

TESLA MOTORS

Q1 2017 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.

Q1 sales

- Revenues grew 135% y/y to USD2.7bn (vs. consensus [cons.] of USD2.6bn). Automotive revenues came in at USD2.3bn (+123% y/y). Energy generation and storage reported revenues of USD214m (vs. USD23m in Q1 2016 and USD131m in Q4 2016) and service and other revenues surged 96% y/y (+21% q/q) to USD193m.
- Tesla delivered 25,051 vehicles in Q1, reflecting growth of 69% y/y (+13% q/q) led by ongoing, though slow, growth in Model X deliveries and modest growth in Model S.

Q1 profits

- Tesla reported gross profits of USD668m (vs. USD252m in Q1 2016), with a margin expansion of 280bps y/y to 24.8%, (ahead of cons). Automotive adjusted (adj.) gross profits, excluding stock-based compensation and zero-emission-vehicle credits, came in at USD637m (vs. USD196m in Q1 2016). The adj. automotive gross margin expanded 760bps y/y (+560bps q/q on better average transaction prices, along with recognition of autopilot revenues related to cars delivered in Q4) to 27.8%. The energy generation and storage gross margin increased 8.8ppt y/y (+26.4ppt q/q) to 29.1%.
- Adj. loss per share came in at USD1.33 (vs. adj. loss of USD1.46 in Q1 2016 and cons. loss per share of USD0.82) due to higher operating costs.
- Tesla reported cash burn of USD620m (ca. USD440m excluding collateralised borrowing), which came in 30% better than cons., due to lower-than-expected capital expenditure.

Management guidance

- For H1 2017, Tesla reiterated its delivery target of 47,000-50,000 and is on track for its Model 3 production launch in July. For Q2 2017, it expects the adj. automotive gross margin to decline ca. 250bps y/y and operating expenses to be flat to slightly up q/q.
- Management reduced its year-to-date capital expenditure guidance to slightly above USD2.0bn (vs. USD2.0bn-USD2.5bn previously).

	Reduce
Stock rating (relative)	
New price target	USD 250.00
Previous price target	USD 200.00
Closing price	USD 321.26
Return potential	-22.18%
MSCI ESG rating*	AAA
MSCI ESG Controversies**	●
Risk rating	High

* as of 30 April 2017

** 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



	1 month	3 months	6 months	12 months
Absolute return	6.19%	19.34%	69.03%	53.77%

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

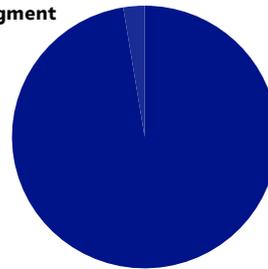
- Gigafactory, which is expected to reduce battery pack costs significantly, allowing Model 3 to go mass market
- Stationary energy system storage applications offers a multi-billion dollar market opportunity
- International market expansion by entering the right-hand drive market

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

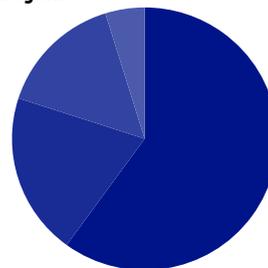
Sales segmentation (FY 2016)

By business segment



- Automotive (97.4%)
- Energy Generation & Storage (2.6%)

By region



- United States (60.0%)
- Other (20.0%)
- China (15.2%)
- Norway (4.8%)

Source: FactSet

FACTS & FIGURES

Consensus rating

Buy	Hold	Sell
9 analyst(s)	8 analyst(s)	7 analyst(s)
Consensus target (USD) 260.89		
Consensus target return potential (%) -18.79		
Market capitalisation (USDbn) 52.40		
Free float (%) 71.40		
Beta 0.86		
Average Daily volume (m) 4.67		
52-week high (USD) 322.83		
52-week low (USD) 181.45		
Exchange NASDAQ		
Ex-dividend date -		
Results date 9 August 2017		
Standard & Poor's rating B-		
ISIN US88160R1014		

