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U.S. growth fund managers still bullish on Tesla after shares tumble

David Randall

The logo of Tesla is seen on a steering wheel of its Model S electric car at its dealership in Seoul, South Korea July 6, 2017.

NEW YORK (Reuters) - Growth fund managers who have long held shares in Tesla Inc said they were still confident in the electric car maker even after production problems sent the stock diving more than 15 percent from its all-time high.

Fund managers from Janus Henderson, Baron, and Tanaka said they still believed in Tesla, whose pricey valuation and 51 percent gain for the year to date have made it a target of noted short-sellers such as Greenlight Capital's David Einhorn and Kynikos Associates' Jim Chanos.

The stock tumbled from its record high of $386.99 after the company said July 3 that it had experienced production delays and delivered about 47,100 vehicles in the first half of the year, at the low end of its own forecasts. Tesla shares fell to $323.41 on Thursday.

"This is not the first nor the last quarterly Tesla disappointment or miss," said David Chung, a portfolio manager at Denver-based Janus Henderson funds. "I think longer-term investors like us recognize that we are still early in this sector and this is a truly special company and exceptional CEO."

Chung said the stock valuation remained reasonable based on his estimates of the company's 2020 fiscal year, in which its Model 3 sedan, now in production, will be fully ramped up.

Chung said he expected the company would sometimes miss estimates sometimes, but Musk has earned the benefit of the doubt given the quality of existing models. The company is well on track to have a significant mass market presence within the next three years, Chung added.

The first Model 3 rolled off Tesla's assembly line a few days ago, though the company has yet to announce when it will begin regular shipments of pre-ordered vehicles.

Tesla investors have high hopes for the $35,000 sedan, the company's first foray into the mass market and a key indicator of whether its electric vehicles can become popular enough to displace established rivals like General Motors Co and Ford Motor Co.

The company expects the Model 3 to help it deliver 6 times its annual volume and turn a profit.

Yet the company has also been plagued by production delays that prompted it to miss previous forecasts, leading some analysts to cut their outlook.

"We continue to be cautious relative to the potential for a slower than guided start to Model 3 assembly, and newly believe that the potential for Model3 pre-orders cancellations may increasingly become a point of investor concern," noted Ryan Brinkman, an analyst at JPMorgan, who has an underweight rating on the company and a $190 price target on its shares.

Short sellers have targeted Tesla, which analysts expect to turn its first full-year profit in 2019. Approximately 17 percent of its shares are now being shorted, according to Thomson Reuters data, a level that has remained level throughout the year even as short sellers annual losses have topped $3.8 billion.

"In terms of conviction, they seem to be very strong because they are taking it on the chin and keep on going on," said Ihor Dusaniwsky, head of research at S3 Partners, a financial analytics firm in New York.

Graham Tanaka, portfolio manager of the New York-based Tanaka Growth fund, said Tesla short sellers were not factoring in potential improvements and growth of the battery division. The company began production of Model 3 batteries at its Gigafactory in Nevada in January, which should reduce costs and improve the lifespan of batteries with greater scale of production, Tanaka said.

"They're going to be making better batteries at a cheaper price than any of the competition," he said.