

Tesla falls most in two years on battery shortage (Update)

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In this Friday, June 22, 2012 file photo, Tesla CEO Elon Musk walks past the Tesla Model S after a news conference at the Tesla factory in Fremont, Calif. Musk on Tuesday, Nov. 5, 2013, blamed a shortage of lithium-ion battery cells for trouble meeting demand for Tesla's lone vehicle, the Model S. Cars that could have been sold in North America were diverted to Europe to satisfy waiting customers, Musk said on a conference call after releasing third-quarter earnings. (AP Photo/Paul Sakuma)

U.S. electric car maker Tesla Motors has a battery problem. It doesn't

have enough of them.

That's one reason the high-flying company's shares suffered their biggest one-day percentage drop in nearly two years Wednesday.

Chief executive Elon Musk on Tuesday blamed a shortage of lithium-ion battery cells for trouble meeting demand for Tesla's lone vehicle, the Model S. There won't be any relief until next year, when a deal to get more batteries from supplier Panasonic kicks in, he said.

Some potential buyers in North America were left out as cars were diverted to Europe for sale to customers on a waiting list there, Musk said on a conference call after Tesla released third-quarter earnings.

Concerns about the battery shortage, as well as the costs Tesla will incur as it builds more cars, spooked some investors. The company's stock closed down \$25.65, or 14.5 percent, at \$151.16. That was the biggest one-day percentage drop since January of 2012.

Tesla investors have been antsy for a few weeks. Shares rose more than 400 percent in the year's first nine months as Tesla turned a profit and won raves for the Model S, which starts at \$70,000. But the shares are down 22 percent since Sept. 30, when shares hit an all-time closing high of \$193.37.

The company announced after the market closed Tuesday that it sold about 5,500 Model S sedans in the quarter, a record. But Tesla failed to rev the engines of some analysts who were looking for more. Barclays had predicted the company would deliver 5,820 cars.

The steep rise in the shares was due in part to investors seeking quick appreciation, Barclays analyst Brian Johnson wrote in a note to investors. "Investors will often overpay for a risky but high-reward lottery ticket,"

he wrote.

Johnson lowered earnings estimates but kept his \$141 one-year price target for Tesla "as battery constraints come into focus." The price also reflects his expectation that Tesla can sell more than 400,000 cars by the end of this decade.

Stifel analyst James Albertine wrote in an e-mail that he's concerned about the looming investments that Tesla must make in factories, retail stores and other areas to meet its 2017 goal of selling a car for less than \$50,000 to the mass market.

"The market has shown no appetite, in our opinion, for such a product," Albertine said. He also worries that competition could pressure Tesla into "operational mis-steps." General Motors and Nissan already have lower-cost electric cars in the market, while BMW, Mercedes and GM are rolling out luxury gas-electric hybrids to compete with Tesla.

Efraim Levy, a Standard & Poors Capital IQ analyst, lowered his price target on Tesla shares by \$10 to \$140. He also cut his 2013 and 2014 earnings estimates.

That said, Levy still sees Tesla as an innovator with growth potential. And he likes Tesla improving cash flow. The company reported record free cash flow, the amount of cash left after reinvestment, of \$26 million for the quarter. As of Sept. 30, it had \$796 million of cash on hand, up \$49 million from the second quarter.

Tesla reported a third-quarter net loss of \$38.5 million, or 32 cents per share, on revenue of \$431 million. Analysts had expected income of 8 cents per share on revenue of \$547.5 million, according to FactSet.

Tesla said that using figures that don't conform with normal accounting

principles, it would have earned 13 cents per share and had revenue of \$602.5 million. Those numbers give Tesla full credit for a lease up front, while the generally accepted accounting principles, or GAAP rules, require the money to be booked over the course of the lease.

Jefferies analyst Elaine Kwei was more bullish than other analysts. She called the July-September period "another quarter of remarkable progress since volume deliveries of the Model S began one year ago."

Kwei said demand for the company's cars exceeds supply. "With a technology advantage, desirable and differentiated products, and proven execution, we think we're only scratching the surface of things to come," wrote Kwei, who has a "Buy" rating and a \$210 price target on Tesla shares.

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