Ferrari N.V. (RACE)

Updated September 28th, 2018 by Bob Ciura

Key Metrics

Current Price:	$138	**5 Year CAGR Estimate:**	1.3%	**Volatility Percentile:**	82.0%
Fair Value Price:	$95	**5 Year Growth Estimate:**	8.0%	**Momentum Percentile:**	76.1%
% Fair Value:	146%	**5 Year Valuation Multiple Estimate:**	-7.3%	**Valuation Percentile:**	7.2%
Dividend Yield:	0.6%	**5 Year Price Target**	$139	**Total Return Percentile:**	9.1%

Overview & Current Events

Ferrari was founded in 1947 and is headquartered in Italy. Today, it has a market capitalization of $24 billion. The company manufactures luxury sports cars under a variety of models. Its cars are high-performance, with a number of V-8 and V-12 models among its best sellers. Some of its most popular models include the F12Berlinetta, 488GTB, 488 Spider, and the 458 Speciale. Ferrari also participates in Formula One racing. Ferrari's luxury vehicles cater to the very top of the consumer automotive market. Approximately 72% of Ferrari's revenue comes from cars and spare parts. Another 14% of sales come from sponsorship. Approximately 12% of sales are derived from engines, with the remainder of sales coming from other operations, such as financial services, as well as revenue generated from management of the Mugello racetrack.

On 8/1/18 Ferrari announced first-half financial results. Revenue declined 1.5% in the second quarter, and missed expectations. Revenue was roughly flat over the first two quarters. However, earnings-per-share beat expectations and grew by 18% from the same quarter last year. Car shipments rose in all geographic regions over the first half of 2018 except for the Middle East. Ferrari's bottom line has received a meaningful boost from cost controls and tax reform.

Per-Share Growth

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	N/A	N/A	N/A	N/A	N/A	N/A	N/A	$1.66	$2.22	$3.38	***$3.66***	***$5.38***
DPS	N/A	N/A	N/A	N/A	N/A	N/A	N/A	$0.00	$0.46	$0.64	***$0.88***	***$1.29***
Shares	N/A	N/A	N/A	N/A	N/A	N/A	N/A	188.9	188.9	189.0	***189.0***	***189.0***

Ferrari became a publicly-traded company in 2015, when it was partially spun-off from its parent company Fiat Chrysler. The company has posted strong growth as a public company. The past few years have seen strong global economic expansion. This is arguably the most important growth catalyst for a luxury automaker. As long as the global economy remains strong, and stock markets continue to rise, Ferrari's sales and earnings should continue to grow. The company expects to ship more than 9,000 cars in 2018, generating total revenue of approximately $4.0 billion for the year.

Ferrari will also be investing in new products to generate growth. For example, Ferrari is developing its first SUV model, called the Purosangue, which is Italian for thoroughbred. It is a hybrid, based on a new platform that Ferrari will be using for many of its next-generation models going forward. The new SUV model is expected to launch in 2022. Rolling out SUVs will allow Ferrari to enter a growth category within the automotive market, and expand its consumer reach. Analyst consensus calls for earnings-per-share of $3.66 in 2018. This would represent 8% growth from 2017. We expect the company to maintain an earnings growth rate of 8% per year over the next five years.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	N/A	N/A	N/A	N/A	N/A	N/A	N/A	29.7	20.7	26.9	***37.7***	***25.8***
Avg. Yld.	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0.0%	1.0%	0.7%	***0.6%***	***0.9%***

Despite the fact that Ferrari is an automaker, which typically have low stock valuations, investors are comfortable placing a much higher valuation on the stock. Ferrari currently trades for a price-to-earnings ratio of 37.7 based on 2018 earnings estimates. This is significantly above the historical average. In the past 10 years, the stock held an average price-to-earnings ratio of 25.8. We acknowledge the company's strong earnings growth rate, but we view the 10-year average price-to-earnings ratio as a more reasonable estimate of fair value. A declining multiple could reduce shareholder returns by 7.3% per year. The current dividend yield is 0.6%, or 0.4% after considering the 26% withholding tax for stocks headquartered in Italy.

