Why Wall Street's worried about Tesla

May 4 2018, by Stan Choe And Alex Veiga

In this Feb. 6, 2018, file photo, SpaceX and Tesla CEO Elon Musk speaks at a news conference in Cape Canaveral, Fla. Tesla is a company of big ideas, but its stock is falling because of much more practical concerns. (AP Photo/John Raoux, File)

Elon Musk's track record for technological feats as chief of SpaceX has turned skeptics into believers in everything from his quest to open space travel to Mars to his desire to build a tunnel for high-speed travel between New York and Washington. As Tesla's CEO, his ambitious vision for electric cars has also earned him a faithful following.

But now Wall Street is taking a more practical tone, increasingly questioning Musk's assertions of when the company can turn profitable. Tesla may ultimately be forced to sell new shares of its stock or take on more debt to bolster diminishing cash.

Shares in the electric car company slumped 5.5 percent Thursday, a day after it reported its first-quarter results and Musk's remarks during an analyst conference call that left many investors scratching their heads.

The stock recouped some of its losses Friday, closing up 3.4 percent at $294.09. Tesla shares are still up more than fourfold over the last five years. The S&P 500 has risen about 65 percent in the same period.

Concerns, however, remain. Here's a look at some of the more pressing ones that Wall Street has laid out for the former darling of the investment world.

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CASH BURN

Tesla is not turning a profit, which means it has to use cash to pay the bills. The big question from investors: Does Tesla have enough?

Tesla went through nearly $400 million during the first three months of the year to make its cars, pay its sales staff and cover the other costs of running its business. Another $656 million went to spending on equipment, facilities and other capital projects, for a total of slightly more than $1 billion.

Analysts call this situation "negative free cash flow," and it helped cut Tesla's cash balance to $2.7 billion at the end of March. If the company keeps burning through its cash at the same pace, it could run out within a year and be forced to sell more of its stock or borrow money.

Tesla says it won't come to that. The company expects to take in more cash than it spends in the second half of this year. Some of that will likely be due to planned spending cuts on machinery, equipment and other capital expenses.

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DEBT

Reining in spending will help, but Tesla still faces hefty debt payments over the next 12 months.

The company has to pay back $1.3 billion in debt that comes due later this year and in early 2019. And to do so, while covering its expenses, it will have to raise or borrow $2 billion, according to Moody's analyst Bruce Clark.

Tesla's spending and reliance on debt also has analysts at Morningstar concerned.

Last month, Morningstar Equity Strategist David Whiston wrote that it's "nearly guaranteed" that Tesla will have to raise more cash.

"But if the capital markets close to them, then the recent plunge in the stock price will look trivial compared with what will happen then," Whiston wrote.

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PRODUCTION ISSUES

Tesla expects it will become profitable later this year. But that hinges on a big "if." To do so, Tesla has to ramp up production of its Model 3 electric car to 5,000 units a week. The company says it may reach that level in about two months. Just prior to a planned shutdown in mid-April, Tesla was producing Model 3s at a rate of more than 2,000 a week.

To get there, Tesla will need to smooth out problems it's encountered as it tries to make the production more automated, a process that it calls the "machine that builds the machine."

Tesla acknowledged on Wednesday that it was overly ambitious in its efforts and that it "made a mistake by adding too much automation too quickly." One example Musk gave was of a machine that placed fiberglass mats on top of battery packs. The company found that human hands are better than machines at picking up these pieces of fiberglass, which Musk said look like "fluff."

In response, Tesla stopped using the "flufferbot" and dialed back automation in other areas, bring back some human workers. That raises costs, reducing how much profit Tesla can wring out of the cars.

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INVESTOR CONFIDENCE

A big part of Tesla's share price is investors' faith in Musk.

They've poured dollars into Tesla stock on the belief that the CEO, who previously helped nurture PayPal and whose other company, SpaceX, launches rockets and spacecraft, can revolutionize the auto industry.

But some of that investor confidence may have been shaken following Musk's behavior on a conference call with Wall Street analysts on Wednesday.

At one point, as analysts peppered Tesla executives with the usual litany of questions about the company's operations, Musk dismissed the queries, saying "boring boneheaded questions are not cool." He later cut off the "dry" questions from analysts, saying "they're killing me." He then went instead to a self-described "finance nerd" who runs a YouTube channel and was asking questions on behalf of retail investors.

Wall Street did not take too kindly to the remarks.

"Investor feedback is that the performance shook confidence, which we'd argue is an important piece of the Tesla story," RBC Capital Markets analyst Joseph Spak wrote in a report.

Morgan Stanley analyst Adam Jonas called it "arguably the most unusual call I have experienced in 20 years."