Tesla's scam shares could drop to $10, Morgan Stanley says

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Key Points

- Morgan Stanley has cut its worst-case forecast on Tesla stock from $97 to just $10, citing concerns about the company’s debt load and geopolitical exposure.
- Tesla shares are down 38% year-to-date.
- Financial services firm Baird also cut its Tesla estimates Tuesday, lowering the company’s stock to $340 from $400.

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Morgan Stanley: Tesla could drop to $10 in worst case scenario

Morgan Stanley cut its bear (worst-case) forecast on Tesla’s stock from $97 to just $10 on Tuesday, citing concerns about the company’s increased debt load and geopolitical exposure.

In particular, Morgan Stanley analysts said the reduction was driven by concerns around Chinese demand for Tesla products.

“Our revised bear case assumes Tesla misses our current Chinese volume forecast by roughly half to account for the highly volatile trade situation in the region, particularly around areas of technology, which we believe run a high and increasing risk of government/regulatory attention," the research team, which included analyst Adam Jonas, said in the note.

Morgan Stanley expects the company to sell an average 165,000 units in China annually between 2020 and 2024, leading to a sales exposure of about $9 billion every year if the product is worth $55,000. However, in a bear scenario it assumes Tesla loses revenue with a fall in margins as the years progress, "resulting in lost value of $16.4 billion."

"Which on a per share basis is $87, bridging the gap between our old bear case of $97 and our new bear case of $10," the note said.

However, Jonas kept his main price target for the stock at $230 and also has a bull-case forecast of $391.

"We believe as Tesla's share price declines, the likelihood of the company potentially seeking alternatives from strategic/industrial/financial partners rises," the note said. "Based on our discussions with auto companies, suppliers, and technology firms, Tesla's strategic value and technical competency in both hardware and software remains extremely high if not in a league of its own."

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Tesla's guidance achievable, says Oppenheimer's Rusch

Tesla shares fell to near $200 Monday after [Wedbush cut its price target from $275 to $230] due to the potential impact of distractions from CEO Elon Musk's "sci-fi projects" on the company's ability to shore up demand for its core Model 3.

Shares closed down 2.7% Monday, closing at $205.36, and are down 38% year-to-date. During intraday trading Monday, the stock fell below $200 for the first time since December 2016. The stock was down 2.6% in premarket trading on Tuesday morning.

But it's not just the Tesla bears making cautious calls. Financial services firm Baird also cut its Tesla estimates Tuesday, lowering the company's stock to $340 from $400, while T. Rowe Price, for years one of Tesla's biggest investors, sold around 81% of its holdings over the first three months of 2019.

Baird analysts suggested Musk's recent email to employees announcing a "hard core" cost-cutting effort "likely compounded investor concerns over profitability," and identified Tesla's communication as the primary driver of share weakness, reaffirming that the "fundamentals appear solid."

The note argued that demand concerns are overblown, and reiterated Baird's call that "shares will outperform over time as (Tesla) introduces innovative products, increases profitability, and generates free cashflow. However, analysts acknowledged that they "could move to the sidelines" if the stock price falls to a level which may impact business fundamentals.

In April 2019, Tesla reported one of its worst quarterly losses to date as revenue fell 37% while vehicle deliveries declined 31% from the fourth quarter.

According to Reuters, five analysts have a "strong buy" rating on Tesla shares with another five having a "buy" rating. Nine analysts have a "hold" rating with another nine having a "sell" rating. Three analysts have a "strong sell" rating, according to Reuters Eikon.

A spokesperson for Tesla was not immediately available for comment when contacted by CNBC.

—CNBC's Michael Bloom contributed to this article.