Tesla Inc

Special Committees Formed to Discuss Potential Merger with SPCX; Continue to See Strong Strategic Logic; Potential TSLA China Ring-Fence Needed (Spin or Control Transfer)

Neutral

TSLA, TSLA US
Price (20 Oct 26):$373.71
Price Target (Dec-27):$415.00

Talk of a potential SPCX/TSLA merger picks up steam: With CEO Elon Musk publicly disclosing on the SPCX 3Q26 earnings call that special committees have been formed at both TSLA and SPCX to discuss a potential combination, we revisit (click here for our initial take) our view on the potential pathways forward. Key merger catalysts and rationale include: ***1)*** SPCX's current ~$2.0T valuation (+10% since IPO), furnishing a high-value acquisition currency and Musk's June 2026 move to lift his TSLA voting stake to ~20% (via exercise of his 2018 award), meaningfully increasing his control; ***2)*** The strategic logic for a combination remains coherent – both companies share engineering talent, AI infrastructure, the Terafab chip facility in Texas, and, most importantly, Musk's leadership and engineering philosophy. The commercial linkages are also concrete — SPCX has purchased TSLA Megapack batteries & Cybertrucks, while TSLA invested $2 bn in xAI (now part of SPCX). Layered atop this is Musk's well-documented consolidation track record & the end thesis of unifying the AI ecosystem under a single corporate roof. We see the potential deal structure as likely to be a SPCX-led all-stock deal, and at current TSLA Mcap levels, a 30-35% premium, typical for such transactions, would imply a merger of equals and clear the threshold for Musk maintaining >50% voting control of the combined entity (see Table 1).

Shareholder and regulatory approval key hurdles; potential China control transfer a possibility: As we have noted in the past, two of the major hurdles would be 1) TSLA shareholder approval; 2) regulatory scrutiny. While Musk has publicly acknowledged the challenges with #1, we believe #2 is likely to prove the bigger hurdle to navigate. ***On #1***, after challenges at TSLA in 2025, fundamentals are turning a corner with green shoots in the core vehicle business (stronger than expected 2Q26/3Q26 deliveries) and pickup in FSD approval and robotaxi/Cybercab roll-outs (see our recent notes on regulation and robotaxi deep-dive) – continued progress on this front, including the upcoming unveiling of Optimus Gen 3, could lead to TSLA shareholders demanding a significantly larger premium than the 30-35% we assume. ***On #2***, approval in China could be a particular hurdle given the potential national security sensitivities created by SPCX's defense/U.S. government ties, the absence of Starlink approval in China, and TSLA's large, profitable China manufacturing footprint – key dynamics that are at odds with each other. TSLA has historically managed this balance within its existing structure, maintaining a sizeable wholly owned footprint as a non-Chinese OEM, and advancing FSD, so there could be an eventual pathway through approvals. We believe one such avenue would be to ring-fence TSLA's China business or transfer control (a potential mirror image of the US/TikTok arrangement) - we see a potential structure where a China-based consortium controls >50% of the stake, and TSLA continues to generate revenue via a licensing structure for its brand, FSD technology (walled-off) and other future arrangements around Optimus. While China makes up ~20% of TSLA's revenue (and a significantly higher % of EBIT/FCF given that the majority of TSLA's current and medium-term opex is burdened by robotaxi/Optimus investments), it is still a smaller (~10%) contributor to our ~$1.7T SoTP based valuation (see Table 2), which is skewed by value from long-term bets on robotaxi,

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Quarterly Forecasts (FYE Dec)

Adj. EPS ($)	2025A	2026E	2027E
Q1	0.27	0.41A	0.24
Q2	0.40	0.33A	0.37
Q3	0.50	0.36	0.44
Q4	0.50	0.33	0.40
FY	1.66	1.43	1.45

Style Exposure

Quant	Current	Hist %Rank (1=Top)			
Factors	%Rank	6M	1Y	3Y	5Y
Value	97	96	95	94	92
Growth	74	62	41	42	44
Momentum	64	42	21	23	24
Quality	64	58	67	20	43
Low Vol	57	75	84	77	77
ESGQ	70	37	28	71	45

Sources for: Style Exposure – J.P. Morgan Global Markets Strategy; all other tables are company data and J.P. Morgan estimates.

See page 7 for analyst certification and important disclosures.

