

TESLA MOTORS

Q3 2016 RESULTS

Investment thesis

- Tesla is a successful niche manufacturer of high-performance electric vehicles and enjoys a globally leading position in the field of vehicle electrification.
- In our view, the main question relates to Tesla's ability to become a successful mass-market manufacturer (Model 3 will be a mass-market model and is scheduled for 2017).
- Superior batteries are a key success factor, and we believe Tesla's batteries are ahead of its competitors'. However, competition is intense and it remains unclear which technology, or whose, will prevail.
- In our view, Tesla's upside would be significant if it were to become a major volume manufacturer. However, we see many challenges for Tesla, including its trajectory to positive free cash flow (cash burn remains high), engineering challenges, production-ramp delays and intense competition.

Q3 sales

- Revenues grew 145% y/y to USD2.30bn (4% above consensus [cons.]). Automotive revenues came in at USD2.15bn (+152% y/y), with net orders up 68% y/y (combined Model X and Model S orders). Service and other revenues grew 78% y/y (+70% q/q) to USD150m on rising used vehicles and stationary storage products sales.
- The company delivered 24,821 vehicles (slightly higher than its October announcement) in Q3, with the average selling price of Model S down 7% q/q (on the introduction of 60 kilowatt hour models) and that of Model X down 1% q/q. The number of cars leased to customers was 2,934 (up more than 1.5x q/q).

Q3 profits

- Adjusted (adj.) automotive gross profit excluding zero-emission-vehicle (ZEV) credits came in at USD502m (+166% y/y). The margin expanded 180bps y/y (+140bps q/q on improved efficiency and higher production volumes) to 25.0%. The services and other gross margin expanded sequentially to 3.4% (vs. 2.5% in Q2).
- Adj. profit per share came in at USD0.71 (vs. a loss of USD1.35 in Q3 2015 and cons. of a loss per share of USD0.22).
- Adj. cash flow from core operations came in at USD597m (vs. an outflow of USD40m in Q3 2015).

Management guidance

- For 2016, management continues to expect the automotive gross margin excluding ZEV credits to expand 2%-3% y/y. However, the company lowered its capital expenditure guidance to USD1.8bn (vs. USD2.25bn previously).
- For H2 2016, management expects to deliver ca. 50,000 units of new vehicles. For Q4 2016, it expects positive GAAP net income (excluding non-cash stock-based compensation), despite expected negligible Q4 ZEV credit sales.

	Reduce
Stock rating (relative)	
New price target	USD 180.00
Previous price target	USD 220.00
Closing price	USD 183.77
Return potential	-2.05%
MSCI ESG rating*	AAA
MSCI ESG Controversies**	●
Risk rating	High

* as of 31 October 2016

** Yellow

Company profile

Tesla, incorporated in 2003 and based in Palo Alto, California, is an American company that designs, manufactures and sells electric cars and electric vehicle (EV) powertrain components. The company's models include Tesla Roadster Model S and Model X.

Performance



Source: FactSet, Julius Baer

SWOT ANALYSIS

Strengths

- First-mover advantage and significant technological lead (with Model S) over its competition
- Existing and planned supercharger network, which encourages adoption by making long-distance travel possible
- Success of Model S, with positive reviews and highest owner-satisfaction ratings; strong product line-up, which includes a crossover utility vehicle (Model X) and a low-priced EV (Model 3)

Weaknesses

- Model S cars catching fire because of lithium-ion battery cells in battery packs
- High operating costs and inability to generate positive free cash flow
- Significant capital outlays required for its Gigafactory investment

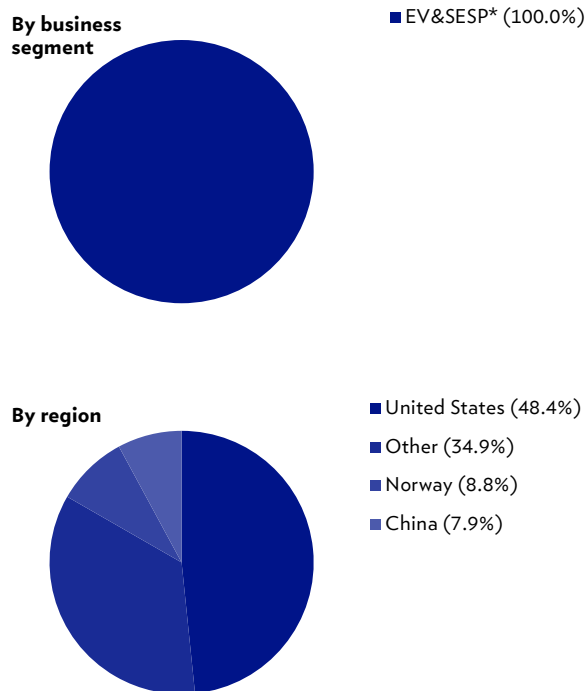
Opportunities

- Gigafactory, which is expected to reduce battery pack costs significantly, allowing Model 3 to go mass market
- Stationary energy system storage applications offers a multi-billion dollar market opportunity
- International market expansion by entering the right-hand drive market

Threats

- Declining gasoline prices, which could reduce the demand for EVs
- Competition from the overall automobile market, hybrid EVs, all-electric, and other manufacturers of luxury vehicles
- Challenges to Tesla's direct-sales model in the US

Sales segmentation (FY 2015)



Source: FactSet

* EV&SESP - Electric Vehicles, & Stationary Energy Storage Products

FACTS & FIGURES

Consensus rating

Buy	Hold	Sell
4 analyst(s)	8 analyst(s)	6 analyst(s)
Consensus target (USD)		226.31
Consensus target return potential (%)		23.15
Market capitalisation (USDbn)		27.55
Free float (%)		76.22
Beta		1.18
Average Daily volume (m)		4.42
52-week high (USD)		265.42
52-week low (USD)		143.67
Exchange		NASDAQ
Ex-dividend date		-
Results date		15 February 2017
Standard & Poor's rating		B-
ISIN		US88160R1014

