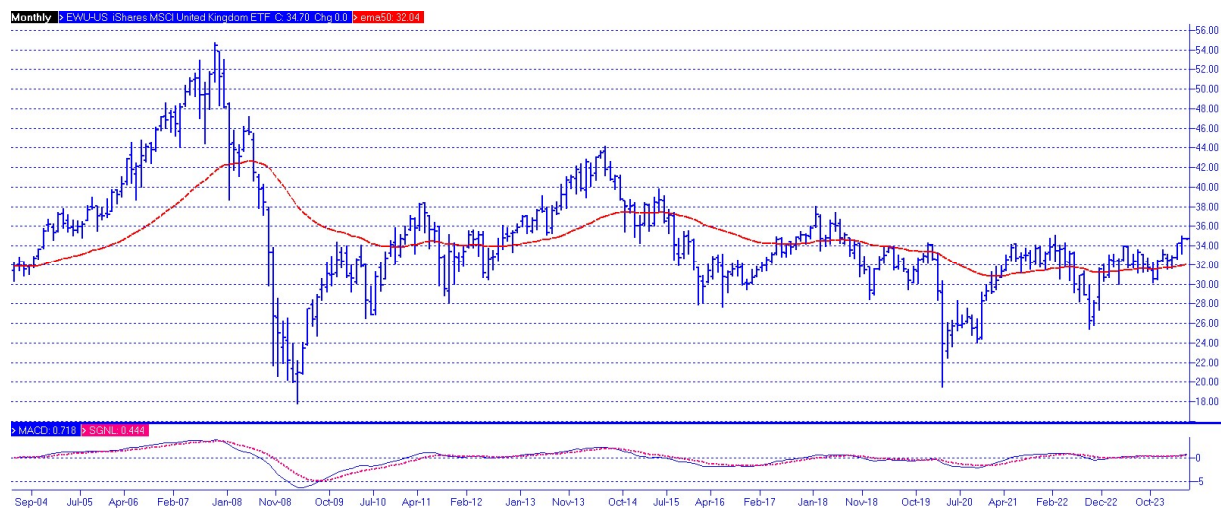
## Be Like Europe?

Some say Canada should emulate European government-funded social entitlements, environmental regulations, and associated tax policies. Advocates claim the deeper social safety nets, broader regulatory control and adoption of alternative energy leads to lower income inequality a cleaner environment and a happier and healthier population.

We're not debating these points. We will however ask, from an investor's perspective "How is that working out...for Europe?". The following compare even-dollar investments into broad European equities vs. the US and Canada. We're basing the outcomes apples-to-apples US dollars May/2004 to April/2024. 20 years should be long enough to smooth volatility.

Note on Canadian/US FOREX: May/2004 Loonie close at \$0.7343 \$USD. April/2024 Loonie close \$0.7264 \$USD. FOREX changes did not affect the Canadian result in US funds.

## iShares MSCI United Kingdom ETF – monthly ranges – 20 years

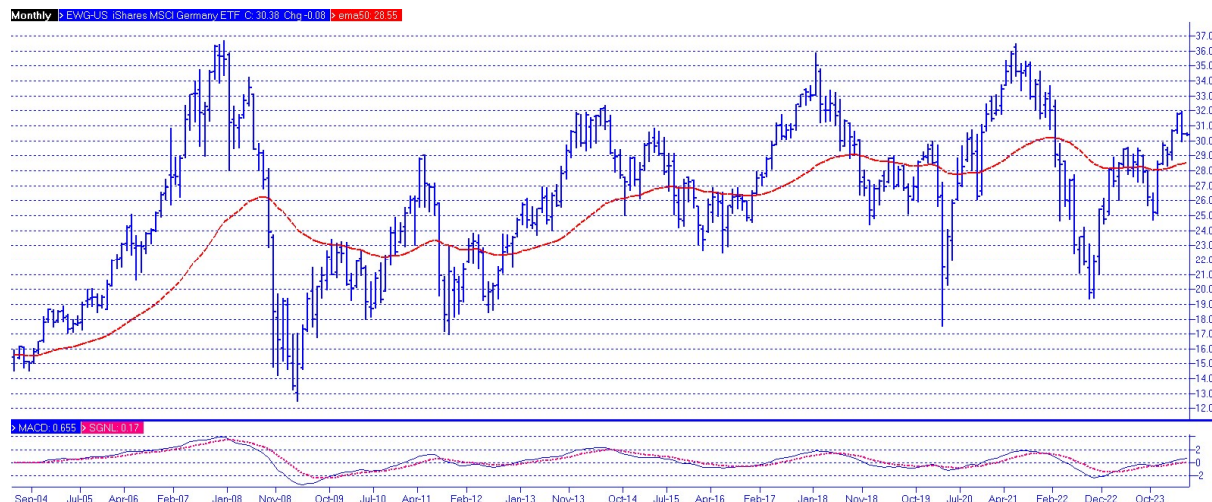


Source: Refinitiv, NBF, Hilberry

- **May 1/2004 – April 30, 2024**
- Average annual total return (divs. reinvested): 4.27%
- \$10,000 = \$23,041 \$USD



