Stock Analysts See Tesla Exploding Battery Problem as Fatal

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How The Better Place Bankruptcy Is Relevant To Tesla's Achilles' Heel: Lack Of Charging Infrastructure

BY SEEKING ALPHA

Tesla (TSLA) has been on a tear in terms of stock price. We believe that it is running mostly on 'hopium' recently. Tesla also passed by the market cap of Fiat (FIATY.PK). We strongly believe that the fundamental Achilles' heel of Tesla is its lack of charging infrastructure. This Achilles' heel is appearing in our view to be a white swan, something which investors do not necessarily pay much attention to, but which is obvious to many later. This Achilles' heel can be seen by the recent bankruptcy of the very well funded company (Morgan Stanley, UBS, General Electric, HSBC, others) which focused on charging electric cars, called 'Better Place':

"This is a very sad day for all of us. We stand by the original vision as formulated by Shai Agassi of creating a green alternative that would lessen our dependence on highly polluting transportation technologies. Unfortunately, the path to realizing that vision was difficult, complex and littered with obstacles, not all of which we were able to overcome."

If a company receiving investment of over $850 million for grand infrastructure projects can not make it, why is it possible for Tesla to make it when there is next to no charging infrastructure in the USA or any other country for that matter? Why did this company go bankrupt? Lots of reasons, but it essentially boils down to still a lack of a demand for electric vehicles due to high prices and lack of charging infrastructure, two problems Tesla is still stuck with. We learned this from our research into the recent bankruptcy of Better Place:

"Because the technology has still not matured. If there was currently on the market a compact and light battery at a reasonable price that could provide cars with a driving range of 400 kilometers, then the electric car would become a global hit. In practice, the presently available batteries for electric vehicles are enormous, weighing the same as two passengers, and require advanced cooling solutions to prevent them from exploding, consume a rare raw material (lithium) and exotic technologies with a limited lifespan costing the price of half a car."

We believe fundamentally at this point or in the near future, Telsa has no ability to buy any companies such as Fiat due to their low cash position of a measly $214.42M for a $10.5 billion+ company. We strongly believe that Tesla can not make it big till they are able to truly solve the problem of lack of any major charging infrastructure in the USA, or any other major markets for that matter which they are looking to make it big in. Our main thesis is that Tesla lacks fundamental infrastructure in charging and that until an outside player will finance such systems, Tesla will be relegated as an impractical second tier player. There is simply not enough demand for these products at these prices and not enough infrastructure:

"the electric vehicle business is a little premature at the moment," says Andrew Frank, a University of California, Davis, professor of mechanical and aeronautical engineering, adding that the main reason for this is the lack of a sufficient charging infrastructure and an unclear plan for who will end up paying for it. Frank cautions that car companies should not expect the public to pitch in. One way to kill the electric car (again) is to ask the public to invest a lot of money in the infrastructure, he says."

The calls recently for a buyout of Fiat by Tesla are reminding us greatly of the dot com bubble when AOL (AOL) bought Time Warner and it was one of the most disastrous mergers ever. We also believe that Tesla has not enough charging infrastructure and that this problem is still Tesla's major Achilles' heel. We see no proof of even minor acceptance of these types of products by the American population yet:

"It's not like people are clamoring for these vehicles," said Rebecca Lindland, analyst with Rebel Three Media, and member of a committee studying barriers to electric cars for the National Academy of Sciences. Lindland said her view that Americans "just don't see how an electric car can fit into their lifestyle. We continue to be risk-averse in investing in new technology in our cars. Mike Van Nieuwkuyk of the research firm JD Power & Associates said more people are aware of the electric cars on the market "but there is still a low number of consumers who say they would purchase an electric car."

As a CNN Writer recently phrased it in terms of lack of charging ability:

"Even after overlooking all the Model S' objective blemishes .....electric vehicles lack a national infrastructure of charging points, accessible cross-country range and remain cost prohibitive for most consumers. These are major hurdles, preventing tens of millions from even considering vehicles like the Model S. Don't feel sorry for just the electric crowd, either. ..... According to the U.S. Department of Energy, there are more than 5,800 electric charging stations in the United States, but just two public charging stations in North Dakota, and zero in Wyoming (Tesla plans to have a nationwide network of its so-called Supercharger stations within a couple of years). I don't need to remind anyone that gasoline for combustion vehicles is as readily available as pasteurized milk, and still less expensive."

We are therefore very skeptical of this so called electric car market, especially in the US where there is almost no infrastructure to be able to charge the vehicles.

It reminds us of all the optimistic calls on the so called AOL Time Warner disaster which was the one of the most disastrous or the most disastrous merger ever:

"The Internet, it was believed, was soon to vaporize mainstream media business models on the spot. America Online's frothy stock price made it worth twice as much as Time Warner's with less than half the cash flow."

We believe very overly optimistic figures are being touted by Morgan Stanley (MS) - which also was one of the major underwriters of the company's IPO and recent offerings:

"Jonas reiterates that this Tesla is valued on a 15-year DCF (future cash flow and discounts) and that its "valuation multiples do not begin to make sense until at least 2015."

A senior editor of Edmunds recently stated the following about the lack of charging infrastructure:

"More important, said Kavanagh, is that the US electric power system cannot support large numbers of electric vehicles which need constant charging. The US power grid is not capable of supporting that," he told AFP. "You would need a multitude of small nuclear power stations to support that recharging. Chevrolet cut production of its Volt last year amid soft demand, and is reported to be working on a less expensive version. Toyota and Honda also scaled back plans for all-electric vehicles for the US market. And Chrysler chief executive Sergio Marchionne said recently the company stands to lose $10,000 on every battery-powered Fiat 500 it sells in California."

Morgan Stanley (overly optimistic) projections:

(click to enlarge)

In conclusion, we believe that the Better Place bankruptcy is highly relevant to two major problems Tesla still faces: lack of charging infrastructure and lack of demand. We still do not know yet that Tesla is even a real, viable company, but many investors are taking very big risks in assuming so.

With the lack of ability to have charging infrastructure yet in such a big market as the US, we are very skeptical for all the reasons above. We also think it is way too early to start comparing Elon Musk, CEO of Tesla to Lee Iocacca. Keep in mind that "Tesla has posted a net loss of more than $800 million in the past three full years combined."

We believe that in the long term there will be trouble ahead for Tesla and its Achilles' heel in lack of charging infrastructure. It is best summed up by the failure of the electric car company 'Better Place' in these words:

"Setting up and managing a chain of battery exchange stations requires a huge investment in an infrastructure, which grows in proportion to the geographical area to be covered. It can perhaps be done as a government project but for a private company this solution requires very deep pockets and investors with stamina for the long run, and the belief that the revenue will eventually cover the expenses. Shai Agassi found investors like this to begin with, but they did not last the course."