Ferrari N.V. (RACE)

Updated November 6th, 2018 by Bob Ciura

Key Metrics

Current Price:	$116	**5 Year CAGR Estimate:**	4.4%	**Volatility Percentile:**	82.0%
Fair Value Price:	$94	**5 Year Growth Estimate:**	8.0%	**Momentum Percentile:**	46.5%
% Fair Value:	124%	**5 Year Valuation Multiple Estimate:**	-4.0%	**Growth Percentile:**	71.6%
Dividend Yield:	0.4%	**5 Year Price Target**	$139	**Valuation Percentile:**	18.8%
Dividend Risk Score:	C	**Retirement Suitability Score:**	F	**Total Return Percentile:**	19.5%

Overview & Current Events

Ferrari was founded in 1947 and is headquartered in Italy. Today, the company manufactures luxury sports cars under a variety of models. Its cars are generally 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'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 11/5/18 Ferrari announced third-quarter financial results. Revenue of $937 million increased 2.2%, while adjusted earnings-per-share of $0.89 increased 5%. However, both figures missed analyst expectations. Still, the company managed growth in a difficult time for the auto industry. Total shipments increased 11% for the quarter, which led to the company's positive growth for the quarter. Ferrari's bottom line also received a boost from cost controls and tax reform.

Growth on a Per-Share Basis

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, 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	***31.6***	***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%***

In our previous review of the company, we stated our belief that the shares were overvalued at that time. Indeed, Ferrari shares have declined since our previous report, which has improved the valuation picture. However, Ferrari continues to be valued like a growth stock, despite the fact that the company operates in the slow-growth auto industry. Ferrari stock still trades for a price-to-earnings ratio of 31.6 based on 2018 earnings estimates. This is significantly above the historical average of 25.8, which is our fair value estimate. A declining multiple could reduce shareholder returns by 4.0% 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

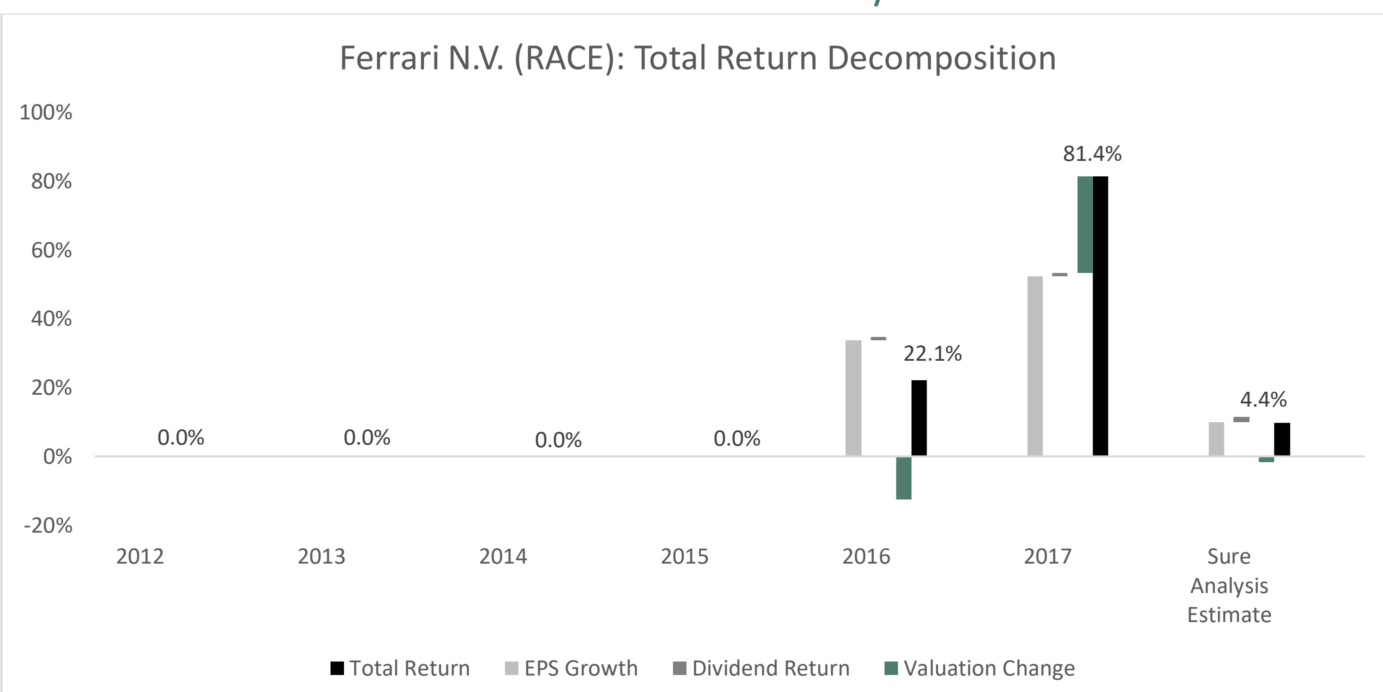
Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	35.5%	41.5%	40.3%	***40.5%***	***40.5%***
Debt/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	101%	91.4%	81.1%	***81.0%***	***81.0%***
Int. Cov.	N/A	N/A	N/A	N/A	N/A	N/A	N/A	44.4	21.6	26.7	***27.0***	***27.0***
Payout	N/A	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 4.4% over the next five years, Ferrari stock remains a sell in our view.