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Price Performance



	YTD	1m	3m	12m
Abs	-16.9%	2.6%	1.1%	-16.5%
Rel	-28.6%	5.6%	6.9%	-27.4%

Company Data

Shares O/S (mn)	3,950
52-week range ($)	498.83-297.38
Market cap ($ mn)	1,475,985.00
Exchange rate	1.00
Free float (%)	89.5%
3M ADV (mn)	37.79
3M ADV ($ mn)	13,279.9
Volatility (90 Day)	52
Index	RUSSELL 2000
BBG ANR (Buy | Hold | Sell)	30|23|8

Key Metrics (FYE Dec)

$ in millions	FY25A	FY26E	FY27E	FY28E
Financial Estimates				
Revenue	94,827	108,151	123,894	146,379
Adj. EBITDA	10,503	8,232	9,519	14,477
Adj. EBIT	4,355	1,423	1,319	5,177
Adj. net income	5,858	5,066	5,266	7,980
Net margin	6.2%	4.7%	4.3%	5.5%
Adj. EPS	1.66	1.43	1.45	2.15
BBG EPS	1.61	1.72	2.22	3.30
Cashflow from operations	14,747	12,317	11,654	15,422
FCFF	7,200	(9,956)	(11,913)	(9,519)
Margins and Growth				
Revenue Growth Y/Y (%)	(2.9%)	14.1%	14.6%	18.1%
EBITDA margin	11.1%	7.6%	7.7%	9.9%
EBITDA Growth Y/Y (%)	(15.6%)	(21.6%)	15.6%	52.1%
EBIT margin	4.6%	1.3%	1.1%	3.5%
Adj. EPS growth	NM	NM	1.5%	48.2%
Ratios				
Adj. tax rate	27.0%	22.7%	25.5%	25.2%
Interest cover	-	-	-	-
Net debt/Equity	NM	0.0	0.2	0.2
Net debt/EBITDA	NM	0.4	1.6	1.7
ROCE	3.7%	1.1%	0.8%	2.8%
ROE	7.5%	5.9%	5.6%	7.9%
Valuation				
FCFF yield	0.5%	(0.8%)	(0.9%)	(0.7%)
Dividend yield	-	-	-	-
EV/EBITDA	132.2	170.3	148.6	98.3
EV/Revenue	14.6	13.0	11.4	9.7
Adj. P/E	225.0	261.8	258.0	174.1

Summary Investment Thesis and Valuation

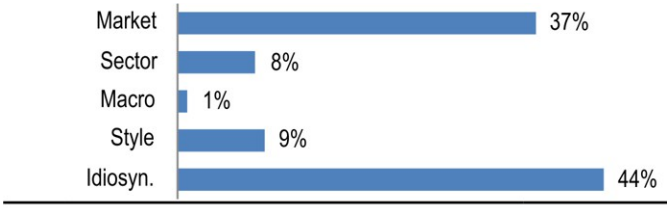
Investment Thesis

TSLA sits at the forefront of physical AI entering uncharted TAMs where execution will be key to accelerating adoption and expanding those TAMs (the Jevons paradox). Its under-appreciated edge is deep vertical integration across hardware + software, paired with speed of technology development: using factories as a test bed for Optimus should lower auto COGS and validate Humanoids at industrial scale (US/Global TAM of ~5 mn/30 mn by 2040E), a flywheel analogous to AWS/Kiva at AMZN. In robotaxi, >10 bn miles recorded and 9 mn personal fleet on road today should drive network-effects across robotaxi and FSD adoption (35 mn personal TSLA fleet and 40 mn robotaxis by 2040E), while Energy Storage benefits from data center and grid tailwinds, and the base infrastructure can be monetized via FSD/Optimus licensing, distributed inference, Cortex compute, and supercharger usage. We see EPS inflection in 2028+ and a 50%+ growth CAGR through 2030 and beyond, with implied SoTP of $3.9T by 2035E. Valuation on near-term earnings is lofty, but we think TSLA deserves the benefit of the doubt on LT earnings given new TAMs are unlikely to inflect until 2029+, with shares in the interim likely tied to robotaxi/ Optimus data points and potential index diversification offering a better entry point.

Valuation

We rate TSLA shares Neutral with a $415 December 2027 price target.

