

Rating  
**Buy**North America  
United StatesConsumer  
Autos & Auto TechnologyCompany  
**Tesla Inc.**Reuters  
TSLA.OQBloomberg  
TSLA USExchange  
NMSTicker  
TSLADate  
25 January 2024

## Company Update

|                            |                 |
|----------------------------|-----------------|
| Price at 24 Jan 2024 (USD) | 207.83          |
| Price target               | 250.00          |
| 52-week range              | 293.34 - 144.43 |

## Heightened concerns around 2024, next-gen vehicle targeted late 2025

Tesla's very limited outlook commentary last night, in our view confirmed our caution around 2024, in which the company will likely see very limited volume growth and pressure on earnings. Indeed, consistent with the company's comments at our late-2023 DB AutoTech Conference, management characterized 2024 as a transitional year between two larger waves of expansion, namely the past global growth of Model 3/Y and the planned future next-gen vehicle platform. Tesla confirmed it is targeting start of production of the next-gen vehicle some time in the second half of 2025, and we believe this continues to serve as a minor silver lining to its limited growth in 2024, and possibly also in 2025. While Tesla did not share a specific volume target for this year, we continue to believe it's likely somewhere between 2.0-2.1m units, suggesting very limited growth, which we believe will still require major price cuts.

For 2024, we continue to model roughly 2.1m units in deliveries, including Cybertruck. At the same time, we see more pressure on margins and earnings, as the company already announced price cuts in both China and Europe earlier in the quarter, presenting downside risk to our prior assumptions of -600bps in y/y ASP decline. We now model -850bps of ASP decline on a y/y basis. On the cost side, Tesla seemed to suggest there is limited additional COGS reduction opportunities for its existing platforms compared to the 2023 exit rate. Looking ahead, we believe raw materials and logistics, as well as factory efficiencies, may only represent minor tailwinds in 2024. This should be more than offset by price declines, headwind from labor cost and Cybertruck ramp-up, and our 2024 gross margin (ex-credit) now moves to 15.3%, down from 16.4% prior, leading to EPS \$2.50 for the year (including ~45 cents impact from more normalized tax rate starting in Q1). This compares to our prior EPS estimate of \$3.10.

Looking beyond this year, Tesla reiterated that Gigafactory Texas will be the first manufacturing location for the next-gen vehicle and that Mexico will be the second location, and provided new information that the third location will be outside of North America. We think 2025 may continue to experience limited volume growth given start of production some time in 2H25. Accordingly, we take down our volume expectations for next year to 2.5m, down from 2.8m. At the same time, we model a 100bps margin improvement y/y, bringing 2025 gross margin to 16.3% (vs. 16.7% prior), leading to EPS of only \$3.45 vs. \$4.50 prior (including ~40 cents impact from higher tax).

Valuation & Risks

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|                |                      |   |       |
|----------------|----------------------|---|-------|
| TP             | 260.00 to 250.00     | ↓ | -3.8% |
| EPS (USD)      | 3.15 to 3.12         | ↓ | -1.1% |
| Revenue (USDm) | 97,116.9 to 96,773.0 | ↓ | -0.4% |

Source: Deutsche Bank

Deutsche Bank Securities Inc.

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In the near term, we believe worries over 2024 earnings, volume and pricing, could continue to pressure the stock, especially considering the meaningful downside risk we see to next year's earnings as well. Longer term, however, we believe much of the stock trajectory will be tied to the highly anticipated next-gen platform. As Tesla executes on efficiency initiatives in the next gen platform, the company could deepen its competitive moat and maintain its lead in the electrification space for years to come. We trim our price target to \$250, now based on the average of 45x our 2025 EPS and EV/sales multiple of 9x 2025 (vs. 10x 2024 prior). Reiterate Buy.

#### 4Q earnings better than feared

Tesla reported better than feared results with sales slightly below the street, but margins and FCF above our expectations. Specifically, the company delivered auto-gross margin of 17.2% (ex. Credit) including FSD recognition, above our/buyside expectations ranging from mid to high-16%. Total revenue came in at \$25.2bn, slightly missing our estimate calling for \$25.5bn and somewhat larger gap vs. Consensus at \$25.7bn. Service revenue of \$2.2bn was roughly in-line with our estimate of \$2.1bn and Street at \$2.2bn, while Energy/storage range missed at \$1.4bn, vs. our/Street at \$1.6bn/\$1.8bn. Meanwhile, operating margins were 8.2% on a GAAP basis, improving by 60bps vs. 3Q23. On a y/y basis, profitability was negatively impacted by reduced vehicle ASP due to pricing and mix, increase in opex driven by AI and R&D projects, lower FSD revenue recognition due to comparison with a wide release in 4Q22, and cost of Cybertruck production ramp. On the positive side, profit benefited from lower COGS including lower raw materials and logistics costs, and IRA credits, growth in vehicle deliveries, as well as growth of gross profit in energy generation and storage. EPS of \$0.71 came in a touch below our estimate of \$0.74 and Street at \$0.73. FCF was \$2.1bn, much better than our estimate and Street \$788m/\$1,486m.

