

Equity Research

WELLS
FARGO

Price Target Change — January 24, 2024

Autos and Auto Parts

Tesla, Inc. (TSLA)

TSLA: Are Margins Approaching a Natural Limit?

Our Call

TSLA is trading down post market after cautious 2024 commentary. TSLA sees slowing delivery growth & a more limited ability to cut COGS. With recent px cut, margins likely fall in 2024. We remain EW, though our 2024 EPS remains below consensus.

Bumpy Road Ahead

TSLA Q4 EPS of \$0.71 slightly missed consensus (see [flash](#)). The company guided to lower delivery growth rate & indicated limitations on further COGS reductions. Cybertruck is the main growth driver as TSLA confirmed Model 2 timing for late 2025. Musk did not back away from his aim to get [more control](#). Following a valuation allowance release, TSLA's tax rate will rise from ~8% in 2023 to the average S&P 500 level (likely ~25%). With limited NT positive catalysts, we remain EW.

No Crystal Ball for Deliveries

Tesla guided to "notably lower" vehicle volume growth in FY24 vs the 38% y/y growth in FY23, in-line with our forecast of 13%. Musk announced that their mass-market EV, the Model 2, would begin production in 2H 2025 in Giga Texas. Giga Mexico will be delayed until after Model 2 production begins at Giga Texas. This is consistent with the Model 3 refresh & Cybertruck being main positive catalysts over the next ~18 months until Model 2 ramps.

Expect Continued Margin Erosion

At \$36K in COGS per vehicle, TSLA said they are approaching their "natural limit" of cost downs on current models. We expect higher [labor costs](#) & Cybertruck mix will offset remaining raw material cost tailwinds. More importantly, TSLA already [cut pricing](#) ~\$1K q/q to address slowing growth and affordability challenges. With limited ability to offset the pricing with COGS reductions, we expect auto GM ex credits to fall from 17.7% in 2023 to 16.8% in 2024.

Buying Out of the AI Hype?

Musk previously touted Dojo as the future, but today he called Dojo a "long shot" and that it was high risk, high reward. While TSLA is still progressing & training jobs, Musk said they are considering a dual path of Dojo and NVIDIA. Nonetheless, Musk said TSLA was an AI company and repeated his wish for more control, either a ~25% stake or a dual class structure; either present a risk of dilution for current shareholders.

EPS & Px Target Update: We lower our 2024-28E EPS to reflect our lower margin outlook. We lower our 2024E EPS from \$2.70 to \$2.40; 2025E EPS \$3.25 to \$2.70; 2026E EPS \$4.00 to \$3.80, 2027E EPS \$4.50 to \$4.20; & 2028E EPS \$4.70 to \$4.35. We lower our price target from \$223 to \$200. Our \$200 price target reflects the output of our 3-stage DCF analysis of the core auto business assuming a 13% WACC, 20% 5-10 year growth (25% prior), 20% 11-15 year growth, and a 10% terminal growth rate.

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Rating	Equal Weight
Ticker	TSLA
Price Target/Prior:	\$200.00/\$223.00
Upside/(Downside) to Target	(3.8)%
Price (01/24/2024)	\$207.83
52 Week Range	\$138.07 - 299.29
Shares Outstanding	3,178,921,391
Market Cap (MM)	\$660,675
Enterprise Value (MM)	\$646,190
Average Daily Volume	122,023,096
Average Daily Value (MM)	\$25,360
Dividend (NTM)	\$0.00
Dividend Yield	0.0%
Net Debt (MM) - last reported	\$(14,485)
ROIC - Current year est.	41%
3 Yr EPS CAGR from current year (unless otherwise noted)	2%

\$	2022A	2023A	2023A	2024E	2024E
EPS		Curr.	Prior	Curr.	Prior
Q1 (Mar)	1.07 A	0.85 A	NC	0.55 E	0.60 E
Q2 (Jun)	0.76 A	0.91 A	NC	0.61 E	0.65 E
Q3 (Sep)	1.05 A	0.66 A	NC	0.62 E	0.71 E
Q4 (Dec)	1.19 A	0.71 A	0.59 E	0.63 E	0.74 E
FY	4.07 A	3.12 A	3.00 E	2.40 E	2.70 E
P/E	51.0x	66.6x		86.6x	

Source: Company Data, Wells Fargo Securities estimates, and Refinitiv.
NA = Not Available, Volatility = Historical trading volatility

All estimates/forecasts are as of 1/24/2024 unless otherwise stated. 1/24/2024 21:44:54EST. Please see page 6 for rating definitions, important disclosures and required analyst certifications.

