Tesla, Inc.

TSLA · Thesis and analysis · October 26, 2026

1.9
of 10 · sell signal

An excellent, solvent, well-run business — strong returns on the capital in place, ~$36B net cash, a genuine growth engine in energy — but priced at 200–350x normalized EBIT, so a base-case value near $21 sits far below the ~$392 price: no margin of safety. Sell signal — do not own at this price; watch for a far lower entry.

The thesis

SELL

An excellent, solvent, well-run business — strong returns on the capital in place, about $36B net cash, a genuine growth engine in energy — but priced at 200–350× normalized EBIT, so a base-case value near $21 sits far below the about $392 price: no margin of safety. Sell signal — do not own at this price; watch for a far lower entry.

The score

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Lifting it

- Balance sheet and debt
- Return on capital (ROIC)

Holding it down

- Price
- Free cash flow / EBIT

The key numbers

EV / EBIT, normalized	**208.3×**
P / E, normalized	**259.4×**
ROIC, normalized	**25%**
Operating margin, average	**7.7%**
Marginal return on capital	**11%**

normalized FY2019-FY2025 · debt and cash as of 2026-09-30

What one share is worth

Worst case	Bear case	Base case	Bull case	Expected value
$6.00	$15.47	$21.01	$26.59	$22.79
21% chance	2% chance	50% chance	27% chance	weighted by the chances
98% below today	96% below today	95% below today	93% below today	94% below today

Today $391.62 · value without the bull case $16.58 (0.04× the price)

The standard valuation the score uses: the same discount rate formula for every company (10.00%).

Bear case and bull case

Bear case

Automotive stagnates (~0–2% a year) at a depressed margin under price competition; energy compounds ~25% off a small base; no autonomy payoff in the window.

Bull case

Robotaxi and energy traction lift growth toward ~15% a year at a margin heading back to the proven FY2022 peak before fading.

Filings and accounting quality

> Accounting is clean (PwC unqualified opinion) but reported single-year earnings are flattered by non-recurring tax items and a shrinking near-100%-margin regulatory-credit stream, so normalized figures are the right basis.

- Auditor PwC, unqualified; FY2025 sole critical audit matter is the fair value/probability of the 2025 CEO (Musk) performance award — a governance signal, not an accounting defect.
- FY2023 net income was inflated by a one-off $6.46B deferred-tax valuation-allowance release (effective tax rate -50% that year); FY2022's rate was 8% — reported P/E on any single recent year misleads, so normalization taxes at 25%.
- Automotive regulatory credits are near-100% margin and structurally shrinking: remaining performance obligations fell $3.84B in FY2025 after the OBBBA curtailed credit programs — a direct headwind to an already-thin 4.6% operating margin.

Balance sheet

> Fortress balance sheet — net cash about $36B, no financial leverage — but it is trivial against the price and is not an asset play.

- Net cash $36.2B, only about 2.3% of the $1.56T market cap; net cash is $9.15/share vs a $393.67 price.
- Equity $89.8B incl. NCI; price/book 17.3×; debt/equity about 10%; net-debt/EBIT is net cash → DCF leverage add-on 0 and no solvency risk.
- Operating capital base about $40.6B is almost all net PP&E; operating working capital about 0 (payables and customer deposits fund inventory and receivables).

Cash flow statement

> Operating cash flow is healthy and rising, but free cash flow is thin and shrinking as capex surges into the AI/compute build — the cash yield on the price is negligible.

- 9M 2026 operating cash flow $14.90B (+36% y/y) but capex $13.01B (+112% y/y, for AI compute, Optimus, semiconductors, solar), so free cash flow fell to about $1.89B from $4.80B a year earlier.
- FY2025 free cash flow about $3.29B; normalized free cash flow about $2.66B = about 81% of normalized net income — P/FCF about 584×, FCF yield about 0.2%.
- Capital also directed to non-core/related ventures: $2.0B into SpaceX common stock and a $1.95B SI-hardware acquisition settled in Tesla stock.

Income statement

> Operating profitability has collapsed and the top line has turned down — the recent record contradicts the growth story.

- Revenue peaked at $97.7B (FY2024) and fell to $94.8B (FY2025,–2.9%, the first annual decline); operating margin compressed from 16.8% (FY2022) to 4.6% (FY2025), about 12-point fall; reported EBIT -38.5% in FY2025.
- 3-year normalized EBIT CAGR about -38.5%; the normalized 7-year operating margin is 5.0% and falling.
- about 32% of FY2025 pretax income ($1.68B of $5.28B) is interest income on the cash pile, not the car business; operating EBIT $4.36B barely exceeds it.

Debt tables

> Debt is small and largely non-recourse; the balance sheet carries no financial risk.

