Goldman Sachs | Equity Research

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Tesla Inc. (TSLA): 4Q23 First Take

Mark Delaney, CFA
+1(212)357-0535 | mark.delaney@gs.com
Goldman Sachs & Co. LLC

Will Bryant
+1(212)934-4705 | will.bryant@gs.com
Goldman Sachs & Co. LLC

Morgan Leung
+1(212)934-4683 | morgan.leung@gs.com
Goldman Sachs & Co. LLC

Aman Gupta
+1(212)357-1549 | aman.s.gupta@gs.com
Goldman Sachs & Co. LLC

- **While Tesla reported a better automotive non-GAAP gross margin qoq in 4Q23 aided by a lower cost per vehicle, the company did not provide specific guidance for 2024 auto volumes and noted that growth could slow notably in 2024. We believe on the call that investors will look to better understand 2024 (and longer-term) vehicle volumes, the margin trajectory (given price reductions for some models/countries in January) and where margins may bottom, and the outlook for AI related products (e.g. FSD and Optimus). More specific color or guidance, if any, given on the call especially for volumes and margins will likely be key for the stock.**
- Tesla reported revenue/non-GAAP diluted EPS (excluding SBC) of $25.2 bn/$0.71, which was 2% below/$0.02 below both the Street (FactSet) and GS.
- The non-GAAP automotive gross margin (including SBC and excluding the revenue from regulatory credits) was 17.2%, about in line with GS at 17.25%. The margin was up from 16.3% in 3Q23 but down from 24.3% in 4Q22.
- Implied vehicle ASP of $43.5K was below our estimate of $44.2K. Cost per vehicle decreased to ~$36.3K from ~$37.5K last quarter.
- Gross margins in the Energy segment was up yoy, and the Energy gross margin was above our estimate while the Services gross margin was below.
- EBIT of ~$2.1 bn was above our forecast of ~$2.0 bn.
- Non-GAAP EPS (ex. SBC) was $0.71, below both GS and the Street at $0.73.
- FCF was $2.1 bn in 4Q23.
- The company commented that its vehicle volume growth rate may be notably lower than the growth rate achieved in 2023 and expects the growth rate of deployments and revenue in its Energy Storage business to outpace the Automotive business. Note that vehicle deliveries were up 38% yoy in 2023.
- Consensus already implies a deceleration in volumes in 2024. We model 2.125 mn (+17.5% yoy), below Visible Alpha at 2.176 mn, but note that annualizing 4Q23 volumes and adding Cybertruck would imply ~2 mn units in 2024.

Results

Tesla reported 4Q23 revenue of $25,167 mn (up 8% qoq and up 3% yoy) which was

2% below GS at $25,774 mn and 2% below the Street (FactSet) at $25,640 mn. Tesla reported the following by segment:

- **Automotive** revenue of $21,563 mn (up 10% qoq and up 1% yoy) compared to GS at $21,842 mn and the Street at $21,493 mn. Implied vehicle ASP was about $43.5K and below our $44.2K estimate. Sales of regulatory credits were $433 mn in the quarter vs. our estimate of $325 mn, down from $554 mn last quarter and $467 mn in 4Q22.
- **Energy Generation and Storage** revenue of $1,438 mn (down 8% qoq and up 10% yoy) compared to GS at $1,445 mn. The company reported storage deployments of 3,202 MWh (up 30% yoy). Tesla commented that while it expects deployments will continue to be volatile on a sequential basis, impacted by logistics and the global distribution of projects at any given time, the company expects continued growth on a trailing twelve-month basis going forward. Tesla continues to ramp its 40 GWh Megafactory in Lathrop, CA toward full capacity.
- **Service and Other** revenue of $2,166 mn (about flat qoq and up 27% yoy) compared to GS at $2,486 mn.

As previously reported, total vehicle deliveries in the quarter were about 485k (up 11% qoq and up 20% yoy). Model 3/Y deliveries in the quarter were about 462k (up 10% qoq and up 19% yoy), and other models (e.g. Model S/X, Cybertruck) deliveries were about 23k (up 44% qoq and up 34% yoy).

Tesla produced about 495k vehicles (up 15% qoq and up 13% yoy), of which 477k were Model 3/Y (up 14% qoq and up 14% yoy) and 18k were other models (e.g. Model S/X/Cybertruck) (up 33% qoq and down 12% yoy).

The total company gross margin (including SBC) was 17.6%, above GS at 17.3% but below the Street at 18.0%. The 3Q23 margin was 17.9%, and 4Q22 was 23.8%.

The non-GAAP automotive gross margin (including SBC and excluding the revenue from regulatory credits) was 17.2%, which compares to GS at 17.25%. The 3Q23 margin was 16.3%, and 4Q22 was 24.3%.

Tesla commented that EBIT margins were impacted by reduced vehicle ASP due to pricing and mix, an increase in operating expenses partly driven by AI and other R&D projects, lower FSD revenue recognition yoy due to FSD Beta wide release in North America in Q422, and the cost of the Cybertruck production ramp. These headwinds were partially offset by lower cost per vehicle, including lower raw material costs, logistics costs and IRA credit benefit, growth in vehicle deliveries, and gross profit growth in Energy Generation and Storage.

Non-GAAP diluted EPS (excluding SBC) was $0.71, below both GS and the Street at $0.73.

