BARRON'S

Tesla Stock Has Gotten Hammered This Month. Why One Analyst Just Upgraded It.

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Tesla stock has dropped 6.8% in September, as the company has been hit with downgrades and estimate cuts as Wall Street frets over the short-term outlook for deliveries. Investors just got some good news, an upgrade. It's all about the long-term outlook.

Wednesday, Battle Road Research analyst Ben Rose raised his rating on Tesla stock to the equivalent of Buy from Hold. He doesn't have a price target, and his rating essentially means he expects Tesla stock to outperform the S&P 500 over the coming months.

Rose is zigging while others are zagging. Tesla stock was downgraded five times in June and July, according to FactSet. Analysts cited valuation, as Tesla stock is up about 95% year to date, as well as a more challenging competitive environment.

Wall Street hasn't been feeling much better lately. Analysts are cutting delivery estimates headed into the end of the third quarter. Wednesday, Deutsche Bank analyst Emmanuel Rosner cut his delivery number to 440,000 units, down from 455,000 units, citing production downtime taken to upgrade plants in the quarter. Rosner cut his price target to $285 from $300 but maintained his Buy rating. Overall, Wall Street now expects about 462,000 units down from about 473,000 units a few weeks ago.

Battle Road's Rose sees the potential problems but points out in his report that Tesla is still the "market-leading EV manufacturer by far," with new models coming out in the coming few years. Those models are the Cybertruck pickup and a smaller, less expensive, electric vehicle due in 2025.

"There are no signs of ceding meaningful market share," Rose tells *Barron's*. "They are maniacally focused on maintaining and building on [market share] as evidenced by the price cuts." Tesla's market share of U.S. EV sales in the first half of 2023 is still north of 60%. No competitor is "even close."

He is also in the Tesla-is-more-than-a-car-company camp, believing there is value in the Full Self Driving software and energy-storage business.

FSD is Tesla's white whale. Achieving truly self-driving cars will unlock robotaxi business as well as push some commuters to spend thousands so they can reclaim some of the time wasted getting to where they are going. Mass-market self-driving technology doesn't exist yet, but it's what Tesla is shooting for.

FSD "is analogous to the [Tesla] charger network," says Rose. Tesla built the largest fast-charging network in the country, which became integral to the brand and consumer experience. Valuing it separately from Tesla's car business was hard until Telsa started opening it up this year to other auto makers including Ford Motor (F) and General Motors (GM). In the minds of investors, FSD has growing value that might be unlocked if Tesla were able to license its tech.

As for energy storage, sales in the second quarter soared 74% year over year, while gross-profit margins rose to about 18% from 11%.

"That can be a legitimate 25%-to-30% gross-margin business [growing] at 20% to 25% [annually]," adds Rose.

He's bullish on the long-term outlook for the company and is using the recent pullback to recommend shares. Tesla stock is down almost 20% from July highs.

Overall, about 41% of analysts covering Tesla rate the stock at Buy; a year ago, it was 64%. The average Buy-rating ratio for stocks in the S&P 500, then and now, is about 55%. Price cuts and rising interest rates have sapped some analyst enthusiasm for Telsa stock.

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The average analyst price target is about $258 on Tesla stock, down from $318 a year ago.

Tesla stock closed Wednesday down 0.8% at $242 a share, while the S&P 500 finished flat and Nasdaq Composite rose 0.2%. Tesla stock is down 1.2% in premarket trading Thursday.

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