- Total borrowings about $9.3B — current about $1.6B, non-current about $6.7B — against $45.4B cash+investments, so net cash $36.2B; interest coverage about 12.9×.
- Most debt is non-recourse asset-backed notes funding the vehicle-lease and energy-financing books (e.g. $709M auto + $348M energy ABN issued in 2026), recourse only to subsidiary assets; recourse corporate debt is minimal; a $1.5B warehouse facility is undrawn.
- Leases are rent and excluded from debt per our rules; the finance-lease portion of the ”debt and finance leases” line is stripped out.

Commitments and contingencies

> No large quantified financial liabilities, but material governance/legal and regulatory overhangs, a long-dated AI-chip commitment, and heavy ongoing dilution.

- Legal: Tornetta v. Musk (the voided 2018 CEO Performance Award) and In re Tesla Derivative Litigation remain live in Delaware; the 2025 CEO Interim Award carries ”no double dip”/early-forfeiture mechanics tied to the outcome; SEC/DOJ investigations ongoing with no findings to date.
- Autopilot/FSD product and wrongful-death litigation is an ongoing liability precisely as Tesla pushes robotaxi — the core of the bull case also carries legal risk.
- A July 2025 AI-chip contract-manufacturing supply agreement (production 2027+) will be accounted as a finance lease — a sizeable future capital commitment.

Receivables and provision for credit losses

> Credit and receivables risk is immaterial — Tesla is not a captive lender of any size.

- On-book customer financing is tiny: legacy MyPower notes $241M net (allowance $26M) and net sales-type lease receivables $240M (allowance $5M) — together about 0.5% of revenue, with about $31M of allowances.
- Accounts receivable are mostly short-dated regulatory-credit sales to other OEMs, energy-storage billing milestones and receipts from third-party financing partners, so most customer credit risk sits with banks, not Tesla; government rebates receivable fell to $108M from $315M.
- The asset-backed notes fund the modest vehicle-lease/energy book and are non-recourse (debt stage).

Market and segment analysis

> Automotive (86.5% of revenue) is shrinking and de-margining while energy (13.5% of revenue, about 22% of gross profit) is the one genuine growth engine — too small to offset the auto decline.

- Auto & services revenue fell from $90.7B (2023) to $82.1B (2025) and its gross margin from 26.9% (2021) to 16.2% (2025); auto gross profit is -35% versus the 2022 peak.
- Energy revenue grew from $2.8B (2021) to $12.8B (2025) at a rising gross margin (-4.6% to 29.8%); now 13.5% of revenue but about 22% of gross profit.
- Regions: US about 50% of revenue (share rising as it holds while others fall), China about 22% (flat), rest-of-world about 28% (-9.6% in 2025) — concentration in two politically sensitive markets.

Inventory analysis

> Inventory is well-controlled (declining write-downs, negative working-capital cycle), but management is lining up large external funding for the capex build.

- Inventory write-downs fell to $217M (9M 2026) from $275M (9M 2025) — no sign of a demand glut forcing markdowns; finished goods include in-transit vehicles.
- Working capital is structurally about 0/negative — days payable exceed days sales outstanding, so suppliers and customer deposits fund inventory and receivables; operating capital ≈ net PP&E only.
- Capex intensity ahead: in September 2026 Tesla entered three credit agreements for $30B of aggregate commitments to support planned autonomy/robotics investments — undrawn, but a flag for future funding/leverage/dilution.

Leases and real estate analysis

> Leases are light and the real estate is largely owned — not a lease-heavy company; no lease adjustment needed.

- Tesla owns its major plants (Fremont, Texas, Berlin; Gigafactory/Megafactory Shanghai via 50-year land-use rights treated as operating-lease ROU); only Buffalo and Lathrop are leased.
- Operating-lease ROU is modest (deferred-tax basis about $1.3–1.4B), well under the 15%-of-EBITDA lease-heavy threshold; the engine did not flag lease_heavy, lease payments are already charged in EBIT and free cash flow, and leases are excluded from debt per our rules.
- Tesla is itself a lessor: operating-lease vehicles gross cost $6.12B (down from $7.03B), part of the capital base and depreciated against leasing revenue.

Depreciation analysis

> Capex far exceeds depreciation because the spending is growth/strategic, not maintenance; charging the full accounting wear (about $6.1B), the business still earns only a thin operating profit.

- FY2025 depreciation about $6.15B vs capex $8.53B (itself down from $11.34B in 2024); the excess over depreciation is growth capex for AI compute, new capacity, Optimus and semiconductors, for flat-to-declining sales.
- Per our guide depreciation stands as the measure of the plant wearing out: maintenance capex ~= depreciation $6.15B, so maintenance-adjusted EBIT ~= reported EBIT $4.36B (EBITDA $10.50B - $6.15B). The engine's default of charging the full capex ($8.53B) understates adjusted EBIT to $1.98B — too harsh here (I note this but do not force the override since the margin-based normalized valuation the scorecard uses is unaffected).
- Either way it is a thin operating business: normalized/reported operating margin about 4.6–5.0%, normalized EV/EBIT about 323× (352× on reported EBIT).

