Forget Tesla (TSLA): 3 Canadian Stocks for Better Growth

Description

Tesla (NASDAQ:TSLA) just released its latest quarter results with jaw-dropping numbers. Revenue and net profit were up roughly 100% and 1,000% respectively. Yet, the stock dropped right after the earnings report. In fact, it's flat at the time of writing and still trading below yesterday's opening price.

What's happening? Here's a closer look.

Tesla is overvalued

The muted response to impressive growth numbers makes it clear that Tesla stock has already priced in all its future growth. After adjusting for the latest quarterly numbers, the stock is trading at a price-to-earnings ratio of 338. If income doubles by next year, it would still be one of the most expensive tech stocks on the planet.

To unleash its next leg of growth, Tesla needs to deliver on its promise to crack the global energy market or launch a ridesharing service (perhaps the robo-taxi service Elon Musk promised). However, the company's full-self drive tech is nowhere near ready to drive people around autonomously. Meanwhile, the energy business has languished with flat sales for five years. There was some growth this quarter, but it's not enough.

Tesla's US$624 billion market value needs much more to move the needle. For instance, Tesla could add the entire market value of **Brookfield Renewable Partners** (TSX:BEP)(NYSE:BEP) and **Uber** and still add *only 15.7%* to its market cap. It's the law of large numbers.

Better alternatives

Efficient, smaller companies targeting the same industries could be better growth opportunities. Brookfield Renewable is an excellent example. The company is currently worth just $13.6 billion, a fraction of Tesla's size. However, it has more renewable energy assets and access to capital than any other company in this industry.

Brookfield is likely to be a prime beneficiary of the trillion-dollar transition away from fossil fuels. It has plenty of room to grow. Meanwhile, the stock offers a lucrative 3% dividend yield too. That simply makes it a much more attractive bet on clean energy.

The stock is up 41% over the past year and could continue to outperform in the near future.

For investors focused on electric vehicles and self-driving, **Magna International** (TSX:MG)(NYSE:MGA) is, perhaps, a better bet. Magna is one of the largest auto-parts suppliers and contract manufacturers in the world. The company works with over 58 original equipment manufacturers, including many of Tesla's biggest rivals.

But that's not what makes Magna so appealing. Instead, it's the company's recent partnerships that have helped it create critical parts for electric vehicles and self-driving cars. According to Magna, tech-enabled cars need more sophisticated parts that imply higher margins. Essentially, Magna is the ultimate winner of the ongoing transport revolution.

The stock is up 174% since March last year. It's still trading at just 22 times earnings and offers a 2% dividend yield. This is an undervalued growth play that deserves a spot on your watch list.

Bottom line

While Tesla has had immense success, the stock has overshot its potential. The company would now need to add the full market cap of industry leaders in ridesharing and clean energy to just move the needle. Growth investors should look ahead and pick smaller stocks with more reasonable valuations.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

1. NASDAQ:TSLA (Tesla Inc.)
2. NYSE:BEP (Brookfield Renewable Partners L.P.)
3. NYSE:MGA (Magna International Inc.)
4. TSX:BEP.UN (Brookfield Renewable Partners L.P.)
5. TSX:MG (Magna International Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn

4. Newscred
5. Quote Media
6. Sharewise
7. Smart News
8. Yahoo CA

PP NOTIFY USER

1. arosenberg
2. vraisinghani

Category

1. Investing
2. Tech Stocks

Date
2025/08/23
Date Created
2021/07/28
Author
vraisinghani