Financials

	2015	2016	2017E*	2018E*
Sales (USDm)	5,292	7,000	11,499	19,249
EBIT (USDm)	-209	-317	-497	37
EBIT Margin (%)	-3.95	-4.53	-4.33	0.19
EV/EBITDA (x)	-	61.80	51.36	26.60
Adjusted EPS (USD)	-2.30	-2.87	-5.16	-0.82
EPS growth (%)	-	-	-	-
P/E (x)	-	-	-	-
P/B (x)	28.97	7.26	-	-
Dividend yield (%)	-	-	-	-
Net debt/equity (%)	155.99	107.16	-	-

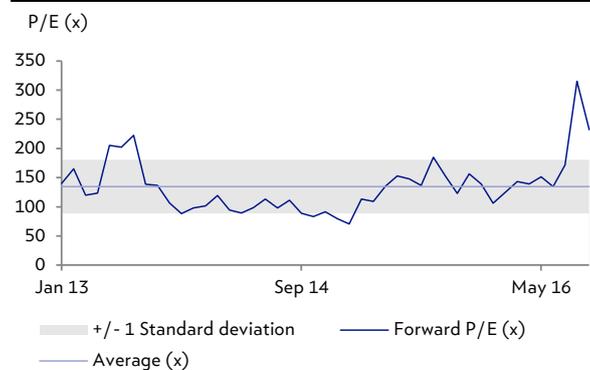
* Estimates

- Implies not available/not meaningful

Source: FactSet

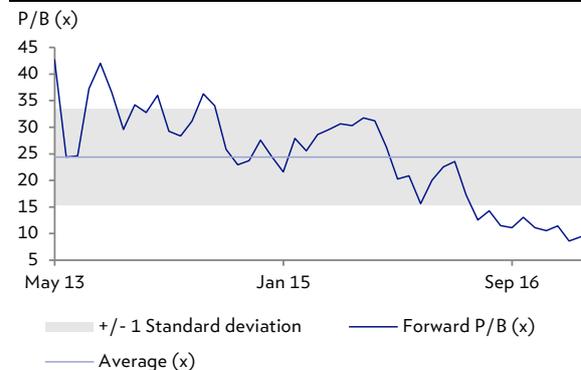
CHARTS & FINANCIAL DETAILS

12-month forward P/E (Jan 2013 – Sep 2016)



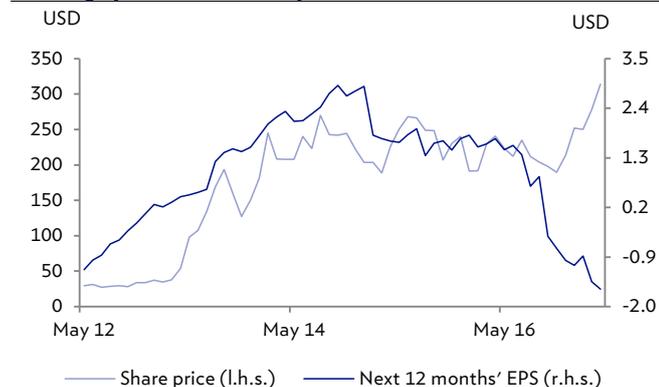
Source: FactSet

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



Source: FactSet

Earnings per share versus performance



Source: FactSet

Valuation ratios (x)

	2014	2015	2016	2017E*	2018E*
P/E	-	-	-	-	-
P/B	30.66	28.97	7.26	-	-
P/S	10.09	7.09	4.89	4.56	2.72
P/CF	-	-87.67	-	-	33.79
EV/EBITDA	99.42	-	61.80	51.36	26.60
EV/EBIT	-	-	-	-	-
Dividend yield (%)	-	-	-	-	-

* Estimates

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Source: FactSet

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Terms and abbreviations

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 10/5/2017

Buy	31.5%	Hold	65.4%	Reduce	3.0%
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Equity rating change history as of 10/5/2017

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 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 regional industry group in the coming 9–12 months, unless otherwise stated.
Reduce	Expected to underperform the regional industry group by at least 5% in the coming 9–12 months, unless otherwise stated.

Frequency of equity rating updates

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Risk rating system for global Equity Research

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Flag	Flag description
●	A red flag indicates recent very serious and/or extremely widespread controversies on a particular issue. Such a flag is also assessed when the problems are systemic or repetitive or indicate wilful negligence.
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●	A yellow assessment indicates significant concern, where the impact on the relevant stakeholders is high.
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