Financials

	2014	2015	2016E*	2017E*
Sales (USDm)	3,599	5,292	7,003	10,342
EBIT (USDm)	52	-209	-102	168
EBIT Margin (%)	1.46	-3.95	-1.46	1.63
EV/EBITDA (x)	99.42	154.16	37.49	23.91
Adjusted EPS (USD)	0.16	-2.30	-1.90	-0.30
EPS growth (%)	-79.49	-	-	-
P/E (x)	-	-	-	-
P/B (x)	30.66	28.97	-	-
Dividend yield (%)	-	-	-	-
Net debt/equity (%)	61.28	152.13	-	-

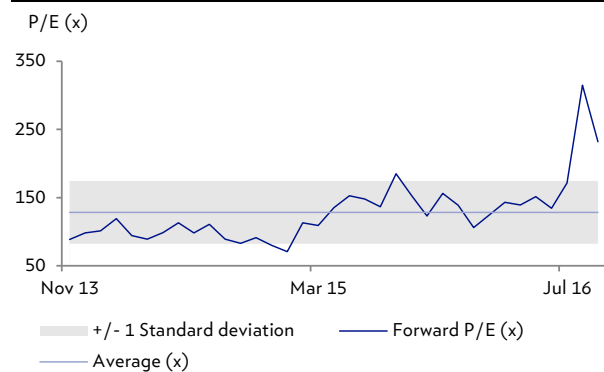
* Estimates

- Implies not available/not meaningful

Source: FactSet

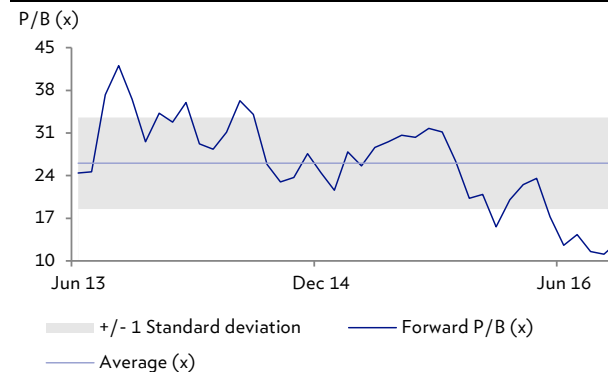
CHARTS & FINANCIAL DETAILS

12-month forward P/E (Nov 2013 - present)



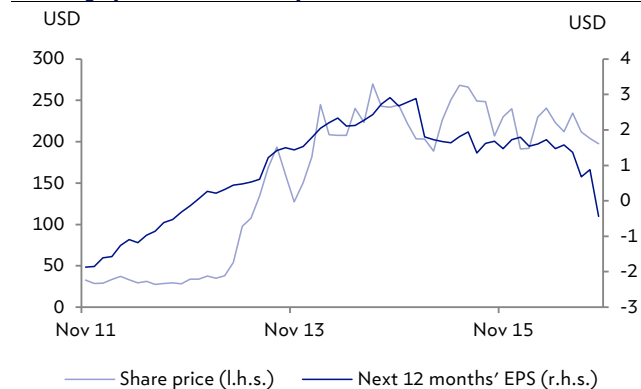
Source: FactSet

12-month forward P/B (June 2013 - present)



Source: FactSet

Earnings per share versus performance



Source: FactSet

Valuation ratios (x)

	2013	2014	2015	2016E*	2017E*
P/E	132.83	-	-	-	-
P/B	27.76	30.66	28.97	-	-
P/S	6.26	9.27	6.51	3.93	2.66
P/CF	66.00	-	-87.67	55.67	28.68
EV/EBITDA	88.14	99.42	154.16	37.49	23.91
EV/EBIT	-	-	-	-	171.06
Dividend yield (%)	-	-	-	-	-

* Estimates

- Implies not available/not meaningful

Source: FactSet

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IMPRINT

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CAGR	Compound annual growth rate	Consensus rating	Consensus rating indicates the analysts' opinions on the security. It shows the number of analysts covering the security and the breakdown between Buy, Hold and Sell ratings.	Consensus target	The consensus target is the average price to which analysts expect the security to rise.
DCF	Discounted cash flow	EBIT	Earnings before interest and taxes	EBITDA	Earnings before interest, taxes, depreciation and amortisation
EPS	Earnings per share	EV	Enterprise value	FCF	Free cash flow
FY	Fiscal year	MV	Market value	P/B	Price-to-book value
P/CF	Price to cash flow	P/E	Price-to-earnings ratio	P/S	Price to sales
PEG	P/E divided by year-on-year EPS growth	ROA	Return on Assets	ROE	Return on equity

Equity rating allocation as of 17/11/2016

Buy	31.10%	Hold	65.32%	Reduce	3.58%
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Equity rating change history as of 17/11/2016

Company	Rating	History
Tesla Motors	Reduce	Since 17/11/2016
	Hold (initiation of coverage)	Since 18/11/2015

Rating system for global Equity Research

Buy	Expected to outperform the MSCI regional industry group by at least 5% in the coming 9–12 months, unless otherwise stated.
Hold	Expected to perform in line ($\pm 5\%$) with the MSCI regional industry group in the coming 9–12 months, unless otherwise stated.
Reduce	Expected to underperform the MSCI regional industry group by at least 5% in the coming 9–12 months, unless otherwise stated.

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Flag	Flag description
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