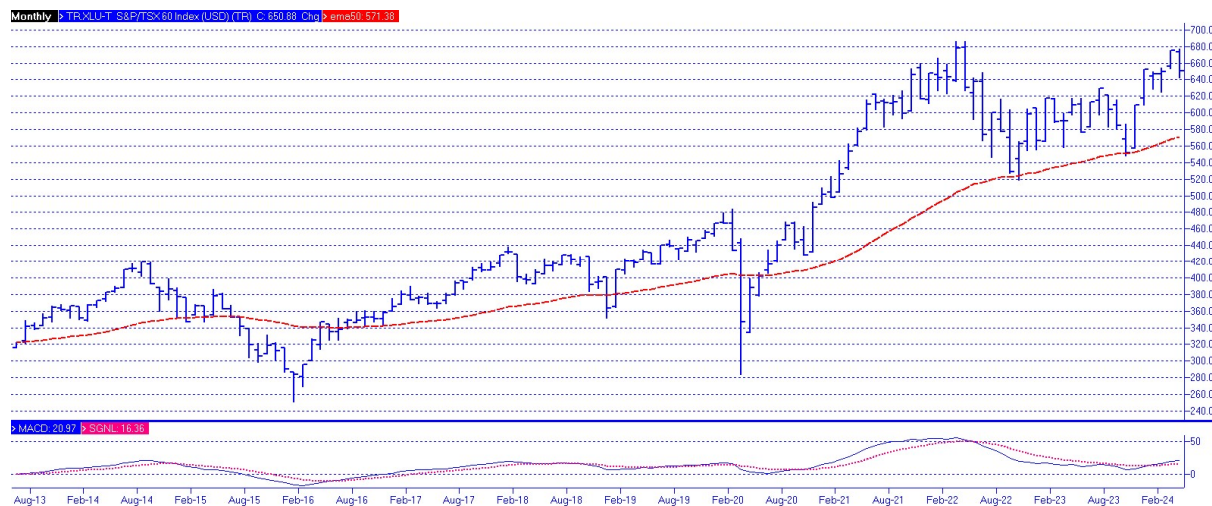
## iShares MSCI Germany ETF – monthly ranges – 20 years



Source: Refinitiv, NBF, Hilberry

- May 1/2004 to April 30/2024
- Average annual total return (divs. reinvested): 5.79%
- \$10,000 = \$30,698 \$USD

## iShares S&P/TSX 60 Index ETF (\$USD) – monthly ranges – 20 years

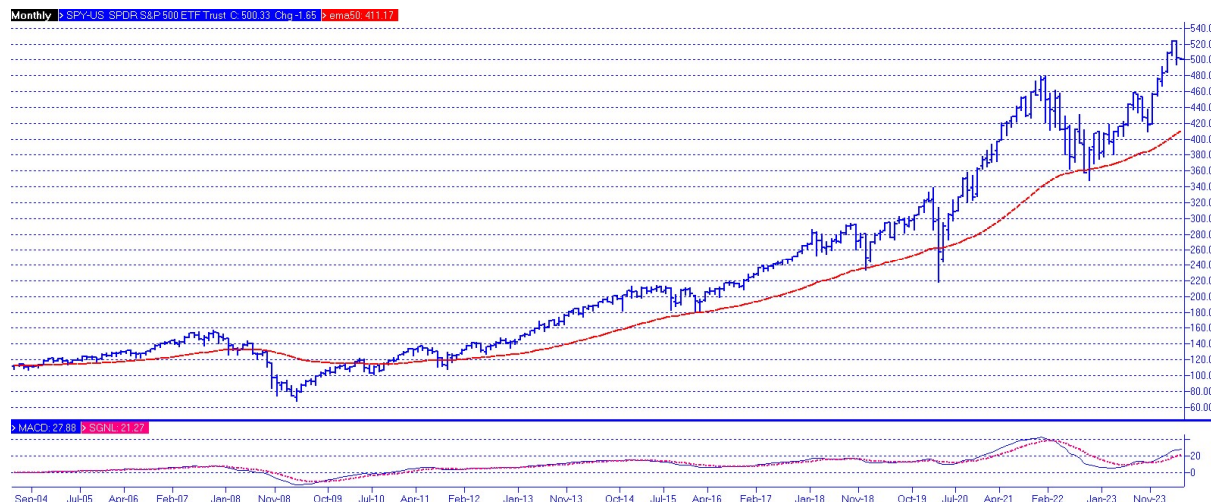


Source: Refinitiv, NBF, Hilberry

- May 1/2004 to April 30/2024
- Average annual total return (divs. reinvested): 8.28%
- \$10,000 = \$48,324 \$USD



