



Tesla is on the verge of collapse after making a lot of shitty cars and failing to deliver another (bloomberg.com)

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Tesla Bonds Are in Free Fall

By Molly Smith

While stock drop gets the attention, bond rout has big risks

Company is in 'negative feedback loop; everyone is worried'

Tesla Turmoil Sends Its Bonds on an Electric Slide

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Elon Musk's creditors are suddenly having a serious bout of buyer's remorse.

In August, they lined up for the chance to finance Tesla Inc.'s ambitious rollout of its Model 3 sedan. Wooed by Musk's personal appeals, bond investors pretty much ignored the carmaker's prolific cash burn and repeated failures to meet production targets and lent it \$1.8 billion at record-low interest rates.

But now, after a spate of fresh setbacks in the past week, including a fatal Tesla crash and a credit-rating downgrade, bondholders are asking hard questions about whether Musk can deliver on his bold promise to bring electric cars to the masses before the company runs out of cash. On Wednesday, Tesla's notes plunged to a low of 86 cents on the dollar, the clearest sign yet creditors aren't totally sure the company will be money good.

This image taken from a video shows the scene of an accident involving a Tesla Model X on March 23. Source: KTVU via AP Photo

“It’s getting worse and worse every single day” for Tesla, said Bill Zox, chief investment officer of fixed income at Diamond Hill Investment Group. “That’s the nature of being in this negative feedback loop. Everyone is worried.”

The consequences are significant. Tesla’s woes have played out most visibly in the [stock market](#), with its shares suffering a two-day, 15 percent drop that’s the biggest since 2016. But surging borrowing costs, which are now near 8 percent, could hamper the carmaker’s ability to finance itself at a critical time.

[For Bloomberg’s Tesla Model 3 production tracker, click here.](#)

A representative for Tesla didn’t immediately respond to an emailed request for comment.

The company, which has never shown an annual profit in the 15 years since it was founded, will need to raise over \$2 billion to cover not only its cash burn this year, but also about \$1.2 billion of debt that comes due by 2019, Moody’s Investors Service analyst Bruce Clark said in a [report](#) Tuesday.

Tesla is burning through money so fast that, without additional financing, it would run out of cash before year-end. To put that into perspective, that amounts to more than \$6,500 every minute of every day, according to data compiled by Bloomberg.

‘Crunch Time’

That puts the company in “crunch time” now to improve margins, Cowen & Co. analysts led by Jeffrey Osborne said in a note Tuesday. Tesla will report first-quarter [production](#) figures for the Model 3 early next week. While the company has said it expects to end the quarter making 2,500 Model 3s per week, analysts are [skeptical](#).

The Tesla Model 3. Photographer: Patrick T. Fallon/Bloomberg

“Based on our own checks as well as user reported registration data found

online, Tesla’s model 3 ramp is likely still moving slower than management’s previously pushed out targets,” Osborne wrote.

Another production miss wouldn’t make it any easier for Tesla to persuade bond investors to hand over more money. While shareholders

just approved a massive \$2.6 billion pay package for Musk, three executives have headed for the exits this quarter, including two from the company's finance team.

'On The Precipice'

"People are looking at the abyss here, they're looking at it spiral out of control," said Jack Flaherty, a portfolio manager at GAM Holding AG. "It's definitely on the precipice."

To Diamond Hill's Zox, who didn't buy Tesla's bonds last year, yields are still too low to offset the risks of lending to a business in its early growth phase. They would need be between 10 to 12 percent to get him interested.

And with a junk rating of Caa1 from Moody's on Tesla's unsecured bonds -- seven levels below investment grade -- coming back to the market might prove to be too onerous in any case, says Bloomberg Intelligence's Joel Levington.

The company might need to consider selling equity, issuing convertible bonds and structured debt or taking out bank loans, he said.

"I would think it'd be off the table," said Levington, referring to another unsecured bond sale. "They have to look at all options."

— With assistance by Austin Weinstein, Dana Hull, Sally Bakewell, Taka Endo, and Claire Boston