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Wells Fargo Express Takeaways

Tesla, Inc. (TSLA) | Rating: Equal Weight | Price Target: \$200.00

Analyst: Colin M. Langan

Financials

FY (Dec)	2022A	2023A	2024E
\$			
ESTIMATES			
EPS			
Q1	1.07 A	0.85 A	0.55 E
Q2	0.76 A	0.91 A	0.61 E
Q3	1.05 A	0.66 A	0.62 E
Q4	1.19 A	0.71 A	0.63 E
AN	4.07 A	3.12 A	2.40 E
Rev. (MM)	81,462.0 A	96,773.0 A	101,551.6 E
EBIT (MM)	15,222.0 A	10,683.0 A	10,376.1 E
EBITDA (MM)	18,978 A	15,358 A	15,518 E
FCF (MM)	7,566.0 A	4,358.0 A	(568.0) E

WELLS FARGO vs. CONSENSUS

Consensus Estimate	-	3.12 A	3.62 E
Difference from Consensus		(0.0)%	2.4%

VALUATION

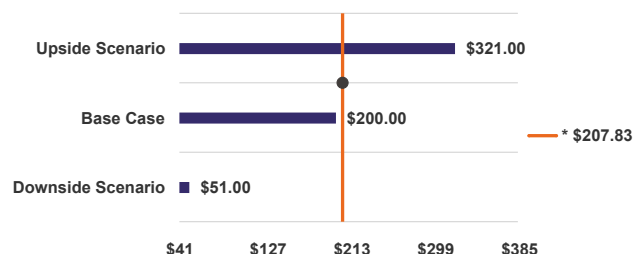
P/E	51.0x	66.6x	86.6x
EV/Revenue	7.9x	6.7x	6.4x
EV/EBIT	42.5x	60.5x	62.3x
EV/EBITDA	34.1x	42.1x	41.7x
EV/FCF	85.4x	NM	NM
FCF Yield	1.2%	0.7%	NM

Consensus Estimate: Source of consensus estimates: FactSet
Source: Company Data, Wells Fargo Securities estimates, and Refinitiv.
NA = Not Available, NE = No Estimate

Investment Thesis

We have an Equal Weight rating on TSLA. We see higher near-term delivery growth driven by recent price cuts. However, we are cautious on hitting margin targets, and we see the risk of more price cuts later in the year. We also see near-term risks around increased US regulation on Autopilot.

Risk vs. Reward – Upside/Downside Price Target Scenarios



*As of 01/24/24
Source: Wells Fargo Securities, LLC estimates and Refinitiv.

Base Case | \$200.00

Our \$200 price target reflects the output of our 3-stage DCF analysis of the core auto business assuming a 13% WACC, 20% 5-10 year growth, 20% 11-15 year growth, and a 10% terminal growth rate.

Upside Scenario | \$321.00

Our upside outlook reflects global auto sales of 20M in 10 years, 12% EBIT margins, no dilution, and a 30x multiple in 10 years. We also include \$18B in optionality from new market opportunities like autonomous rideshare. This would imply a \$320 price discounted back today.

Downside Scenario | \$51.00

Our downside outlook reflects global auto sales of 5M in 10 years, 10% EBIT margins, no dilution, and a 30x multiple in 10 years. We do not include any optionality from new market opportunities. This would imply a \$51 price discounted back today.

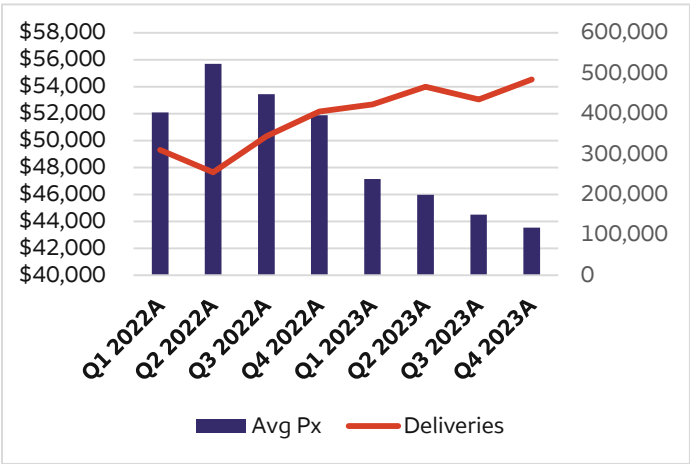
Upcoming Catalysts

- Updates on the lower cost gen 3 models, Cybertruck
- Storage growth opportunity
- Regulations around Autopilot
- Additional price cuts

Company Description

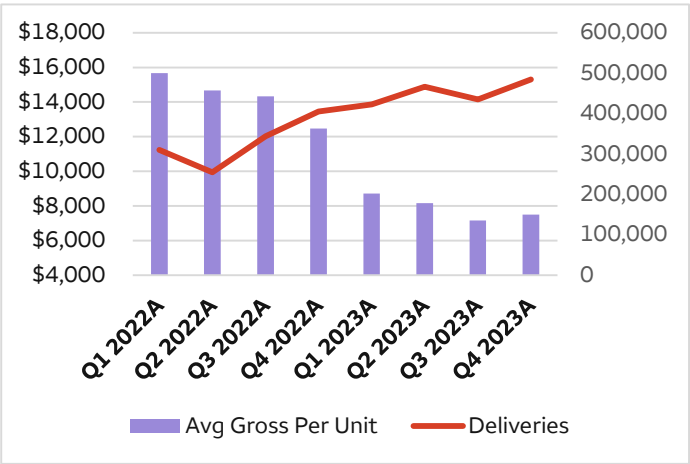
TSLA is a global leader in the manufacturing and sale of electric vehicles. The company also provides servicing and charging for these vehicles. In addition, TSLA sells solar and stationary storage applications.