#### 2024 limited volume growth coupled with margin pressure

While the company didn't point to a specific volume growth target, it was clear that it will be well below the 50% volume CAGR and that Tesla is in between two major growth waves (global expansion of 3 and Y and the next-gen platform). We think 2024 deliveries will likely be at around 2.1 million vehicles, relatively unchanged from our preview estimate at ~2.1m, and just slightly above the nearly ~2 million unit annualized production run rate from 4Q23. Despite volumes being relatively unchanged, we see Auto GM down 240 bps YoY to 15.3% in 2024, which is also down from our prior estimate of 16.4%. Note that consensus Auto GM (ex credits) were previously closer to 18% for 2024. The incremental downside to auto gross margins in our estimates is driven by expectation for large pricing declines as well as less cost down benefits than anticipated.

We now expect -850bps of ASP decline on a y/y basis, given the price cuts already taken place earlier in the quarter. On the cost side, Tesla seems to hint that there are limited COGS reduction opportunities on a going forward basis relative to the past. We also suspect that it likely benefited from some pulled forward cost reduction in Q4 which led to higher gross margin (ex-credit) than expected in Q4. Looking ahead, we think raw materials and logistics are likely to present higher offsets (+250bps/190bps, respectively), with smaller magnitude of factory efficiencies to unfold in 2024 (+160bps vs. 300bps prior). Coupled with higher volume (+100bps) and potentially higher IRA credits (+150bps), as well as headwind from labor cost (-180bps) and Cybertruck ramp-up (-60bps), our 2024 gross margin (ex-credit) now moves to 15.3%, down from 16.4% prior, leading to EPS \$2.50 for the year (including ~45 cents impact from much higher tax rate starting Q1). This compares

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to our prior EPS estimate of \$3.10. Note that company pointed to a structurally higher tax rate moving forward that is more in line with other companies in the S&P 500.

Figure 1: 2024 gross margin walk

|                               |         |
|-------------------------------|---------|
| 2023 to 2024 walk             |         |
| 2023 gross margin (ex-credit) | 17.7%   |
| Pricing                       | -850bps |
| Factory efficiencies          | +160bps |
| Logistics/warranty            | +190bps |
| Raw materials                 | +250bps |
| Higher volume                 | +100bps |
| Labor                         | -180bps |
| IRA                           | +150bps |
| Cybertruck ramp               | -60bps  |
| 2024 gross margin (ex-credit) | 15.3%   |

Source : Deutsche Bank, Company filings

### Next-gen vehicle targeted for 2H25, but still limited volume and earnings growth next year

The next-gen vehicle was a much larger focus during this earnings call, with the company officially pointing to 2H 2025 for the start of production based on their current production schedules. Note that this is relatively in-line with our expectations of production beginning in 2025. Reuters' reported prior to Tesla earnings yesterday that the company has notified suppliers of plans to begin production of the next-gen vehicle in June 2025, slightly before the company had pointed to on the 4Q earnings call. Two of the sources referenced by Reuters stated that the model would be a compact crossover and the article also noting that the forecasted weekly production volume for the vehicle is 10k. On the call, Tesla further reiterated that Gigafactory Texas will be the first manufacturing location for the next-gen vehicle and that Mexico will be the second location, though provided new information that the third location will be outside of North America. Tesla is looking to identify the third location by the end of this year or early next. Management noted that it first wants to demonstrate the success with the next-gen vehicle at the Gigafactory Austin before starting construction at Gigafactory Mexico, inferring that production in Mexico for the next-gen vehicle would begin at the earliest in 2026.

The outlook for the next-gen production ramp suggests that the next material volume growth and earnings growth leg will come in 2026 at the earliest. We expect earnings growth to be somewhat muted in 2025 as next-gen volumes will just begin ramping in the back half, while the company has admitted that it is approaching the natural limit of cost downs on its existing vehicle lineup and will likely be hampered by next-gen ramp/launch costs. Given incremental clarity on the next-gen timeline, cost down levers and volume/pricing dynamics, our revenue/deliveries and Auto GM ex credits all move lower for 2025. We now forecast 2025 revenue/deliveries/ Auto GM (ex credit) of ~\$131bn/~2.5m/16.3%, respectively, and compares to our previous estimates at ~\$145bn/~2.8m/16.7%.