Performance Drivers



Factors	6M Corr	1Y Corr
Market: MSCI US	0.60	0.61
Sect: Cons Discretionary	0.34	0.37
Ind: Automobiles & Comp	1.00	1.00
Macro:		
US 10yr Breakeven	-0.18	-0.13
US 10yr yield	-0.11	-0.11
Crude Oil	-0.08	-0.10
Quant Styles:		
Quality	-0.31	-0.26
LowVol	-0.20	-0.23
Growth	0.22	0.16

Source: J.P. Morgan Global Markets Strategy for Performance Drivers; company data, Bloomberg Finance L.P. and J.P. Morgan estimates for all other tables. Note: Price history may not be complete or exact.

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Optimus, and compute/inference/FSD.

Table 1: Elon Musk Control Math at ~30-35% Premium for TSLA

	TSLA	SPCX	Combined Entity
Elon Musk Equity Stake	20%	48%	34%
Elon Musk Voting Stake	20%	82%	51%
TSLA Premium			
32.50%			
TSLA Implied (Mcap, $T)	**$2.0**	**$2.0**	**$4.0**

Source: Bloomberg Financial L.P., Company Reports, J.P. Morgan Estimates

Table 2: TSLA JPMe SoTP Based Valuation and China %

Segment SoTP	Revenue ($ bn, 2035)	EV/Revenue	EV ($ bn)	Valuation Benchmarks
Automotive	246	2.0x	481	<<Global peer average, adjusted for growth and margin levers
Energy storage	31	2.5x	77	<<Median average of global peers + cost advantage, cell IP
Robotaxi	319	5.0x	1578	<<Premium to Uber/Lyft due to cost and Vertical integration advantage
FSD Subscription	21	12.5x	258	<<High-margin SaaS
Optimus (Humanoid Robotics)	47	15.0x	705	<<Few public comps, large TAM, SaaS component, licensing
Other Licensing (FSD, Inference, AI Compute)	80	10.0x	797	<<Cloud/compute offering, high margin, high ROIC
Total	**744**	**5.2x**	**3896**	
Discount Rate			13%	
Discounted 2027-end			**1687**	
Net Cash/(Debt) 2027-end			**12**	
Equity Value			**1699**	
China Entity Value			**166**	
% China			10%	

Source: Company Reports, J.P. Morgan Estimates

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Investment Thesis, Valuation and Risks

Tesla Inc *(Neutral; Price Target: $415.00)*

Investment Thesis

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Valuation

We maintain our Neutral rating and Dec 2027 PT of $415. We use a weighted average of P/E-based approach (on 2030E EPS) and SoTP on 2035E, both discounted back. For P/E, we apply a ~75x multiple on 2030E EPS as the forecast margin and revenue near an inflection with potential for 50%+ EPS CAGR for several years. On SoTP, we value individual TAMs separately, applying a higher EV/revenue multiple to new and high-margin TAMs and more mature multiples to existing ones. As such, we arrive at a blended ~5.0x EV/revenue multiple on estimated 2035 revenue.

TSLA Implied Value/Share

$ per share

JPM Implied Value/Share	Weightage	Value
SoTP Based	50%	$476
P/E Based	50%	$354
Total		**$415**

Source: J.P. Morgan estimates.

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TSLA SoTP Valuation Analysis

$ billion

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Discount Rate			13%	
Discounted 2027-end			**1687**	
Net Cash/(Debt) 2027-end			**12**	
Equity Value			**1699**	
Implied Value/Share			**$476**	

Source: J.P. Morgan estimates.

TSLA P/E Based Valuation Analysis

$ million, excluding share count, valuation multiples and EPS

Price-to-Earnings-based Analysis	2026E	2027E	2028E	2029E	2030E	Comment
EPS	$1.43	$1.45	$2.15	$3.50	$6.00	
JPM P/E Multiple					75.0x	<< 50%+ EPS CAGR, growth adjusted P/E
Implied Value/Share					$450	
Discounted 2027-end					**$354**	
Current Value per Share					$374	
Upside vs. Current					-5%	
Memo:						
(-) Net Cash/(Debt), inc. ST Investments	37,323	24,283	11,937	2,359	-2,837	
Equity Value	1,322,560	1,335,266	1,372,637	1,391,322	1,410,008	
Enterprise Value	1,285,237	1,310,983	1,360,700	1,388,964	1,412,845	
Diluted Share Count	3,539	3,573	3,673	3,723	3,773	
JPM EBITDAP	8,232	9,519	14,477	21,904	35,401	
EV/EBITDAP	***156.1x***	***137.7x***	***94.0x***	***63.4x***	***39.9x***	*<< Based on current price*
Sales	108,151	123,894	146,379	175,343	212,638	
EV/Sales	***11.9x***	***10.6x***	***9.3x***	***7.9x***	***6.6x***	*<< Based on current price*

Source: Bloomberg Finance L.P., company reports, and J.P. Morgan estimates.