## S&P500 ETF Trust– monthly ranges – 20 years



Source: Refinitiv, NBF, Hilberry

- May 1/2004 to April 30/2024
- Average annual total return (divs. reinvested): 9.90%
- \$10,000 = \$65,518

Economies are complex. One can argue policy outcomes endlessly, yet outcomes are outcomes and dollars don't lie. They tell us Europe's path has had a cost. Whatever the reason, history tells us investing in European equities resulted in significantly lower returns. Receiving 66% to 50% less end-dollar sucks. Be careful what you wish for.

### Staying with wishful thinking... A client asked why we don't own Tesla.

Our client responded to Tesla headlines on Tuesday asking us to update our view. We've gone through the following exercise in previous Readings. In our view the key news on Tuesday was not Elon Musk's announcement that China will 'permit' Tesla to operate driverless vehicles (FDS) in that country. (if history is any guide, the Chinese may end up controlling the technology). We thought the important news was Tesla's announcement of departure of more key executives and laying off 14,000 employees. Barron's explained (may require subscription).

<https://www.barrons.com/articles/tesla-stock-price-layoffs-news-994a4a84>

Tesla's global employee count is 140,000. The USA domestic headcount is around 100,000.

Good employees are hard to find. In a technical industry, training is time consuming and expensive. Retention is a problem. 14,000 employees is 10% of Tesla's global workforce and 14% of the US work force. Firing 10% of your employees implies financial stress. It does not imply growing product demand. Barron's went on the explain how Tesla could be worth \$470....or \$70

<https://www.barrons.com/articles/tesla-stock-price-today-5f9c578e>



## What about Tesla's value? How does it compare to the broad market or the auto-industry?

Investors have been paying significantly higher prices for Tesla's earnings than those of their rivals. We compare the share price to earnings per share ratio or P/E. A 10X P/E means investors are paying \$10 for each \$1 in earnings.

Tesla trades at 46.7 X trailing earnings (past 12-month posted) and 71 X forward earnings (next 12-months estimated by analysts). NOTE: When a stock's trailing PE exceeds their forward P/E this means forward earnings are expected to decline below trailing. This is not growth. Investors paying the same share prices today despite falling earnings are saying they believe the forward earnings projections are wrong or....they're just buying because they're buying. It happens.

Tesla's stock price rallied recently from lows around \$140 to \$198 presumably on Musk's 'Robotaxi' announcement. One may ask is it cheaper to have a live body driving a taxi in Mumbai than paying up for Robotaxis? In passing would you REALLY want to ride in a self-driving car in Mumbai, or Rome, or Beijing, or Karachi? Later Dude.

The article mentions a \$99 per month US 'fee' for using Tesla's self-driving feature. That self-driving fee equates to \$135 per month Canadian or \$1,620 per year. Investors got excited. We wonder if the average Canadian let alone Chinese driver will pony up.

### TESLA VALUATION COMPARISON:

The S&P500 market-weighted index trades at 24.6 X earnings with Tesla and the other Magnificent Seven included at their market weights. We've pointed out this skew. The S&P500 equal-weight index (each stock allocated 1/500th of total value) carries an average P/E of 15.2. again, including the Magnificent Seven. Tesla is 3 X as expensive as the market weight index that is affected by Tesla's value and 4.7 X as expensive as an equal weight index, that again includes Tesla in the calculation.

### TESLA COMPARED TO OTHER AUTOMAKERS:

Peer auto-industry price to forward earnings (Fwd P/Es)

- Toyota: 10.02
- Honda 8.26
- Nissan: 7.16
- Ford: 6.28
- Mercedes: 6.03
- General Motors: 4.66
- Volkswagen: 4.22
- Renault: 3.78
- Stellantis (Chrysler, Alfa Romeo, Lancia, Opel): 3.64

The average forward P/E of the non-Tesla group is 6 X earnings.

At 10X earnings, Toyota is the most expensive of the non-Tesla auto industry group. It might deserve the 80% premium to the other 8 names. We are happy owners of Toyota.