Including SBC, EPS was $0.57 vs. GS at $0.60. Relative to our estimate, EPS downside was driven primarily by 2% lower revenue, and lower interest and other income (a $0.04 headwind vs. our forecast), partially offset by a roughly 30 bp higher gross margin and $87 mn lower opex. The overall EBIT margin was about 50 bps higher than our forecast.

We estimate that higher sales of regulatory credits vs. our estimate added $0.02-$0.03 to EPS.

Cash and cash equivalents and short-term marketable securities increased by $3 bn qoq to $29.1 bn, with FCF of $2.1 bn (8% of revenue). Inventory dollars were down $0.1 bn qoq to $13.6 bn.

By region, Tesla commented that:

- **US:** Tesla commented that in 2023, the Tesla Fremont factory produced nearly 560K vehicles. At Gigafactory Texas, Tesla began production of the Cybertruck and delivered the first units to customers. The company expects the ramp of Cybertruck to be longer than other models given its manufacturing complexity.
- **China:** Tesla commented that Shanghai resumed normal rate production in Q4, rebounding from the scheduled downtime in Q3. Production of the updated Model 3 ramped to full speed in less than two months, per the company.
- **Europe:** Tesla commented that Model Y production in Berlin continued to grow in Q4, achieving both a record weekly production rate and a sequential increase in total production volume for the seventh consecutive quarter.

Tesla's stated installed annual capacity estimates across its factories was 650K in California, >950K in Shanghai, and at 375K in Berlin and >325K in Texas, including >125k for Cybertruck in Texas (vs. 3Q23 at 650K in California, >950K in Shanghai, and at 375K in Berlin and >375K (including >125k for Cybertruck) in Texas).

Outlook

The company commented that in 2024, its vehicle volume growth rate may be notably lower than the growth rate achieved in 2023, as the company works on the launch of the next-generation vehicle at Gigafactory Texas. For 2024 vehicle deliveries, GS is at ~2.125 mn and Visible Alpha consensus is at ~2.176 mn.

In 2024, Tesla expects the growth rate of deployments and revenue in its Energy Storage business to outpace the Automotive business.

Tesla commented that Cybertruck production and deliveries will ramp throughout this year. In addition, the company continues to make progress on its next generation platform.

Additionally, Tesla commented that it continues to execute on innovations to reduce the cost of manufacturing and operations. Over time, it expects its hardware-related profits to be accompanied by an acceleration of AI, software and fleet-based profits.

Price target and key risks

We are Neutral rated on Tesla shares. Our 12-month price target of $255 is based on 50X applied to Q5-Q8 estimated EPS including SBC.

Key downside risks to our view relate to potentially larger vehicle price reductions than we expect, increased competition in EVs, delays with products/capabilities like FSD/the third generation platform/4680, key person risk, the internal control environment, margins, and operational risks associated with Tesla's high degree of vertical integration. Upside risks include faster EV adoption and/or share gain from Tesla, a stronger macroeconomic environment for new vehicle sales more generally, earlier new product launches than we expect (e.g. a vehicle using the third generation platform), and an earlier/larger impact from AI enabled products (e.g. FSD and Optimus) than we currently anticipate.

TSLA	12m Price Target: **$255.00**	Price: **$207.83**	Upside: **22.7%**

Neutral

Market cap: $726.0bn
Enterprise value: $708.8bn
3m ADTV: $27.0bn
United States
Americas Autos & Industrial Tech
M&A Rank: 3

GS Forecast

	12/22	12/23E	12/24E	12/25E
Revenue ($ mn)	81,462.0	97,379.7	115,017.4	148,008.5
EBITDA ($ mn)	19,213.0	16,738.8	20,493.2	29,747.5
EBIT ($ mn)	13,656.0	8,818.8	11,258.6	18,801.6
EPS ($)	3.63	2.63	3.20	5.10
P/E (X)	72.5	79.1	65.0	40.7
EV/EBITDA (X)	42.1	38.4	31.2	21.1
FCF yield (%)	0.9	0.8	1.2	2.8
Dividend yield (%)	0.0	0.0	0.0	0.0
Net debt/EBITDA (X)	(0.8)	(1.0)	(1.2)	(1.5)

	9/23	12/23E	3/24E	6/24E
EPS ($)	0.53	0.60	0.57	0.70

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 24 Jan 2024 close.

Disclosure Appendix

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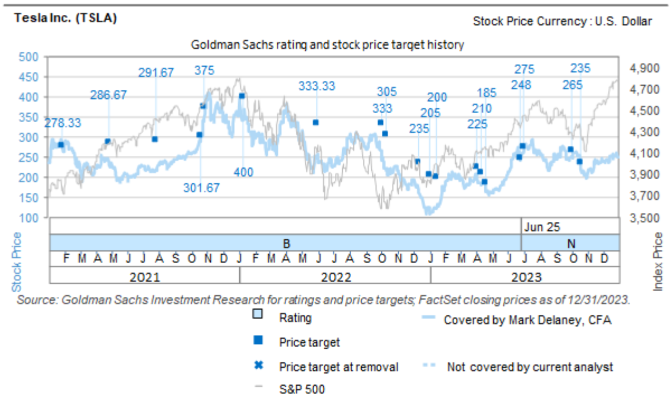

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