

# Tesla Shares Jump After Morgan Stanley Upgrade

The Associated Press

NEW YORK (AP) — Shares of electric car maker Tesla Motors jumped almost 6 percent Monday after Morgan Stanley upgraded the stock.

**THE SPARK:** In a note sent Monday to investors, Morgan Stanley analyst Adam Jonas upgraded Tesla's stock rating to "overweight" from "underweight" and raised his target price from \$45 to \$50. He said investors shouldn't be worried about the slow ramp-up in production of Tesla's new Model S sedan.

While Tesla isn't likely to meet its target of selling 5,000 Model S sedans this year, he said, the company understands that it's more important to make sure the car has no quality problems.

"The Model S has to be perfect right out of the box," he said.

**THE BIG PICTURE:** Tesla, the brainchild of PayPal billionaire and SpaceX founder Elon Musk, now has two all-electric models on the market, the \$109,000 Roadster and the Model S, which starts at \$49,900 after a federal electric-vehicle tax credit. Tesla said it had more than 11,500 reservations for the sedan when it went on sale in June.

Tesla began selling stock to the public in June 2010 at an initial price of \$17 per share. The shares hit nearly \$36 in July on investors' optimism about the Model S, but fell to \$26 in August after shareholders began to worry about significant delays in shipments of the new car.

**THE ANALYSIS:** Jonas caused Tesla's shares to tumble in December when he cut his rating and slashed his price target by 37 percent to \$44. At the time, Jonas said electric vehicles "are not ready for prime time" and would be slow to catch on with drivers.

So what changed?

Jonas is clearly impressed with the Model S, saying initial customer reaction has been positive. Tesla has delivered what it promised, he says: An electric car with the performance and luxury traditionally limited to German brands like Audi and Mercedes. But that success has been unfairly overshadowed by concern about product delays.

Jonas expects the company to lower its production targets soon. But in the meantime, he says, it's more important for the company to make sure the car is bug-free. Big companies like General Motors can afford some new product hiccups, but Tesla can't.

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Jonas thinks Tesla, while still risky, offers a greater upside than the auto industry average. Analysts' 2013 earnings estimates for Tesla have fallen 72 percent in the last year to .48 cents per share. Expectations are down, he says, but that's a good thing, because they were overly exuberant a year ago and didn't reflect the complexity of launching a new electric car. Now they do.

Jonas said he raised his price target to \$50 because he now expects Tesla to move up the launch of a new, smaller car by a year to 2016. Tesla also has a small SUV, the Model X, which is set to go on sale at the end of 2014.

Jonas still believes electric vehicles will make up less than 1 percent of the global market through 2015 and 3 percent by 2025, based on rising gas prices and other factors.

SHARE ACTION: Tesla's shares rose \$1.78, or almost 6 percent, to \$32.17 in afternoon trading. They have traded in a 52-week range of \$22.64 in mid-January to \$39.95 in late March.

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