### CEO doubles down on 25% control

Following commentary from Musk recently around his desire to have 25% voting control of Tesla, Musk reiterated the importance to have "strong influence but not control". Musk even stated that dual class stock would be ideal. We believe this creates an elevated corporate governance risk profile for the company, especially

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since Musk threatened to develop AI outside of Tesla otherwise.

#### Trim price target to \$250 and reiterate Buy

Tesla's directional outlook for 2024 confirmed our cautious view for the year heading into the print. Indeed, management characterizes this year as a transitional year between two larger waves of growth. At the same time, Tesla pointed to the start of production for next-gen vehicle some time in the second half of 2025, providing silver lining to the limited growth story in the near term. For 2024, we continue to expect roughly 2.1m units in deliveries, including Cybertruck and some growth for Model Y. At the same time, we see more pressure on margins and earnings, as the company already announced price cuts in both China and Europe earlier in the quarter.

All in, our 2024 gross margin (ex-credit) now moves to 15.3%, down from 16.4% prior, leading to EPS \$2.50 for the year (including ~45 cents impact from much higher tax rate starting Q1). This compares to our prior EPS estimate of \$3.10. Looking to 2025, we think Tesla may continue to experience limited growth given start of production some time in 2H25. Accordingly, we take down our volume expectations for next year to 2.5m, down from 2.8m. At the same time, we bake in a 100bps margin improvement y/y, bringing 2025 gross margin to 16.3% (vs. 16.7% prior), leading to EPS of \$3.45 vs. \$4.50 prior (including ~40 cents impact from higher tax). With a path to next-gen vehicle production in focus, we continue to view Tesla as an EV leader globally and believe its cost and competitive advantage could keep growing over time. We trim our price target to \$250 (down from \$260), now based on the average of 45x our 2025 EPS and EV/sales multiple of 9x 2025 (vs. 10x 2024). Reiterate Buy.

Figure 2: Estimate revisions

|                          | Prior            |                  |                  |                  | Revised          |                  |                  |                  |
|--------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
|                          | 2022             | 2023E            | 2024E            | 2025E            | 2022             | 2023             | 2024E            | 2025E            |
| <b>Revenue (\$m)</b>     | <b>81,462</b>    | <b>97,117</b>    | <b>107,737</b>   | <b>144,927</b>   | <b>81,462</b>    | <b>96,773</b>    | <b>107,284</b>   | <b>130,988</b>   |
| Automotive               | 71,462           | 82,594           | 90,056           | 122,691          | 71,462           | 82,419           | 88,555           | 107,547          |
| Energy/storage           | 3,909            | 6,244            | 8,160            | 11,287           | 3,909            | 6,035            | 8,330            | 11,482           |
| Services and other       | 6,091            | 8,279            | 9,521            | 10,949           | 6,091            | 8,319            | 10,399           | 11,959           |
| <b>Deliveries</b>        | <b>1,313,851</b> | <b>1,808,581</b> | <b>2,107,825</b> | <b>2,804,202</b> | <b>1,313,851</b> | <b>1,808,581</b> | <b>2,099,000</b> | <b>2,496,800</b> |
| Model 3                  | 473,266          | 524,721          | 529,968          | 635,962          | 473,266          | 527,332          | 530,000          | 535,300          |
| Model S                  | 37,676           | 23,721           | 23,721           | 23,721           | 37,676           | 23,564           | 24,000           | 24,000           |
| Model X                  | 29,029           | 45,053           | 45,053           | 45,053           | 29,029           | 45,210           | 45,000           | 45,000           |
| Model Y                  | 773,880          | 1,214,986        | 1,457,983        | 1,800,609        | 773,880          | 1,212,375        | 1,450,000        | 1,624,000        |
| Cybertruck               | 0                | 100              | 50,100           | 178,857          | 0                | 100              | 50,000           | 178,500          |
| Auto GM                  | 27.6%            | 19.3%            | 18.2%            | 18.0%            | 27.6%            | 19.4%            | 17.3%            | 17.9%            |
| <b>Auto GM ex credit</b> | <b>26.8%</b>     | <b>17.5%</b>     | <b>16.4%</b>     | <b>16.7%</b>     | <b>26.8%</b>     | <b>17.7%</b>     | <b>15.3%</b>     | <b>16.3%</b>     |
| <b>EPS</b>               | <b>\$4.14</b>    | <b>\$3.15</b>    | <b>\$3.10</b>    | <b>\$4.50</b>    | <b>\$4.14</b>    | <b>\$3.12</b>    | <b>\$2.50</b>    | <b>\$3.45</b>    |
| <b>FCF (\$m)</b>         | <b>7,566</b>     | <b>3,081</b>     | <b>4,879</b>     | <b>8,758</b>     | <b>7,566</b>     | <b>4,357</b>     | <b>4,097</b>     | <b>5,971</b>     |