Business quality and moat

> Real but narrowing competitive advantages — the franchise test fails on the numbers; the moat is narrow and eroding.

- Returns are ordinary and falling: normalized tangible ROIC 16.3%, invested 11.3%, latest-year just 6.1% — a franchise shows durable high returns; Tesla's are compressing.
- Pricing power is weak and weakening: auto gross margin fell from 26.9% (2021) to 16.2% (2025) on repeated price cuts; operating margin 16.8% to 4.6%.
- Genuine assets: the Tesla brand, the Supercharger network (now the US NACS standard, recurring and opening to rivals), fleet/FSD data, vertical integration and manufacturing scale, and energy-storage (Megapack) leadership.

Management and governance

> A visionary, capable operator but weak governance and acute key-man risk — graded poor on a stewardship/shareholder-protection basis.

- The 2025 CEO Performance Award is extraordinary: 12 tranches tied to market-cap and operational milestones, with unrecognized stock comp of $10.23B (probable) plus $105.82B-$120.37B (not yet probable) — a potential about $116–130B grant-date cost and large future dilution.
- It follows the Delaware courts voiding the 2018 award (Tornetta) and concentrates Musk's voting control (earned shares he directs; unearned vote proportionately).
- Related-party web: about $2B into xAI Series E (Jan 2026), $2.0B into SpaceX stock, a $1.95B SI acquisition settled in Tesla stock, and ongoing xAI commercial ties — capital flowing toward Musk's other ventures.

Valuation

> Intrinsic value is a small fraction of the price on any cash-flow basis.

- Two-stage DCF at a 10% standard discount rate (US 10y 5.0% + 5% equity premium), net cash added: worst $6, bear $9, base $20, bull $35 per share; probability-weighted about $20, value-without-bull about $16.
- Multiples confirm it: normalized EV/EBIT about 323×, P/E about 413×, P/FCF about 584×; even on our FY2028 forecast EV/EBIT about 177×.
- Reverse DCF: to justify $393.67 the market must discount about 35–40% revenue growth for a decade at about 16% peak margins — robotaxi/Optimus becoming enormous, proven nowhere in the financials.

Risk and margin of safety

> No margin of safety — the price is about 19× the appraised value — compounded by competition, key-man and regulatory risk.

- Margin of safety negative: price $393.67 vs probability-weighted value about $20 (about 19×); even the bull $35 implies about 91% downside to intrinsic; value-without-bull about $16.
- Principal risks: extreme valuation/de-rating; competition and EV share loss to BYD; demand/price and margin erosion; acute key-man (Musk) and governance/dilution; regulatory (credit curtailment under OBBBA, autonomy approval, tariffs); execution risk on robotaxi/Optimus.
- The net-cash balance sheet protects against insolvency but not against permanent capital loss from multiple compression — permanent_loss set to 0.35.

Decision, sizing and portfolio fit

> Do not initiate — avoid; target weight 0%, and only of interest far below today's price.

- TSLA is not held (0% of the CAD 1.20M, 12-position book); public equities are already 74.7% of the portfolio, so adding an expensive, high-beta name worsens concentration and the equity tilt for no margin of safety.
- Hurdle test: Tesla's normalized earnings yield about 0.24% vs the US 10-year 5.0% — the risk-free bond yields about 21× as much; the existing fixed-income sleeve (25.3%) is far more attractive than TSLA here.
- Buy-below about $8 (weighted value about $20 less a margin of safety; reference value-without-bull about $16); the price would need to fall about 98% to clear our bar.

Monitoring and selling

> Keep on the watchlist; nothing to do unless the price collapses toward intrinsic or the autonomy/energy economics prove out.

- Revisit triggers: price toward about $25–30 (buy-below about $8); robotaxi/FSD showing real, scaled, profitable revenue; energy >25% of revenue/profit; automotive operating margin sustainably >10%.
- Watch each 10-Q: deliveries and ASP, automotive gross margin excluding regulatory credits, energy deployments (GWh) and margin, capex run-rate, share count; plus the Tornetta/derivative litigation and 2025 CEO-award outcome.
- Deterioration confirms the avoid: continued share loss, operating margin <4%, further dilution/related-party transfers, regulatory losses on credits/autonomy.

The decision

SELL

The decision: sell. Buy below $8.00. Trim above $20.00. Target weight 0.0 percent of the portfolio.

The decision (continued)

SELL

What would change our mind: A price falling toward intrinsic value (base about $21; buy-below about $8 with a margin of safety); robotaxi/FSD demonstrating real, scaled, profitable revenue that would belong in the base case rather than as optionality; or energy growing past about 25% of revenue and profit while automotive operating margin recovers sustainably above about 10%.