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.

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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	N/A	N/A	N/A	N/A	2861	3101	3673	3167	3437	3870
Gross Profit	N/A	N/A	N/A	N/A	1319	1462	1671	1504	1688	2000
Gross Margin	N/A	N/A	N/A	N/A	46.1%	47.1%	45.5%	47.5%	49.1%	51.7%
SG&A Exp.	N/A	N/A	N/A	N/A	312	345	399	376	327	373
D&A Exp.	N/A	N/A	N/A	N/A	305	359	384	305	274	295
Operating Profit	N/A	N/A	N/A	N/A	453	480	553	505	682	883
Operating Margin	N/A	N/A	N/A	N/A	15.8%	15.5%	15.0%	16.0%	19.9%	22.8%
Net Profit	N/A	N/A	N/A	N/A	290	320	348	319	441	606
Net Margin	N/A	N/A	N/A	N/A	10.1%	10.3%	9.5%	10.1%	12.8%	15.7%
Free Cash Flow	N/A	N/A	N/A	N/A	262	243	128	390	734	307
Income Tax	N/A	N/A	N/A	N/A	130	160	177	160	186	236

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	N/A	N/A	N/A	N/A	N/A	5379	5644	4237	4070	4968
Cash & Equivalents	N/A	N/A	N/A	N/A	N/A	157	163	200	484	777
Accounts Receivable	N/A	N/A	N/A	N/A	N/A	284	223	173	258	287
Inventories	N/A	N/A	N/A	N/A	N/A	328	360	323	343	472
Goodwill & Int. Ass.	N/A	N/A	N/A	N/A	N/A	1421	1280	1197	1205	1470
Total Liabilities	N/A	N/A	N/A	N/A	N/A	2181	2630	4258	3721	4028
Accounts Payable	N/A	N/A	N/A	N/A	N/A	671	651	555	650	729
Long-Term Debt	N/A	N/A	N/A	N/A	0	438	620	2471	1954	2167
Shareholder's Equity	N/A	N/A	N/A	N/A	N/A	3162	3003	-27	344	934
D/E Ratio	N/A	N/A	N/A	N/A	N/A	0.14	0.21	-89.97	5.69	2.32

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	N/A	N/A	N/A	N/A	N/A	N/A	6.3%	6.5%	10.6%	13.4%
Return on Equity	N/A	N/A	N/A	N/A	N/A	N/A	11.3%	21.5%	279%	94.9%
ROIC	N/A	N/A	N/A	N/A	N/A	N/A	9.6%	10.5%	18.6%	22.4%
Shares Out.	N/A	N/A	N/A	N/A	N/A	N/A	N/A	188.9	188.9	189.0
Revenue/Share	N/A	N/A	N/A	N/A	15.14	16.42	19.44	16.77	18.19	20.39
FCF/Share	N/A	N/A	N/A	N/A	1.39	1.29	0.68	2.06	3.89	1.62

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.