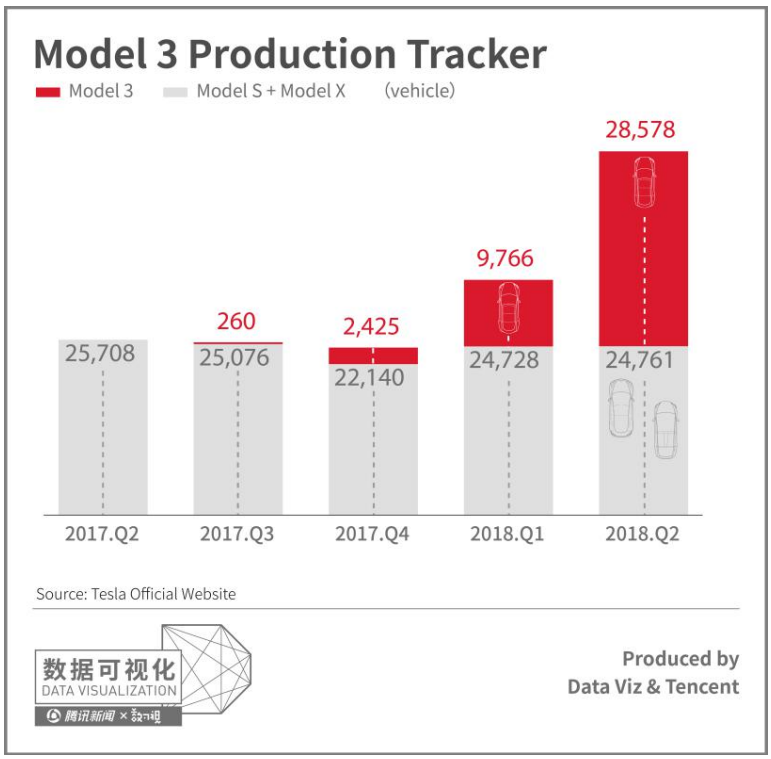
"Homemade Tesla" May Be $40,000 Cheaper, Would You Wait for It?

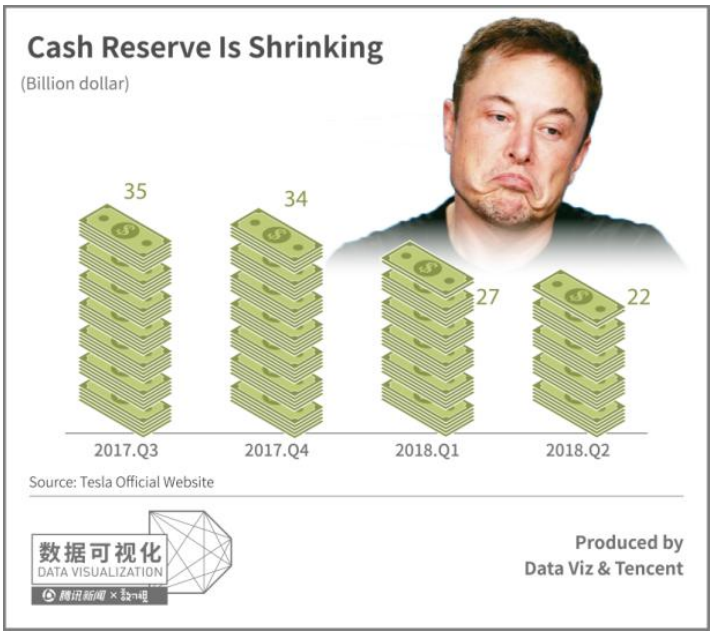
Tesla posted its second quarter financial report on August 1st, 2018. This Silicon Valley based tech company announced that it eventually reached the goal of producing 5,000 Model 3 per week, though it had been through production ramp for several times. The plan of building a factory in China has also been confirmed in the report.

Model 3 Output Increases Two Times than Last Quarter

Tesla achieved its target, namely "producing 5,000 Model 3 weekly", in late July. Before the release of financial report, Tesla had made an announcement that the output of Model 3 which increased twofold than last quarter had climbed to 28,578 vehicles in the second quarter. It exceeded the overall production of Model X and Model S which remained stable. Supervised by Elon Musk, Tesla then ambitiously targeted at producing 6,000 Model 3 vehicles per week.



But for the so-called Iron man of Tesla, the happiness is accompanied by the decreasing of cash flow. By the end of the second quarter, the cash reserve has declined to $2.2 billion, meaning that Tesla has spent nearly $500 million in just last quarter.

