

## Tencent 腾讯 TESLA Could Tencent be Tesla's "Key to China"?

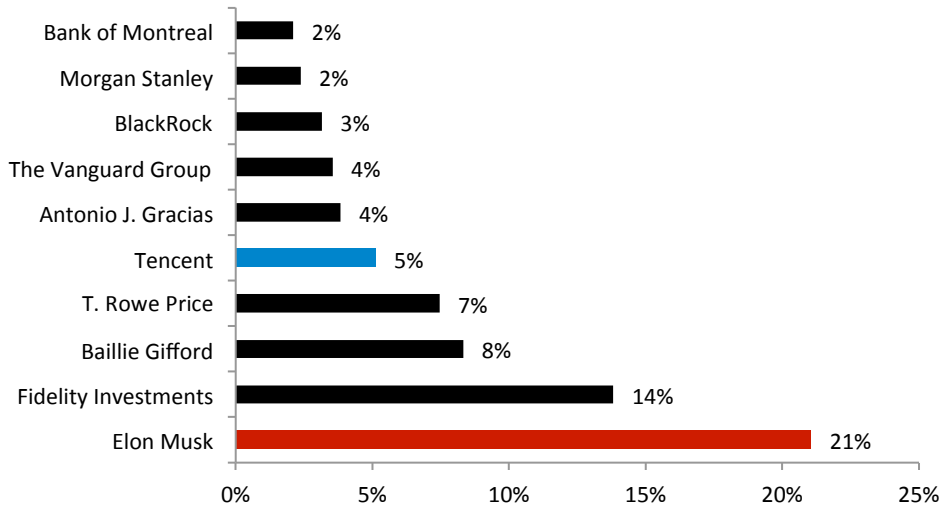


- 1) According to a filing with the US Securities and Exchange Commission (SEC) on March 28, Tencent has purchased a 5% stake in electric carmaker Tesla Inc. for \$1.78 billion through a private placement and open market purchases. Although this move makes Tencent the fifth-largest shareholder in Tesla, the stake is passive, meaning Tencent will not be able to influence how the firm is run.
- 2) Tesla has been seeking funds to help with the production of the new Model 3 sedan. Earlier in March, it raised about \$1.2 billion by selling common shares and convertible debt. By leveraging Tencent's leadership in China's technology market, Tesla could eventually boost sales of battery electric vehicles (BEV) in China.
- 3) Tencent has been on the lookout for investment opportunities to strengthen its position in technology, and this investment in Tesla is likely part of its plan to bridge the value chain across the BEV ecosystem.
- 4) Tesla and Tencent currently have no concrete plans to integrate their technologies, according to the *Financial Times*. The deal, in our view, should be treated as a first step in a long-term cooperation between the pioneer of BEVs in the US and the software technology giant in China.

### Tencent Buys 5% Stake in Tesla

In a regulatory filing with the US SEC on March 28, Tencent said it holds a 5% stake in Tesla, purchased for \$1.78 billion through a private placement and open market purchases. This move makes Tencent the fifth-largest shareholder in Tesla, behind others including founder Elon Musk. At 5%, the stake is passive, meaning Tencent will not be able to influence how Tesla is run.

