Morgan Stanley | RESEARCH

UPDATE

October 21, 2026 09:52 PM GMT

Tesla Inc | North America

FSD Momentum Accelerates; Margin Strength and FCF Upside Drive a Solid Beat

Andrew S Percoco
Equity Analyst
Andrew.Percoco@morganstanley.com +1 212 296-4322

Daniela M Haigian
Equity Analyst
Daniela.Haigian@morganstanley.com +1 212 761-6071

Jahvonte G Bain
Research Associate
Jahvonte.Bain@morganstanley.com +1 212 761-9231

Tesla Inc (TSLA.O, TSLA US)

Autos & Shared Mobility | United States of America

Stock Rating	**Equal-weight**
Industry View	**In-Line**
Price target	**$400.00**
Shr price, close (Oct 20, 2026)	$373.71
Mkt cap, curr (mm)	$1,322,933
52-Week Range	$498.83-297.38

AlphaSignals Earnings Reaction

Unchanged
Impact to our thesis

Meaningful upside
Financial results versus consensus

Modest revision higher
Direction of next 12-month consensus EPS

Our take: A stronger quarter supported by higher gross margins in both core auto and energy. FCF also beat on the basis of working capital tailwinds and much lower-than-expected capex. Regarding capex, Tesla has only spent $13bn YTD, implying a significant ramp in 4Q assuming the $25bn capex guidance for the year still holds.

Noteworthy data points: (i) FSD attach rates on new vehicle sales in North America was >75% (vs. 55% in 2Q26). **(ii)** Cumulative unsupervised robotaxi miles reached nearly 2mn at the end of September and have subsequently increased to ~3.3mn miles today, implying a ~20% weekly growth rate. **(iii)** Energy Storage margins came in well ahead of expectations (unclear if there are any one-timers), with the company highlighting record order rates and backlog. We look for more clarity on the pricing environment, given the implied Energy ASP compression in the quarter.

3Q26 Results

- **Revenue:** $28.05bn, -0.7%/-0.3% vs. MSe of $28.24bn and cons of $28.13bn, with strength in Auto, Services & Other offset by weaker Energy relative to consensus.
- **Auto gross margin ex-credits:** 18.1% vs. MSe of 16.4% and cons of 16.7% supported by improved vehicle region/product mix and higher FSD subscriptions.
- **Energy gross margin:** 33.1% vs. MSe of 26.5% and cons of 25.7%.
- **Operating Income:** $718mn (2.6% margin) vs. MSe of $526mn (1.9% margin) and cons of $687mn (2.4% margin).
- **Adj. EBITDA:** $3.90bn (13.9% margin) vs. MSe of $3.90bn (13.8% margin) and cons of $3.66bn (13.0% margin).
- **Adj. EPS**: $0.48 vs. MSe of $0.54 and cons of $0.45.
- **FCF:** +$1.53bn vs. MSe of -$4.48bn and cons of -$4.39bn.

investors should be aware that th

Research as only a single factor i
decision.

**For analyst certification and oth
refer to the Disclosure Section, l
report.**



Exhibit 1: 3Q26 Earnings Variance

Tesla Income Statement ($MM)	3Q26	Cons	MSe	% Difference vs. Cons	% Difference vs. MSe
Revenue					
Auto (inc credits)	20,560	19,834	20,863	3.7%	(1.5%)
Reg Credit	*113*	*180*	*389*		
Energy	2,881	3,908	3,619	(26.3%)	(20.4%)
Services and Other	4,605	4,298	3,758	7.1%	22.5%
Total Revenue	**28,046**	**28,131**	**28,239**	**(0.3%)**	**(0.7%)**
COGS					
Auto	16,754	16,340	17,117		
Energy	1,927	2,909	2,660		
Services and Other	3,871	3,827	3,333		
Gross Profit					
Auto	3,806	3,494	3,746	8.9%	1.6%
% Gross Margin (inc Credits)	18.5%	17.6%	18.0%		
% Gross Margin (exc. Credits)	**18.1%**	**16.7%**	**16.4%**		
Energy	954	999	959	(4.5%)	(0.5%)
% Gross Margin	*33.1%*	*25.7%*	*26.5%*		
Services and Other	734	470	425	56.0%	72.9%
% Gross Margin	*15.9%*	*10.6%*	*11.3%*		
Total Gross Profit	**5,494**	**4,986**	**5,129**	**10.2%**	**7.1%**
% Gross Margin	19.6%	17.7%	18.2%		
R&D	2,761	2,334	2,486	18.3%	11.1%
% of Sales	*9.8%*	*8.3%*	*8.8%*		
SG&A	2,015	1,956	2,118	3.0%	(4.9%)
% of Sales	*7.2%*	*7.0%*	*7.5%*		
Restructuring + Other Expenses	0	9	-		
Operating Income	**718**	**687**	**526**	**4.5%**	**36.6%**
% Margin	*2.6%*	*2.4%*	*1.9%*		
SBC	982	875	1,266	12.2%	(22.4%)
Net Interest Expense	(355)	(341)	(336)	4.1%	5.8%
Other (income) / expense, net	117	17	0		
Pre-Tax Earnings	956	1,011	861	(5.4%)	11.0%
Income Tax	152	244	218	(37.7%)	(30.2%)
% Tax Rate	*15.9%*	*24.1%*	*25.3%*		
Net (income) / loss attributable to NCI	17	14	12		
GAAP Net Income	**787**	**755**	**631**	**4.2%**	**24.6%**
Adj Net Income	**1,769**	**1,630**	**1,897**	**8.5%**	**(6.8%)**
GAAP EPS Diluted	**$0.22**	**$0.21**	**$0.18**	4.8%	23.0%
Diluted Common Shares Outstanding	3,541	3,543	3,531		0.3%
Non-GAAP Dil. EPS	**$0.48**	**$0.45**	**$0.54**	**6.7%**	**(10.7%)**
FCF	**1,531**	**(4,385)**	**(4,483)**	NA	NA
Capital Expenditures	4,732	8,000	7,500	(40.9%)	(36.9%)
Cash, Cash Equivalents and Marketable Securities	45,447	39,087	39,041	16.3%	16.4%
Adj EBITDA	**3,900**	**3,664**	**3,896**	**6.4%**	**0.1%**
Adj EBITDA Margin	13.9%	13.0%	13.8%	6.8%	0.8%

Valuation Methodology and Risks

Tesla Inc (TSLA.O)

Our PT of $400 is comprised of 5 components: **(1)** $44/share for core Tesla Auto business on ~8.5mm units in 2040, 8.2% exit EBIT margin (ex-FSD), 10.9% WACC, and 10x 2040 exit EBITDA multiple. **(2)** Network Services at $145/share, 80% attach rate at $240/month ARPU by 2040 **(3)** Tesla Mobility at $120/share on DCF with ~5mn cars at ~$1.33/mile by 2040. **(4)** Energy at $35/share, and **(5)** Humanoids at $56/share (50% probability discount).

Risks to Upside

- Increased FSD attach rate / unsupervised FSD
- Cost milestones on new battery
- New model intro (Roadster, multivan)
- Robotaxi rollout
- Optimus announcement

Risks to Downside

- Competition: legacy OEMs/Chinese players/big tech in Autos and Robotics
- Execution risk across robotaxi/FSD/humanoid
- Regulatory
- China risk
- Dilution
- Valuation