Tesla's share price is \$181 (down from a \$410 high in Nov/2021). Tesla's analyst consensus next 12-mos earnings per share is \$2.60, down from 2023 \$3.1, which was down from 2022 \$4.10 and up modestly from 2021 \$2.30.  $\$181 / \$2.60 =$  roughly 70 X earnings.

Here are the top six auto-markers by cars sold in 2023:

- Toyota was top producer 11.2 million cars (and top total earnings generator).
- Volkswagen 9.6 million
- GM 6.2 million
- Ford 4.3 million
- Honda 3.2 million
- Stellantis 1.4 million

Tesla sold 1.2 million cars in 2023.

### MARKET CAP

Market Capitalization: all shares outstanding X price per share

- Toyota \$308 billion
- Honda \$55 billion
- GM \$52 billion
- Ford \$51 billion
- Volkswagen \$44 billion

Tesla's (much reduced) market cap of \$618 billion is 2 X Toyota's.

### HOW MUCH ARE INVESTORS PAYING FOR EACH CAR PRODUCED?

For each Tesla car sold in 2023, investors are currently paying \$441,428 in market value (market cap / cars sold). Tesla's products range in price from \$43,000 to \$120,000 US per car. Investors are paying at least 4 X the average car price that consumers are paying (before subsidies).

For each car Toyota sold in 2023, investors are paying \$27,500 in market cap. Toyota estimates the average new car price will be \$50,000 US in 2024. Investors are paying roughly ½ the value of each car sold.

Any way we look at it, Tesla trades at a massive premium to its peers.



**IF TESLA WAS VALUED LIKE OTHER AUTO-MAKERS:**

Tesla’s share price is around \$181. If Tesla’s share price was valued at ‘only’ twice the ratio of Toyota’s current 10X P/E (20 X earnings) Tesla’s share price would be 20 X \$2.60 per share earnings = \$52 – near Barron’s low ball value in the article above. If Tesla’s shares are valued similarly to Toyota (10.02 X \$2.60) the share price would be \$26.50. If Tesla was valued at the same ratio as the average auto-industry stock the price would be (6 X \$2.60) \$15.60. Tesla bulls say these kinds of comparisons are silly as Tesla isn’t a car company, it’s a technology company. We think Tesla is, in fact, a car company and will be valued accordingly. This is why we don’t own the stock.

**DISCLAIMER: We have no Tesla position personally or for client accounts over which we have trading authority. We have not traded in the security in the past 60 days and are not recommending it for client accounts. We hold Toyota and Ford personally, for family members and for client accounts over which we have trading authority. We have traded in both securities within the past 60 days.**

**TD GETS SLAMMED.**

Daily > TD-T Toronto Dominion Bank C. 75.28 Chg -4.16 > ema50: 80.33



Source: Refinitiv, NBF, Hilberry

Investors reacted to news US Anti-Money Laundering (AML) authorities were investigating employees in TD’s US division engaged in money laundering. Following stories breaking late on Thursday the stock price flopped at Friday’s open to a new 52-week low of \$75.25.

On Friday NBF’s Gabriel Deschane comments dropping NBF’s price target from \$92 to \$84. See following.



**TD Bank: The AML plot thickens. Worst case scenarios need reassessing.**

*TD is “cheap”, but that’s over-simplifying the investment case TD has been one of the most topical names in our coverage over the past few years. Lately, the tone of investors has become more positive. We believe investors have been attracted to TD’s valuation, which currently sits at a ~6% discount to peers, which is in stark contrast to its historical valuation premium of ~4%. However, given details of TD’s alleged involvement in money laundering activities outlined in a Wall Street Journal (WSJ) article, we believe investors need to put greater weight on worst-case scenarios for the stock*

Full opinion update here.

<https://nbf.bluematrix.com/sellside/EmailDocViewer?encrypt=2bf7d371-446e-4e18-8df4-4c53bf7e300c&mime=pdf&co=nbf&id=steven.hilberry@nbc.ca&source=mail>

At this writing we are not selling TD shares. We are reviewing our entry and exit points.

**DISCLOSURE: We hold TD personally, for family members and for client accounts over which we have trading authority. We have traded in the security within the past 60 days**

Despite TD’s flop, or perhaps because of it, the other major Canadian bank share prices rose. Broad markets were up strongly on Friday and on the week. We’re prepping for our end of May seminars. Invitations are out this week.

**Have a Great Weekend**

**Steve & Anna Hilberry**



Steve Hilberry  
Wealth Management Advisor, CIM

Anna Hilberry  
Wealth Management Advisor, CIM

**FOR THE RECORD May 2, 2024**

DOW INDUSTRIALS:	38,679
S&P 500:	5125
S&P/TSX COMP:	21913
WTI:	\$78.40
LOONIE IN \$USD:	\$0.7306 \$US





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