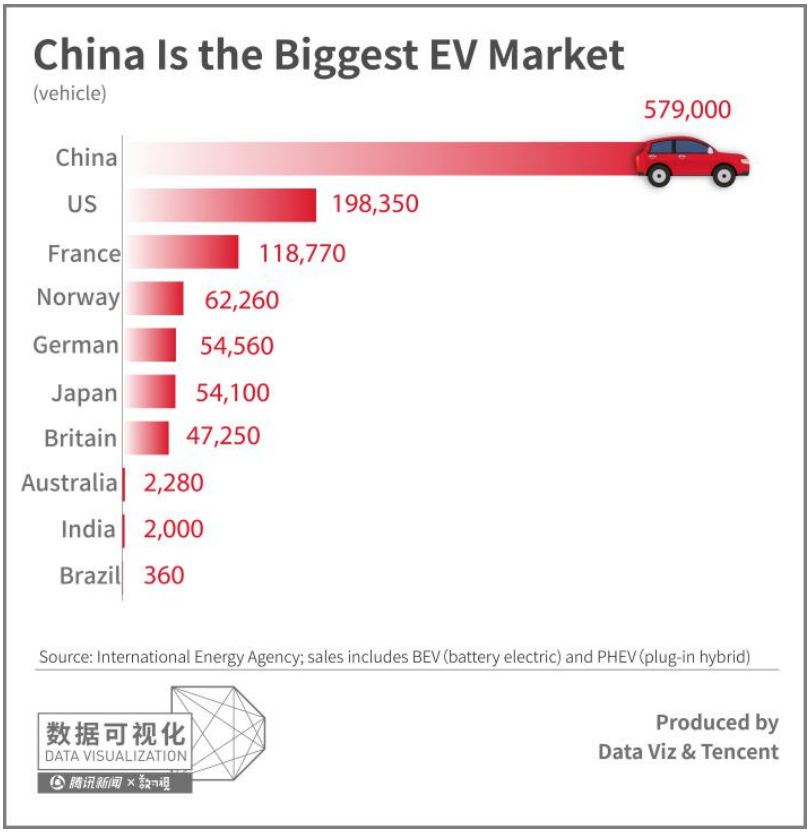


Overcome the "bottleneck" of production, Tesla is now facing another big barrier: profit. Although the income has been slowly climbing, but it is suggested by the report that the company is still losing money. The gap of net loss has broadened to $742.7 million from $401.4 million in the same period of last year, slightly better than the number of last quarter ($784.6 million).

Capacity of Shanghai Factory to Be at Least 250,000 vehicles annually

However, Tesla didn't stop expanding its market territory amid the non-stop loss. In early July, Musk went to Shanghai and signed an agreement about building factory in China.

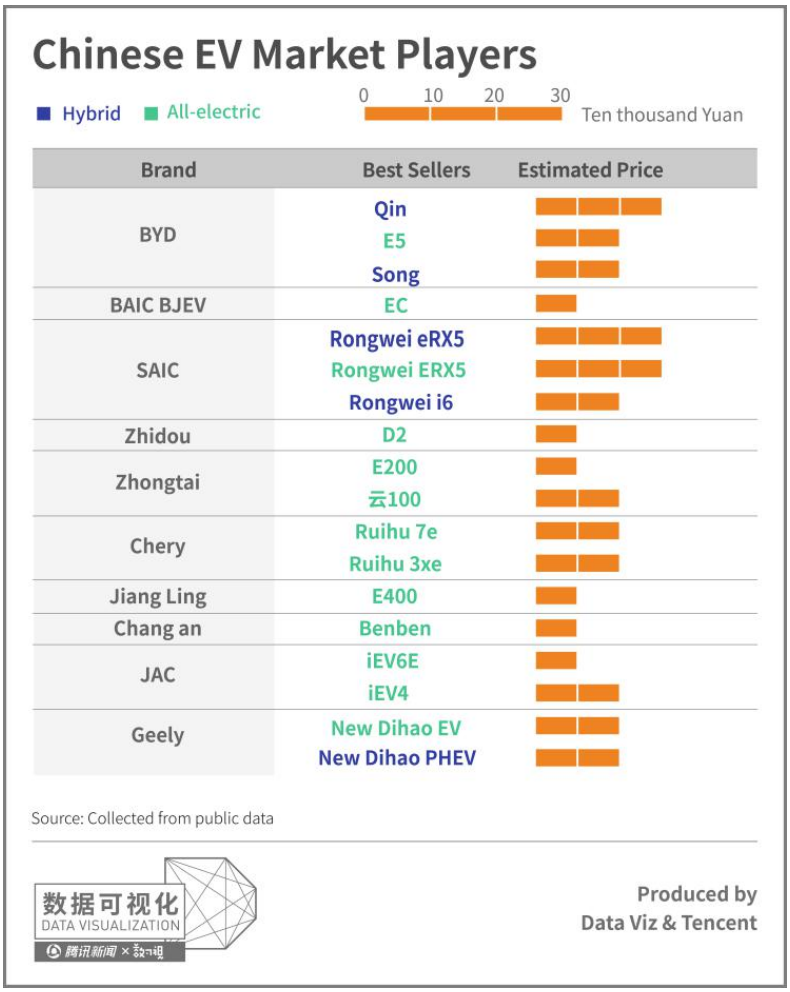
The financial report further explained this agreement. Much of the initial investment will be funded by local debt. Initial capacity is expected to be roughly 250,000 vehicles per year, and will grow to 500,000 within three years.



