# Tesla's 4Q22 Earnings Prove It Remains Overvalued

Tesla (TSLA: $167/share) reported record earnings on January 25, 2023 and the stock is up over 15% on the news. While the earnings beat may make headlines, a deeper look bolsters our thesis that the stock is worth closer to $25/share – an 85% downside from the current price. See all our reports on Tesla here.

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### What Happened?

**Production miss.** Tesla failed its 50% annual production growth rate goal as it grew just 47% in 2022. Deliveries were even lower at 40%. Moving forward, Tesla stated it would "grow production as quickly as possible in alignment with the 50% CAGR target" but such a promise looks less reliable after 2022 results.

Additionally, Tesla's 2023 production guidance of 1.8 million vehicles is just a little higher than the annualized 4Q22 production level of 1.76 million cars. Even Elon Musk's unofficial goal of producing 2 million vehicles in 2023 is only 14% above 4Q22's annualized production rate.

**Gross margin decline.** Tesla's automotive gross margin fell 466 basis points in 4Q22 to its lowest level in the last five quarters. The automotive gross margin for 2022 fell 82 basis points YoY. These results largely exclude Tesla's recent price cuts, which put margins at risk of falling even more.

### What Does It Mean?

Tesla's stock remains highly overvalued. The company is not immune to higher costs and demand elasticity in a rising rate and slowing economic environment. Worse yet, Tesla's competition keeps getting stronger and has ample resources and cash flows to invest in the EV market. Tesla faces an increasingly uphill battle to secure its competitive position, which makes its current valuation look even more unrealistic.

### This News Supports Our Bear Thesis – Tesla Remains Overvalued

Yesterday's earnings report, coupled with Consumer Reports announcing that Tesla's Autopilot ranks seventh out of 12 systems tested, affirms our thesis that Tesla's valuation remains untethered from reality.

While the stock has fallen 28% since our October 2022 report, the downside risk is still substantial. Even if we assume Tesla sells 3.9 million cars (12% of projected global EV passenger market in 2031) at an ASP of $40k (equal to General Motors in 2Q22) in 2031, the stock would be worth just $25/share today – an 85% downside to the current stock price.

As we wrote in October, Tesla's price ($205/share) implied it would sell 12 million EVs in 2031 at average selling prices (ASP) of $54k, which would equal 37% of the projected global EV passenger vehicle market in 2031.

ASPs, however, have been on a downward trajectory for years. With lower ASPs, Tesla would need to take a 50+% share of the projected EV market in order to reach the targets implied by its valuation.

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*David Trainer, Kyle Guske II, Matt Shuler, and Italo Mendonça receive no compensation to write about any specific stock, sector, style, or theme.*

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Key quotes from the paper:

- "[New Constructs'] *Total Adjustments* differs significantly from the items identified and excluded from Compustat's adjusted earnings measures. For example… 50% to 70% of the variation in *Total Adjustments* is not explained by *S&P Global's (SPGI) Adjustments* individually." – pp. 14, 1st para.

- "A final source of differences [between New Constructs' and S&P Global's data] is due to data collection oversights…we identified cases where Compustat did not collect information relating to firms' income that is useful in assessing core earnings." – pp. 16, 2nd para.

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Key quotes from the paper:

- "…an accurate calculation of ROIC requires more diligence than often occurs in some of the common, off-the-shelf ROIC calculations. Only by scouring the footnotes and the MD&A [ as New Constructs does] can investors get an accurate calculation of ROIC." – pp. 8, 5th para.

- "The majority of the difference…comes from New Constructs' machine learning approach, which leverages technology to calculate ROIC by applying accounting adjustments that may be buried deeply in the footnotes across thousands of companies." – pp. 4, 2nd para.

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Key quotes from the paper:

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