Creative Global Investments

TSLA (NASDAQ: TSLA $321.08 - $10.45) Sell/short

3 – 9 Mo TP $215

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Tesla yesterday reported disappointing Q3 results, with Q3 revenues of nearly $3Bn slightly beating Wall Street's expectations, however citing manufacturing bottlenecks contributing to a loss of $619Mn for Q3, well below estimates.

Tesla continues to burn through cash, and said it expected capital expenditures of $1Bn in Q4, bringing its total investments for the 2H 2017 to $2Bn. And with only about $3.5Bn in cash entering Q4, wee see Tesla facing heavy new demands for cash given the delays with the Model 3 and plans for additional new models.

Although so far, Tesla has build and delivered 250,000 cars since its re-stat under Elon Musk, and the total sales are 100 times higher than it produced annually before Elon Musk revitalized the brand, Tesla in our opinion is far from being a credible volume OEM.

And just as we were predicting, the high volume production model 3 is the beginning of Elon Musk's learning curve of what Tesla will encounter by expanding from high-end high profit margin niche products like the Tesla S and Tesla X to a consumer friendly product like the Model 3. And although for Q3 Tesla's 18.3% gross automotive margins were higher than expected, this will rapidly change as the volume of production will shift to the low priced Model 3.

And with this volume/model/revenue mix changing dramatically for TSLA over the next 4 – 6 quarters, the complexity and frequency of supply chain problems and manufacturing delays and margin squeezes will become much more of a topic that Mr. Musk and investors will have to worry about.

The "most significant problems" that Musk identified for Q3 were coming from "the innovative and cost effective battery technology production", which Tesla uses for the high-volume production of the low-priced (MSRP $35,000 Model 3). Mr. Musk conceded that technology subcontractors are allegedly causing the problems for the bottlenecks for the ramp up production of the Model 3.

He noted that TSLA's R&D and production department had to "re-write from scratch the equivalent of 20 – 30 man years of software, and this in 4 weeks". Elon Musk said that the delays were partially due to a subcontractor, not Tesla, but that he takes full responsibility for them as CEO for Tesla.

Tesla now doesn't expect to ramp up Model 3 production to a weekly rate of 5,000 until March 2018. Musk also declined to commit to a timeline for reaching the targeted 10,000 Model 3 units a week, which will be a minimum for Tesla to make the Model 3 a financially sustainable product, eventually leading to overall profitability contribution for Tesla.

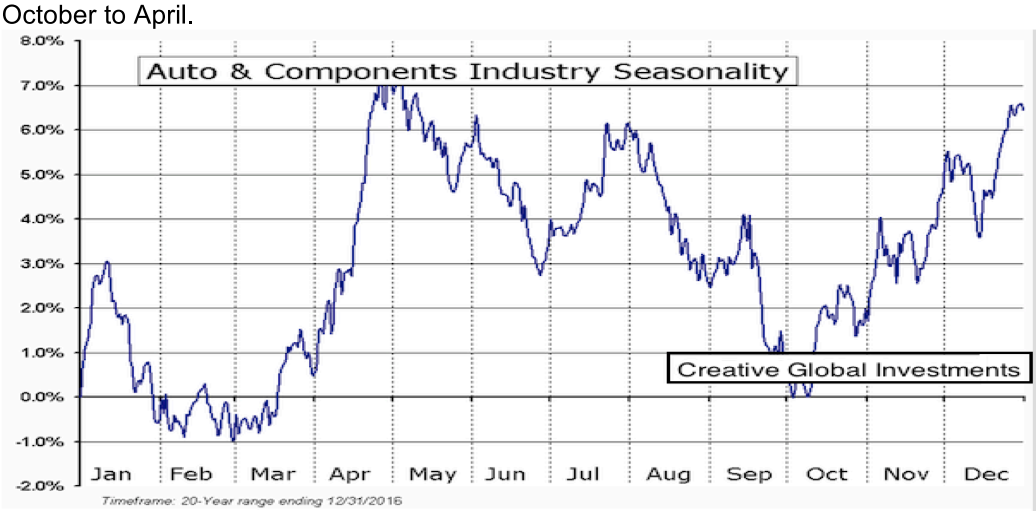
We had sensed something was not according to guidance a month earlier, when Tesla said it had been able to manufacture a mere 260 Model 3's in Q2, (short by -87% or -1740 vehicles of its 2,000 units production target).

Elon Musk reveled that the bottleneck was due to the carmaker assembling the vehicle by hand. (Henri Ford must have turned over laughing all day in his grave after that commentary). TSLA shares dropped more than -5% after hours yesterday to $308/sh.

We have been recommending to Sell/Short TSLA shares since mid June 2017, when we were visiting European and US Institutional investors presenting our 2H Global Investment Outlook & Strategy.

With a particular focus on the global automotive sector and preluding the bi-annual most important IAA (International Auto Show in Frankfurt, where Tesla failed to exhibit) we were anticipating problems in production that TSLA were to encounter with the high-volume ramp up of the Model 3.

The global Auto & Components Sector, which we had been recommending to underweight since early May had been declining since, just as as we were forecasting, to its bottom in the 2nd week of August. We then upgraded the sector to overweight, as the Auto & Components Industry tends to realize the strongest months of the year from October to April.



On June 20th TSLA shares were at $372/share, and we were since recommending for inventors to Sell/Short TSLA shares (-13.7% from June 20th). TSLA has

underperformed the Global Auto Sector and the US OEM's both an absolute and a relative performance. Today, we are re-iterating our Sell/Short recommendation on TSLA at current levels of $321/share maintain our target price for TSLA shares of $215 over the next 6 – 9 months.

Unlike the rest of the sector, TSLA's short-to-medium-term chart technical outlook for is negative.

Both RSI and MACD (extremely overbought still) are sloping down. TSLA shares have formed a double top at $390/share, and since, TSLA shares' base has breaking down.

If the 200MVA gives way, which we see highly likely, then we see TSLA shares likely breaking the $300/share psychological support, and see increased risks for TSLA shares to collapse towards $215/share long-term support levels.

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