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HOT STOCKS

One Way to Make Sense of Tesla's Big Valuation

A new analyst report highlights Tesla's potential in the broader world of mobility -- a \$10 trillion market.

By *Nicholas Jasinski* May 31, 2017 1:06 p.m. ET



Tesla could ultimately disrupt far more than simply the automotive market, according to one analyst. PHOTO: JOHANNES EISELE/AFP/GETTY IMAGES

Tesla, Inc. is at all-time highs once again. The Palo Alto–based electric car maker has added more than \$20 billion in market value in 2017, rising 54% since the beginning of the year.

At its current valuation, investors consider Tesla to be worth more than much larger players in the automobile industry such as GM and Ford, despite the established manufacturers' far greater sales and earnings.

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But what if car makers are the wrong comparison? On Wednesday, a new report from Morgan Stanley suggested that investors may now be thinking about Tesla disrupting not just the \$1.5 trillion global light vehicle market, but the entire

\$10 trillion global market for mobility.

"We believe the market is increasingly coming around to the idea of giving Tesla a low chance of success in a far larger addressable market (transport network, data, time) rather than a high chance of success in a smaller addressable market (cars/machines)," said Morgan Stanley analyst Adam Jonas.

According to the report, many investors believe that Tesla has the potential to become "more than just a car company," using artificial intelligence and machine learning to offer products and services in shared, self-driving, and other forms of electric transportation. This puts Tesla into direct competition with the likes of tech giants Apple, Amazon, or Alphabet's Waymo on the cutting edge of the rapidly-changing mobility market.

"The market's appreciation of applied AI in real world driving scenarios/transportation has evolved significantly over the past 12 months and Tesla is part of a much broader discussion at all levels," Jonas wrote. "In our experience, one cannot have a conversation about machine learning and the multi-trillion-\$ transport market without talking about the role of Amazon, Alphabet, Apple, or Tesla."

But competition with big tech is a double-edged sword. Jonas recently downgraded Tesla shares with a price target of \$305, below the current price of \$341.80. The risk for Tesla now is that larger and richer competitors, like Apple and Google-parent Alphabet, begin to respond with their own shared, autonomous, and sustainable transportation offerings. That might validate Tesla's mission but it could also dent its future profit and its stock.

Big Picture: Tesla's \$50 billion market value makes more sense if you think of the company not as just a car maker but as a future player in all manners of getting around.

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