

Tesla Cuts Model 3 Orders From Core Supplier By 40%



by [Tyler Durden](#)

Just days after the Shanghai government was stunned to read in the WSJ that it had granted Tesla permission to open a new gigafactory in its free-trade zone (turns out the two are only in the negotiations stage), according to Taiwanese media reports one of Tesla's largest suppliers in the country has been instructed to pare back production on parts for the Tesla Model 3 – the latest sign that the cash-burning Silicon Valley carmaker is going to miss its goal of producing 5,000 cars a week by December.

Hota Industrial Manufacturing Co, a Taiwanese automotive components maker and long-time Tesla supplier, **has been told to dial back its production of Model 3 components from 5,000 units per week in December to 3,000 per week – a 40% drop**, [Taiwan's Economic Daily reports](#) and adds that Hota Chairman Shen Kuo-jung said that the company **has received a notice from Tesla to reduce its December order quantity due to production “bottlenecks.”**



Hota, which has supplied parts for Tesla's Model S and Model X, began supplying components, including gears, for the Model 3 in May of this year. Though December orders have been cut back by 40%, Hota indicates that the company is committed to meeting the needs of Tesla's upcoming production ramp and is scheduled to ship 10,000 parts in May or June, timing that was pushed back from an original March date.

The news follows a handful of embarrassing reports earlier this month, including the revelation that problems with the company's assembly line had forced employees at Tesla's Fremont factory to assemble cars by hand, which explains why the company delivered only a fraction of the 1,500 Model 3 Sedans it had promised to deliver by the end of the third quarter.

Tesla, which is set to provide a clearer picture of sales and production delays when it reports earnings on Nov. 1, also suffered another major setback earlier this week when Mercedes beat Tesla to the punch and revealed its E-Fuso Vision One electric semi-truck prototype just weeks before Tesla was set to reveal its own electric semi-truck. Elon had been forced to delay the unveiling because of the Model 3's "production hell", something he reiterated yesterday when he qualified it as "8th circle" of hell.

Btw, just want to express a word of appreciation for the hard work of the Tesla Gigafactory team. Reason I camped on the roof was because it was less time than driving to a hotel room in Reno. Production hell, ~8th circle ...

— Elon Musk (@elonmusk) [October 26, 2017](#)

Adding insult to injury, [Bloomberg](#) published a lengthy feature this week criticizing Musk's galling tendency to over-promise and under-deliver, **citing the company's ongoing struggle to complete an upgrade of its "Autopilot" systems to allow for fully autonomous driving.** Tesla began selling the software more than a year ago at \$8,000 a pop – and has so far failed to deliver any significant improvements. Unconvinced by Musk's efforts to stall, Tesla owners have opted to sue.

The rollout of the Model 3 Sedan, which, priced at \$35,000, was supposed to be Tesla's big foray into mass market vehicles, continues to be plagued by problems. After losing the mantle of "most valuable US automaker" in July, Tesla's stock has lagged again in recent weeks following the barrage of embarrassing headlines. But how much longer will it take for shareholders to realize that Tesla is floundering as rivals like GM and Daimler continue to outmaneuver Tesla, which famously burned through \$13 million a day in the second quarter.

Not helping matters, and perhaps the latest indication that the Tesla hype bubble is finally bursting, Elon Musk's EV company was downgraded to **in line** from **outperform** (PT \$312 from \$330) by Evercore ISI analyst George Galliers, who cited a "more cautious view" on Model 3 production; says at this point, has little insight into how production is running. More details from Bloomberg

- Cuts Model 3 delivery forecasts for 2017 by 20k units, 2018 by 8k units, 2019 by 10k units and 2020 by 7k units
- Continues to believe Model 3 is the most important piece of TSLA investment story in coming quarters; says 3Q production was clearly weaker than what TSLA expected, with 260 Model 3s produced vs a targeted "just over 1,500"
- Best case scenario will be TSLA confirming Model 3 production "S-Curve" hasn't changed substantially; instead, the curve has simply shifted 6 to 8 weeks out, with a 6 week delay inferring potential production of 10k units this year

- However, suspects TSLA won't have 100% visibility on the ramp until they hit >1k units per week, which, based off the "S-Curve" will only be reached towards the end of Nov.

Finally, as reported over the past week, amid its hellish production delays it was revealed that – following a veritable exodus of executives this year – Tesla had decided to lay off 700 factory workers to try and stanch a unionization effort. It's now hoping to replace those workers with cheaper, contract workers. However, given these most recent news, the timing seems quite opportune...