Risks to Rating and Price Target

Upside risks include: (1) Recent uptick in gas prices could drive a greater-than-expected increase in industry BEV demand; (2) faster-than-expected FSD adoption as safety metrics improve; (3) faster-than-expected deployment of Optimus in factories that could drive a faster reduction in COGS and also accelerate commercial adoption; (4) favorable regulatory backdrop that could drive a faster rollout of robotaxi than expected; (5) faster-than-expected leverage on R&D spend as robotaxi and Optimus deployment ramps.

Downside risks include: (1) Further deterioration in brand perception given CEO's involvement in politics; (2) execution risks tied to launch of Optimus and pace of safety progress for robotaxis; (3) slower-than-anticipated regulatory approvals for robotaxis; (4) near-term retail and institutional shareholder diversification due to large anticipated AI-related IPOs; (5) competitors iterate at a faster pace across all product lines; (6) near-term EPS revision risk from higher D&A tied to ramped-up capex and spending on Optimus/ robotaxi roll-out; (7) key man risk – TSLA would be a fundamentally different company without Mr. Musk as the valuation reflects his strategic leadership and distinctive execution capability.

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Tesla Inc: Summary of Financials

Income Statement - Annual	FY24A	FY25A	FY26E	FY27E	FY28E
Revenue	**97,690**	**94,827**	**108,151**	**123,894**	**146,379**
COGS	(74,872)	(71,585)	(82,236)	(93,175)	(108,302)
Gross profit	**17,450**	**17,094**	**19,105**	**22,519**	**28,777**
SG&A	(5,150)	(5,834)	(8,065)	(9,400)	(10,200)
Adj. EBITDA	**12,444**	**10,503**	**8,232**	**9,519**	**14,477**
D&A	(5,368)	(6,148)	(6,809)	(8,200)	(9,300)
Adj. EBIT	**7,076**	**4,355**	**1,423**	**1,319**	**5,177**
Net Interest	1,219	1,342	1,305	580	80
Adj. PBT	**8,990**	**5,278**	**2,783**	**1,899**	**5,257**
Tax	(1,837)	(1,423)	(631)	(483)	(1,323)
Minority Interest	(62)	(61)	(56)	(60)	(60)
Adj. Net Income	**8,419**	**5,858**	**5,066**	**5,266**	**7,980**
Reported EPS	2.41	1.66	1.43	1.45	2.15
Adj. EPS	**2.41**	**1.66**	**1.43**	**1.45**	**2.15**
DPS	**-**	**-**	**-**	**-**	**-**
Payout ratio	-	-	-	-	-
Shares outstanding	3,495	3,526	3,550	3,636	3,717

Income Statement - Quarterly	1Q26A	2Q26A	3Q26E	4Q26E
Revenue	**22,387A**	**28,236A**	**29,078**	**28,449**
COGS	(16,077)A	(21,866)A	(22,530)	(21,763)
Gross profit	**4,720A**	**4,751A**	**4,798**	**4,836**
SG&A	(1,833)A	(1,982)A	(2,100)	(2,150)
Adj. EBITDA	**2,531A**	**2,017A**	**1,848**	**1,836**
D&A	(1,590)A	(1,619)A	(1,750)	(1,850)
Adj. EBIT	**941A**	**398A**	**98**	**(14)**
Net Interest	342A	341A	342	280
Adj. PBT	**748A**	**1,329A**	**440**	**266**
Tax	(257)A	(201)A	(108)	(65)
Minority Interest	(14)A	(12)A	(15)	(15)
Adj. Net Income	**1,453A**	**1,155A**	**1,295**	**1,163**
Reported EPS	0.41A	0.33A	0.36	0.33
Adj. EPS	**0.41A**	**0.33A**	**0.36**	**0.33**
DPS	**-**	**-**	**-**	**-**
Payout ratio	-	-	-	-
Shares outstanding	3,538A	3,540A	3,548	3,573