Source : Deutsche Bank, Company Filings

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# Appendix 1

## Important Disclosures

\*Other information available upon request

| Disclosure checklist |         |                          |                          |
|----------------------|---------|--------------------------|--------------------------|
| Company              | Ticker  | Recent price*            | Disclosure               |
| Tesla Inc.           | TSLA.OQ | 207.83 (USD) 24 Jan 2024 | 7, 8, 14, 15, 21, 24, 26 |

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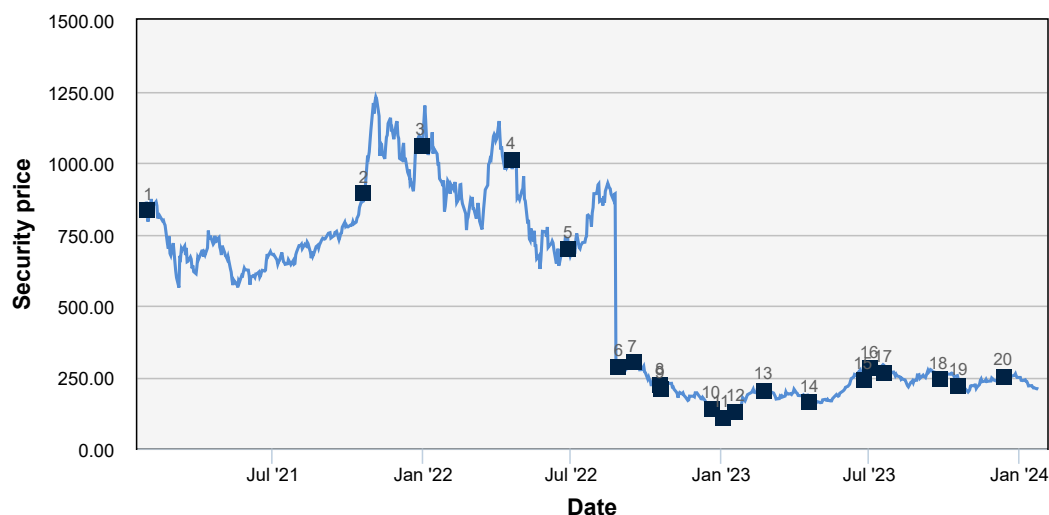
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## Historical recommendations and target price: Tesla Inc. (TSLA.OO)

(as of 01/24/2024)



### Current Recommendations

Buy  
Hold  
Sell  
Not Rated  
Suspended Rating

\*\* Analyst is no longer at Deutsche Bank

|     |            |  |     |            |  |
|-----|------------|--|-----|------------|--|
| 1.  | 01/28/2021 | Buy, Target Price Change USD 900.00, Current Price USD 835.43 Emmanuel Rosner, CFA   | 11. | 01/03/2023 | Buy, Target Price Change USD 250.00, Current Price USD 108.10 Emmanuel Rosner, CFA |
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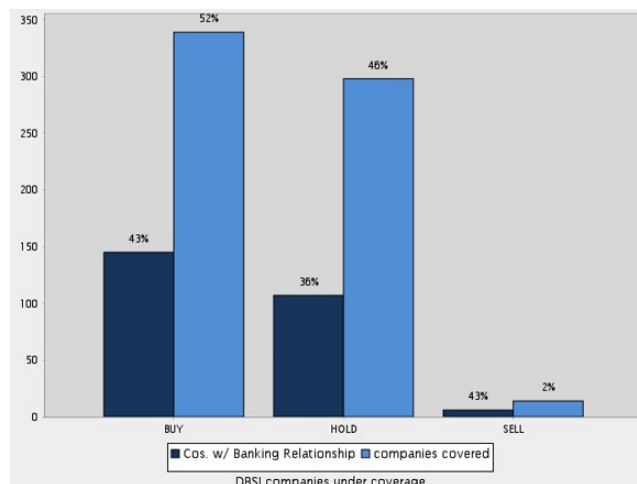
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## Equity rating dispersion and banking relationships





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