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Tesla: Fire Spotted, But Not On Cars!

Tesla (TSLA), a component of our Sustainable Future certificate, surprised Street's analysts by reporting a **Q3 profit of \$143 million**. The California-based company did quite well on several fronts:

- Delivered a record of 97'000 cars;
- Improved GAAP automotive gross margin by 366bps Q/Q to 22.8%;
- Increased its cash balance to over \$5.3bn;
- Built the Shanghai Gigafactory in 10 months (ahead of schedule) and started trial production;
- Model Y production expected to begin during the summer of next year, ahead of schedule.

While the company has to deliver 105'000 cars in the next quarter to meet its annual target, yesterday's report provides a breath of fresh air after a tumultuous first half of the year.

The most exciting piece of news that came out from the earning conference call might not be related to car sales, nor profits, nor improved margins. In our opinion, the most significant opportunity that could keep Tesla stock on fire for the foreseeable future is the **Tesla Energy** segment. Energy storage grew by 15% Q/Q to an all-time high of 477 MWh, and solar deployment bounced back by 48%, after a long period of decline, reaching 43 MW.

We believe this is just the beginning...in fact, during the past 18 months the company focused almost exclusively on the optimization and ramp-up of Model 3, a key to the company's survival.

As commonly said, the man who chases two rabbits catches neither (Confucius). Now that production of the Model 3 is on a good track, Tesla is likely to redirect resources to its Solar and Storage solutions. Elon Musk even expects the Energy segment to be "**of the same or roughly the same size as Tesla's automotive sector or business**" and foresees "**really crazy growth**" for both its solar and storage markets.

While Tesla did not invest a lot of effort into selling solar products, it focused on cutting down customer acquisition costs by removing costs related to site survey & roof inspection and focus on online sales channels instead of physical retail stores. These efforts helped bringing down its customer acquisition costs to \$0.40 per watt in the last half of 2018, well below the price of the two leading US solar residential providers: **Sunrun (RUN)** (\$0.90 per watt) and **Vivint Solar (VSLR)** (\$0.94 per watt) according to Woodmac.

The Tesla solar offer includes traditional-style solar panels as well as its "**Solar Roof**" solution, integrating photovoltaic cells with roof tiles. The company is launching the new version of the solar roof tiles, the Solar Roof V3 (improved longevity notably), a well-timed release within a bullish US solar market. Indeed, starting next year, all newly built homes (under three stories high) in California will need to integrate solar panels, making it a new market of 75'000 homes (about 222 MW per year according to the California Energy Commission). Another catalyst might come with the possible 5-year extension of the 30% Investment Tax Credit (ITC) on solar systems (for more information read our previous note: [A Tax Credit Extension to Brighten Up Solar Future?](#)).

The new nomination of Dan Brouillette as head of the US Department of Energy (DOE), replacing Rick Perry, who was forced to resign due to his involvement in the "Trump-

Ukraine scandal” represents another major catalyst. Dan Brouillette is arguably more pro-renewables than his predecessor as he was as a key figure in drafting the 2005 Energy Policy Act (the law which, among others, granted ITC to solar systems).

All in all, we believe that we are at only at the beginning of what will be a **super-fast growth phase** in the solar industry in which Tesla will play an increasingly essential role.

We remind our investors that Solar Energy together with Energy Storage account for roughly **35% of our exposure** in the **Sustainable Future Certificate** and that we remain bullish on Tesla, not as an automaker, but as a provider of solutions to “accelerate the world’s transition to sustainable energy” (as per official Tesla’s mission statement).

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