Ferrari N.V. (RACE)

Updated February 6th, 2019 by Eli Inkrot

Key Metrics

Current Price:	$127	**5 Year CAGR Estimate:**	3.7%	**Volatility Percentile:**	78.3%
Fair Value Price:	$103	**5 Year Growth Estimate:**	7.2%	**Momentum Percentile:**	55.1%
% Fair Value:	124%	**5 Year Valuation Multiple Estimate:**	-4.2%	**Growth Percentile:**	72.1%
Dividend Yield:	0.7%	**5 Year Price Target**	$145	**Valuation Percentile:**	17.7%
Dividend Risk Score:	D	**Retirement Suitability Score:**	F	**Total Return Percentile:**	13.4%

Overview & Current Events

Ferrari was founded in 1947 and is headquartered in Italy. The company began trading as a public company in 2015, following a spinoff from Fiat Chrysler. 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. In 2018 the company shipped 9,251 units, with about half of that in Europe, Middle East, and Africa and a third coming from the Americas. The $23 billion market cap company is on pace to generate over $4 billion in annual revenue.

On January 31st, 2018 Ferrari announced fiscal year 2018. Revenue for the year came in at 3.42 billion euros (~$3.9 billion USD), representing a 0.1% increase compared to 2017, lead by a 10.2% improvement in the number of shipments (9,251 versus 8,398 a year ago). Adjusted diluted earnings-per-share came in at 3.40 euros (~$3.89), representing a 20.6% increase compared to the 2.80 euros per share posted in 2017.

Ferrari also provided guidance for 2019. For this year the company expects net revenues to be above 3.5 billion euros (>$4.0 billion USD), and adjusted earnings-per-share to be in the 3.50 euro (~$4.00 USD) to 3.70 euro (~$4.23 USD) range.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	N/A	N/A	N/A	N/A	N/A	N/A	$1.66	$2.22	$3.38	$3.89	***$4.10***	***$5.80***
DPS	N/A	N/A	N/A	N/A	N/A	N/A	N/A	$0.46	$0.64	$0.88	***$0.90***	***$1.30***
Shares	N/A	N/A	N/A	N/A	N/A	N/A	189	189	189	189	***189***	***189***

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 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. Of course this growth trajectory would be called into question in lesser times.

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. Overall we anticipate mid-to-high single digit growth over the intermediate-term.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	N/A	N/A	N/A	N/A	N/A	N/A	29.7	20.7	26.9	25.6	***31.0***	***25.0***
Avg. Yld.	N/A	N/A	N/A	N/A	N/A	N/A	0.0%	1.0%	0.7%	0.9%	***0.7%***	***0.9%***

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Much like Ferrari's sports cars, the current share price is asking a significant premium to the market. While we do believe that some sort of upward revision is warranted as a result of the strong brand name and growth prospects, the current valuation still appears lofty. Indeed, even if the business performs well in the years to come, today's starting valuation could prove to be a lasting headwind for investor returns.

With regard to capital returned to shareholders, we believe the current dividend payout is prudent – pegged at 25% to 40% of past year's profits and paid once a year - but unexciting due to the elevated valuation. Share repurchases may become a larger part of the allocation strategy in the future, but so far we have not seen this and here too the valuation poises a problem as it relates to effectiveness.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	N/A	N/A	N/A	N/A	N/A	N/A	N/A	21%	19%	23%	***22%***	***22%***

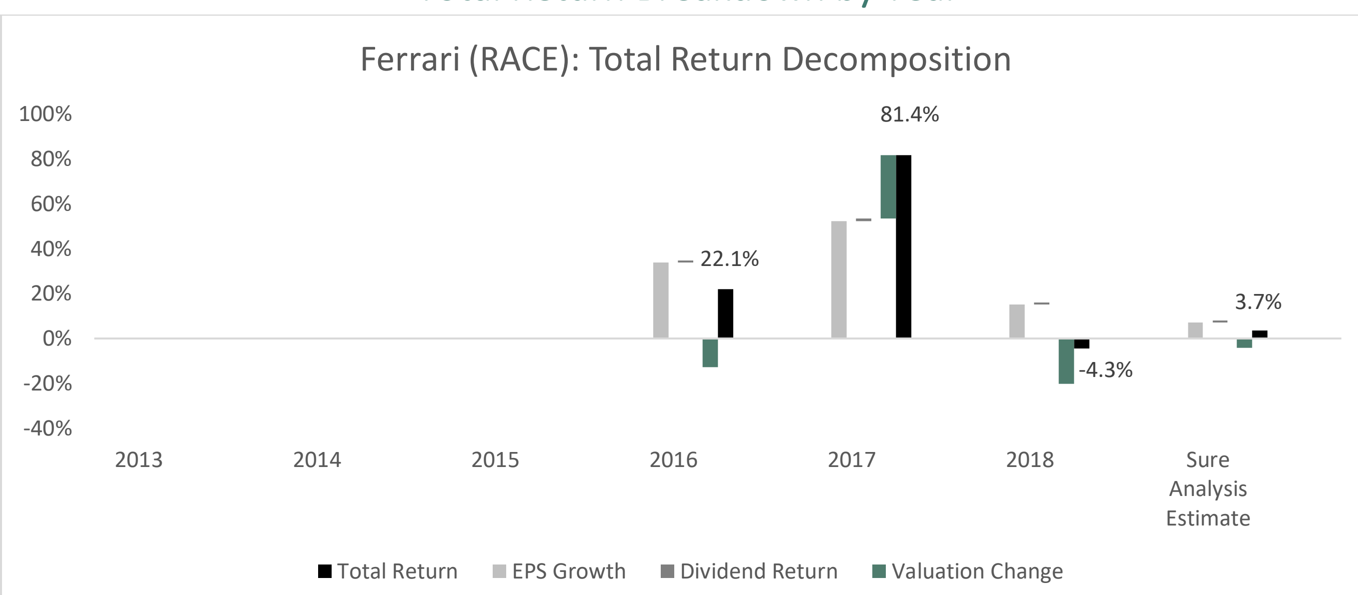
Ferrari's lasting competitive advantage is its brand. In some ways the more expensive its vehicles, the more inaccessible they to the average person, the more appealing the ultra-luxury automobiles become. Interestingly, substantially increased production is unlikely to be a long-term growth driver as this would devalue the exclusivity of the brand.

The company currently generates healthy profit margins, as Ferrari does not have to battle it out in the exceptionally competitive middle-market segment. That said, the next recession could be concerning if luxury vehicle purchases were to decline significantly (as we expect they would).

Final Thoughts & Recommendation

Since our last update shares of Ferrari are up about 9%; however, earnings came in better than anticipated as well. Ferrari has exceptional brand power, backed by a quality product, with growth prospects to boot. However, in our view the current valuation more than takes these factors into account and indeed could serve as a total return headwind in the years to come. Further, should growth slow, this problem could be exacerbated. We appreciate the value of a strong brand, but we are not enthused by the current share price. We rate Ferrari a sell at current prices due to its weak expected total returns of under 4% annually.

Total Return Breakdown by Year



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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.