Exhibit 1 - Estimated TSLA Average Price vs. Deliveries



Source: Company reports, Wells Fargo Securities, LLC estimates

Exhibit 2 - Estimated TSLA Average Gross Per Unit vs. Deliveries



Source: Company reports, Wells Fargo Securities, LLC estimates

Investment Thesis, Valuation and Risks

Tesla, Inc. (TSLA)

Investment Thesis

We have an Equal Weight rating on TSLA. We see higher near-term delivery growth driven by recent price cuts. However, we are cautious on hitting margin targets, and we see the risk of more price cuts later in the year. We also see near-term risks around increased US regulation on Autopilot.

Target Price Valuation for TSLA: \$200.00 from \$223.00

Our \$200 price target reflects the output of our 3-stage DCF analysis of the core auto business assuming a 13% WACC, 20% 5-10 year growth, 20% 11-15 year growth, and a 10% terminal growth rate.

Risks to Our Price Target and Rating for TSLA

Downside Risks:

- New EV competition
- Regulatory risk associated with Autopilot
- Commodity inflation and increases in tension in China
- Any costly product recalls could also impact TSLA's brand.

Upside Risks:

- New capacity additions
- Positive reviews of the FSD update
- Addition of a US EV credit within the proposed stimulus bill
- Decline in commodity prices .
- New market expansion in solar or storage

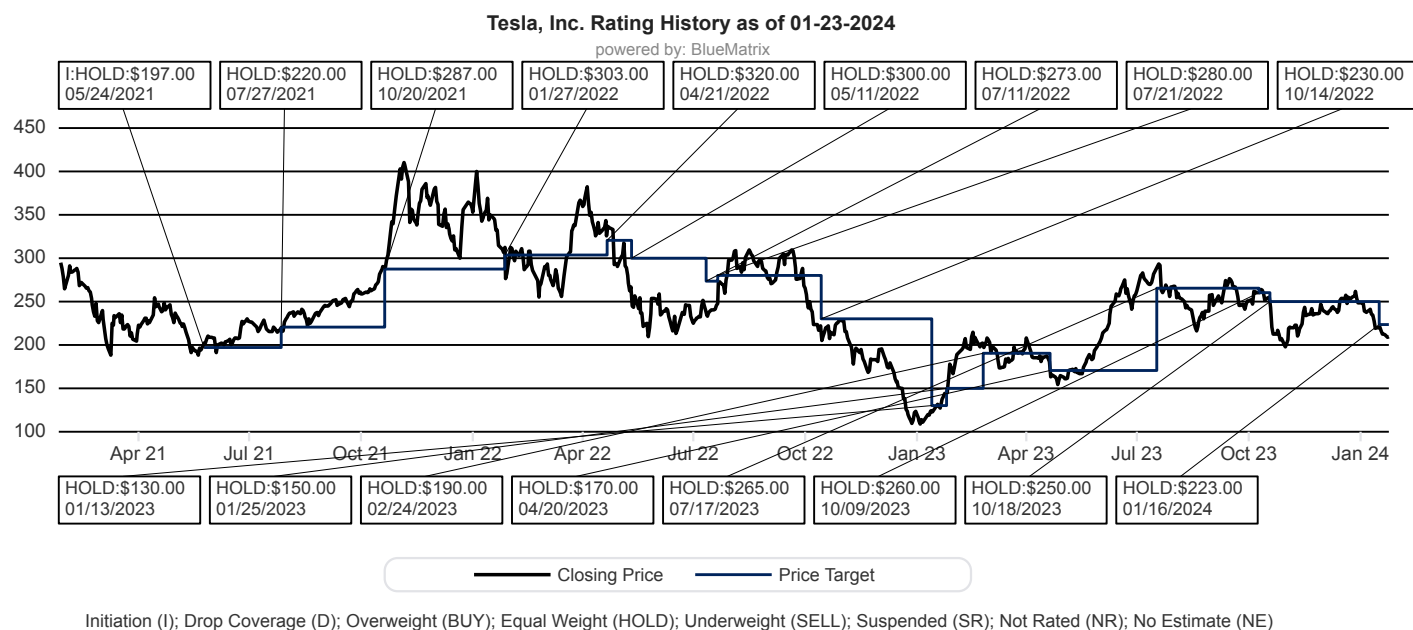
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OW=Overweight: Total return on stock expected to be 10%+ over the next 12 months. BUY

EW=Equal Weight: Total return on stock expected to be -10% to +10% over the next 12 months. HOLD

UW=Underweight: Total return on stock expected to lag the Overweight- and Equal Weight-rated stocks within the analyst's coverage universe over the next 12 months. SELL

NR=Not Rated: The rating and price target has been removed due to lack of fundamental basis to support the recommendation or due to legal, regulatory or company policy considerations.

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