**Figure 1. Breakdown of Key Shareholders**



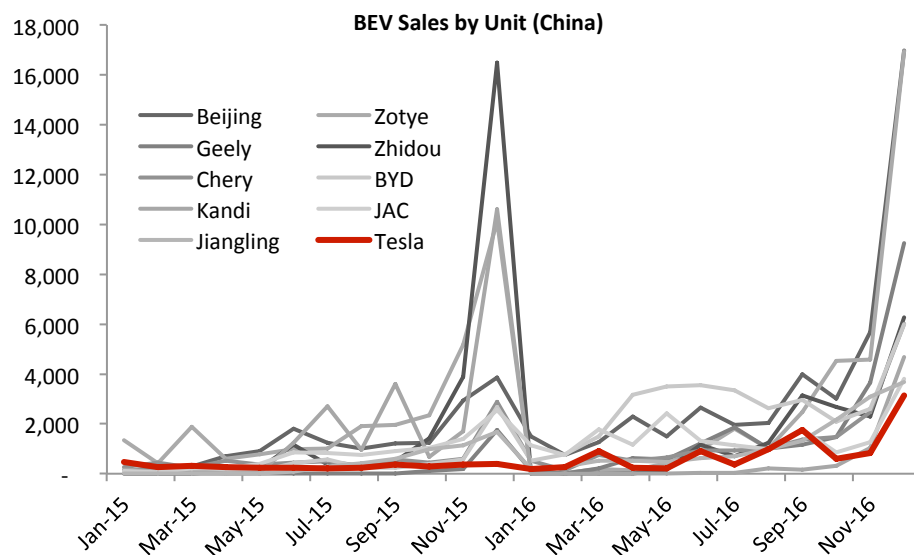
Source: Bloomberg/Fung Global Retail & Technology

**Potential Benefits to Tesla**

**Needs funding for production of its new Model 3 sedan:** Tesla has been seeking funds to help with production of the cheaper Model 3 sedan. Earlier in March, it raised about \$1.2 billion by selling common shares and convertible debt.

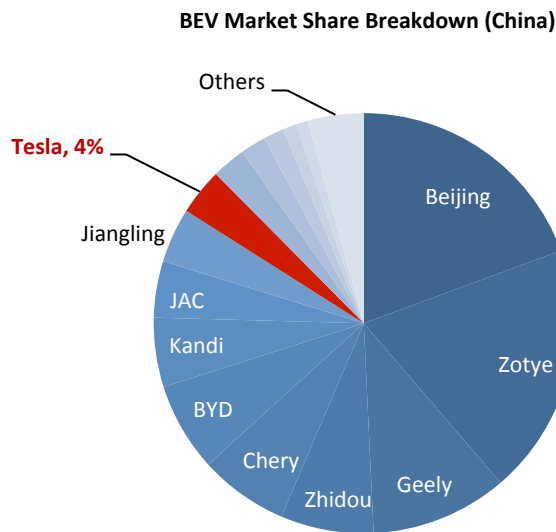
**Struggling in the China market:** In the US market, Tesla dominates the battery electric vehicle (BEV) market, but has been struggling in the China market.

**Figure 2. Battery Electric Vehicle (BEV) Sales in China**



Source: Bloomberg/Fung Global Retail & Technology

**Figure 3. Battery Electric Vehicle (BEV) Market Share**



Source: Bloomberg/Fung Global Retail & Technology

Data shows solid momentum for Tesla, but in China, the company is still playing catch-up with only 4% market share. Elon Musk on Tuesday tweeted “Glad to have Tencent as an investor and adviser to Tesla,” suggesting that a potentially deeper cooperation between the two companies is possible, whereby Tesla could leverage Tencent’s network in China as well as eventually boost sales of its vehicles in the country.

**Potential Benefits to Tencent**

**Strengthen its technology position:** Tencent has been on the lookout for investment opportunities that could strengthen its position in technology. Tencent’s Chairman and CEO Ma Huateng recently said he could see the development of artificial intelligence (AI) for driverless cars as one of the directions the company takes in the future.

**Vision of building a connected ecosystem:** Tencent was an early backer of Chinese electric-vehicle startup NextEV, Chinese ride-sharing giant Didi Chuxing and German mapping firm HERE. All of these investments could tie in nicely with Tencent’s vision of building a connected mobility ecosystem, and the Tesla stake is likely part of its plan to bridge the value chain across the BEV ecosystem.

**Our View**

Tesla and Tencent currently have no concrete plans to integrate their technologies, according to the *Financial Times*. The deal, in our view, should be treated as a first step in a long-term cooperation between the pioneer of BEV in the US and the software technology giant in China.



FLASH REPORT

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