According to Tesla, vehicles produced at the Chinese factory will cater to the growing local need, while the US manufacturing will not be affected. The main purpose of building Gigafactory 3 in Shanghai lies in China's huge electric vehicle market, the biggest in the world with 580,000 vehicles sold in 2017, roughly 3 times than America, according to the statistics from International Energy Agency.

Before the Shanghai factory is established, however, imported cars from the States will be charged 40 percent tariff due to the recent trade war between America and China.

On the other hand, electric vehicle market in China has been occupied by domestic brands. Thanks to subsidies, retail prices of local new energy automobiles are mostly under 300,000 yuan ($43,400), which is far lower than Tesla.



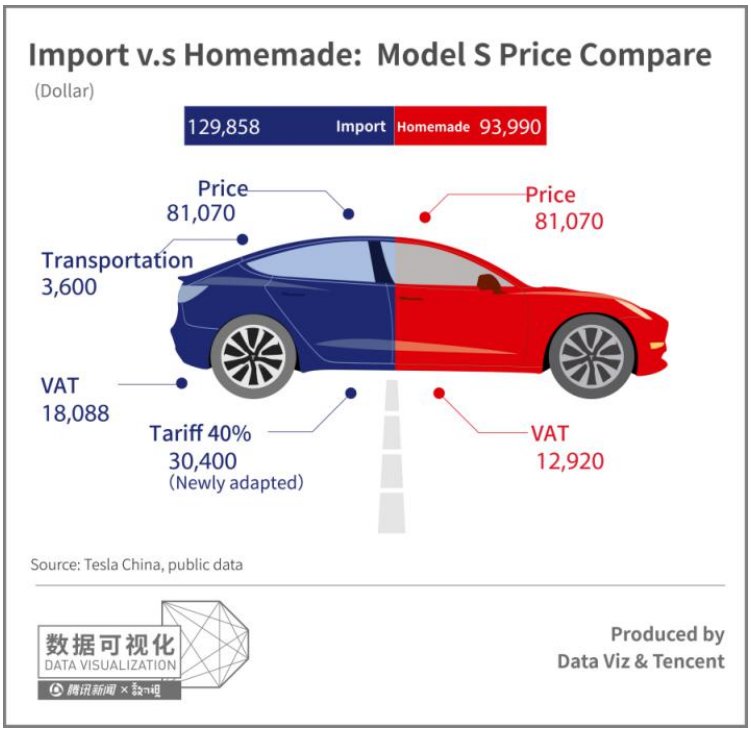
On the official website of Tesla in the States, Model 3 is sold at a price from $50,000 to $70,000, and the SUV Model X from $80,000 to $160,000, Model S from $70,000 to $150,000. They obviously have no advantages in price compared with their future "home-made" equivalents in China.

According to a research report from Jinritoutiao, a news aggregation app of the tech giant ByteDance, BMW 3 Series, Benz C-Class, Audi A4 and Tesla Model 3 share most of the similarities. Therefore, Tesla's Chinese competitors are more likely to be these non-electric vehicles in the same price range.

Maybe $40,000 Cheaper After Building Factories in China

To what degree would consumers benefit from the plan of building factories in China? Take a U.S-made Model S to be sold in China as an example. After covering expenses for transportation, 40 percent of tariff and value-added tax, Chinese consumers need to pay about $140,000 for a Model S, nearly two times about the price $80,000 in America.

Due to Tesla's unique charging system, it is not included in the List of Vehicle Purchase Tax-Free New Energy Vehicle Model in China. Therefore, Chinese consumers have to pay purchase tax accounting for roughly 10 percent of the price.



On the other hand, if directly buying a Model S from the Shanghai factory, consumers can not only save $3,600 for transportation but also avoid a 40 percent tariff (about $30,400). Value-added tax (VAT) will also be reduced. In this way, a "homemade" Model S can save approximately $36,000 for Chinese consumers.

A Tesla made in China is expected to have obvious price advantage, but it's expected only after 2019 when the factory has been established, not to mention the exact operation of the factory. So Tesla fans, would you wait for it?