Avoid, Watch, or Buy? 3 Top Stocks in the Electric Vehicle Space

Description

It seems that **Tesla** (NASDAQ:TSLA) can't go a week without some big headline impacting its share price one way or another. To some degree, the actual product output of Tesla is almost secondary to the hype surrounding it, with the media focusing on a new sensationalist story on a regular basis.

Indeed, some pundits have begun to narrow criticism down to a single word: credibility.

Currently down 4% over the last five days, this stock is following its usual pattern of erratic peaks and troughs. Overvalued by around $50 a share compared to its future cash flow value and with a P/B ratio of 9.6 times book, Tesla is far from being "ordinary," and lacks the predictability required of an auto stock.

Compare this with Canada's own electric vehicle play, **Magna International** (TSX:MG)(NYSE:MGA). Up 3.43% in the last five days, investors are clearly bullish on the Canadian auto industry, while still displaying decent value (see a P/E of 8 times earnings and P/B of 1.6 times book). While its outlook may not be as stratospheric as Tesla's, Magna International has the edge with a dividend yield of 2.74%.

Why not short-circuit the EV market with lithium?

It may seem like a good idea to side-step the EV market by stacking shares in a miner such as **Lithium Americas** (TSX:LAC)(NYSE:LAC). While this stock does have some appealing qualities, there are two fairly good reasons to give the silver stuff a miss – but we'll come to that in a minute.

First up, the stats: Lithium Americas has seen a gain of 1.37% in the last five days, suggesting that investors are still bullish on the silver stuff. 90 day returns of 33.3%, meanwhile, are moderately high, but likely tempered by the influx of extra lithium on the market.

This was something that investors were ready for, though, and it's likely that stock market observers with a taste for mining assets had already factored this into their calculations regarding upside.

A P/B of 4.9 times book may have value investors balking, though a projected 36.9% annual growth in earnings may tempt in equal measure. There is certainly much to recommend this stock, and going by the stats alone it comes out as a moderately strong buy.

So why not invest in lithium? Simply put, though a window for upside remains, lithium's relative scarcity is going to drive prices through the roof again in the future, meaning that the EV industry will eventually start looking for an alternative fuel source (in fact, the hunt is already on, and not just because lithium's expensive – it's chemically volatile, too).

The bottom line

At some point in the future, EVs will have to be rejigged as soon as a new wave of batteries have been developed – though this will of course end up being good news for a burgeoning EV auto parts industry. Indeed, retrofitting vehicles for new batteries has the potential to be a whole new industry in itself.

Investors may want to take a wait-and-see stance, therefore, while weighing up Magna International's steadiness against Tesla's 52.1% expected annual growth in earnings.

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