Safety, Quality, Competitive Advantage, & Recession Resiliency

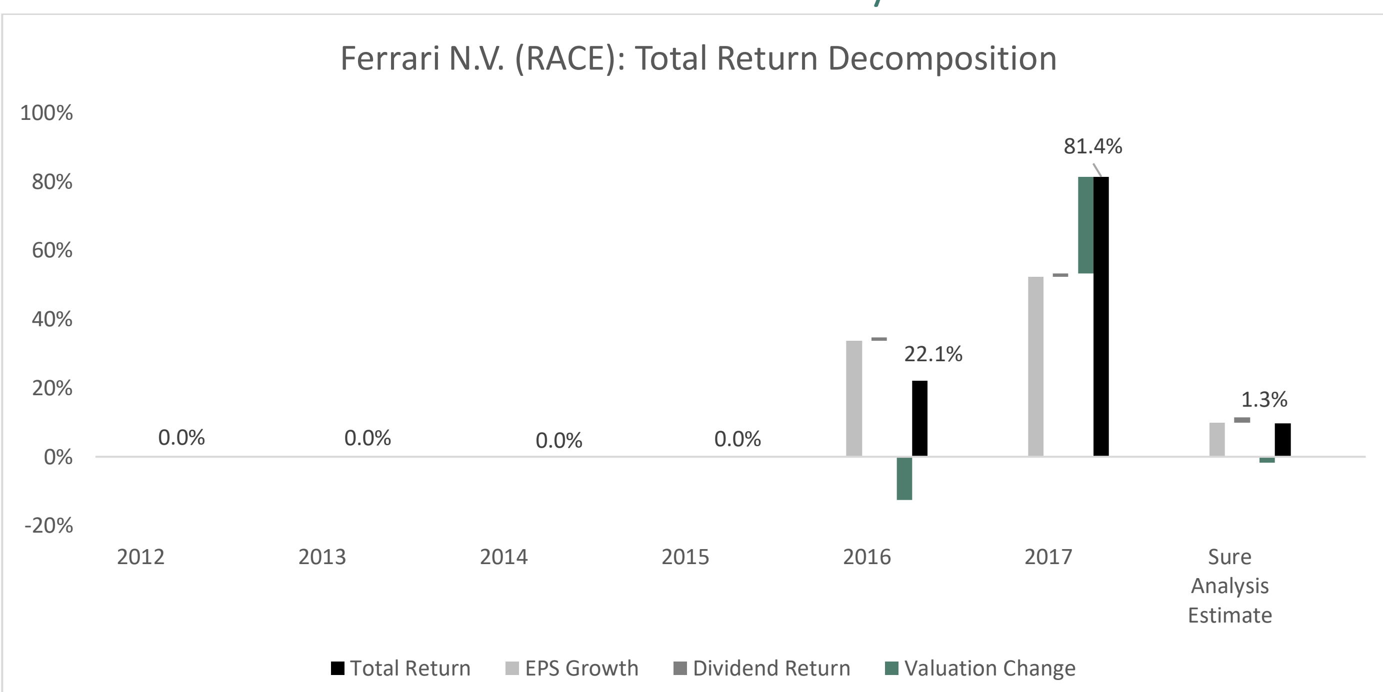
Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	35.5%	41.5%	40.3%	***40.5%***	***40.5%***
Debt/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	101%	91.4%	81.1%	***81.0%***	***81.0%***
Int. Cov.	N/A	N/A	N/A	N/A	N/A	N/A	N/A	44.4	21.6	26.7	***27.0***	***27.0***
Payout	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0.0%	20.7%	18.9%	***24.0%***	***24.0%***
Std. Dev.	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	31.5%	28.4%	***28.5%***	***28.5%***

Ferrari generates impressive profit margins, given automotive manufacturing is inherently a low-margin business. Ferrari's impressive financial strength is the result of its core competitive advantage, which is that it dominates the high-end market. While larger automakers like Ford, GM, Toyota, and Honda battle it out for the middle-market segment, Ferrari has much less competition in the luxury segment. That said, the main concern for Ferrari is a recession. Luxury vehicle purchases are likely to decline significantly if, and when, the global economy enters a downturn.

Final Thoughts & Recommendation

Ferrari has generated excellent growth in the years since it was spun-off. Shareholders have been greatly rewarded as a result. The company has undoubtedly benefited from the strong global economy. However, Ferrari's impressive growth could come to a screeching halt if another recession hits. And, the stock appears significantly overvalued. With a fairly low expected rate of return of 1.3% over the next five years, Ferrari stock receives a sell recommendation.

Total Return Breakdown by Year



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Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.