Balance Sheet & CashFlow Statement	FY24A	FY25A	FY26E	FY27E	FY28E
Cash and cash equivalents	16,139	16,513	9,661	17,315	12,737
Accounts receivable	4,418	4,576	4,326	4,956	5,855
Inventories	12,017	12,392	15,138	15,206	17,640
Other current assets	25,292	35,161	33,494	34,236	35,450
Current assets	**57,866**	**68,642**	**62,619**	**71,713**	**71,683**
PP&E	35,836	40,643	58,655	74,455	90,155
LT investments	-	-	-	-	-
Other non current assets	28,368	28,521	34,194	37,747	41,628
Total assets	**122,070**	**137,806**	**155,468**	**183,915**	**203,466**
Short term borrowings	-	-	-	-	-
Payables	22,204	26,650	29,721	32,212	38,059
Other short term liabilities	0	0	0	0	0
Current liabilities	**22,204**	**26,650**	**29,721**	**32,212**	**38,059**
Long-term debt	8,213	6,736	12,924	32,924	37,924
Other long term liabilities	17,973	21,555	22,501	22,501	22,501
Total liabilities	**48,390**	**54,941**	**65,146**	**87,637**	**98,484**
Shareholders' equity	73,680	82,865	90,322	96,278	104,982
Minority interests	-	-	-	-	-
Total liabilities & equity	**122,070**	**137,806**	**155,468**	**183,915**	**203,466**
Net debt/(cash)	(7,926)	(9,777)	3,263	15,609	25,187
Cash flow from operating activities	**14,923**	**14,747**	**12,317**	**11,654**	**15,422**
o/w Depreciation & amortization	5,368	6,148	6,809	8,200	9,300
o/w Changes in working capital	-	-	-	-	-
Cash flow from investing activities	**(34,762)**	**(15,478)**	**(23,949)**	**(24,000)**	**(25,000)**
o/w Capital expenditure	(11,339)	(8,527)	(23,282)	(24,000)	(25,000)
as % of sales	*11.6%*	*9.0%*	*21.5%*	*19.4%*	*17.1%*
Cash flow from financing activities	**0**	**0**	**0**	**0**	**0**
o/w Dividends paid	-	-	-	-	-
o/w Net debt issued/(repaid)	0	0	5,000	20,000	5,000
o/w Share Repurchases	-	-	-	-	-
Net change in cash	**(19,839)**	**(731)**	**(11,632)**	**(12,346)**	**(9,578)**
Adj. Free cash flow to firm	**4,554**	**7,200**	**(9,956)**	**(11,913)**	**(9,519)**

Ratio Analysis	FY24A	FY25A	FY26E	FY27E	FY28E
Gross margin	17.9%	18.0%	17.7%	18.2%	19.7%
EBITDA margin	12.7%	11.1%	7.6%	7.7%	9.9%
EBIT margin	7.2%	4.6%	1.3%	1.1%	3.5%
Net profit margin	8.6%	6.2%	4.7%	4.3%	5.5%
ROE	12.3%	7.5%	5.9%	5.6%	7.9%
ROA	7.4%	4.5%	3.5%	3.1%	4.1%
ROCE	7.5%	3.7%	1.1%	0.8%	2.8%
SG&A/Sales	5.3%	6.2%	7.5%	7.6%	7.0%
Net debt/equity	NM	NM	0.0	0.2	0.2
Net debt/EBITDA	NM	NM	0.4	1.6	1.7
P/E (x)	155.1	225.0	261.8	258.0	174.1
P/BV (x)	17.7	15.9	14.7	14.1	13.2
EV/EBITDA (x)	111.8	132.2	170.3	148.6	98.3
Dividend Yield	-	-	-	-	-
Sales/Assets (x)	0.9	0.7	0.7	0.7	0.8
Interest cover (x)	-	-	-	-	-
Operating leverage	(2154.3%)	1312.1%	(479.1%)	(50.5%)	1612.0%
Revenue y/y Growth	0.9%	(2.9%)	14.1%	14.6%	18.1%
EBITDA y/y Growth	(8.2%)	(15.6%)	(21.6%)	15.6%	52.1%
Tax rate	20.4%	27.0%	22.7%	25.5%	25.2%
Adj. Net Income y/y Growth	(22.6%)	(30.4%)	(13.5%)	3.9%	51.5%
EPS y/y Growth	NM	NM	NM	1.5%	48.2%
DPS y/y Growth	-	-	-	-	-

Source: Company reports and J.P. Morgan estimates.
Note: $ in millions (except per-share data).Fiscal year ends Dec. o/w - out of which