Ferrari N.V. (RACE)

Updated November 4th, 2019 by Nathan Parsh

Key Metrics

Current Price:	$170	**5 Year CAGR Estimate:**	-1.9%	**Volatility Percentile:**	82.3%
Fair Value Price:	$103	**5 Year Growth Estimate:**	7.5%	**Momentum Percentile:**	94.4%
% Fair Value:	166%	**5 Year Valuation Multiple Estimate:**	-9.6%	**Growth Percentile:**	78.2%
Dividend Yield:	0.7%	**5 Year Price Target**	$147	**Valuation Percentile:**	7.4%
Dividend Risk Score:	N/A	**Retirement Suitability Score:**	N/A	**Total Return Percentile:**	5.3%

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 high performance, ultra-luxury cars, 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 $40 billion market capitalization company generates in excess of $4 billion in annual revenue.

On 11/4/2019, Ferrari reported third quarter earnings results. All figures reported in USD. The company earned $1.00 per share, which was $0.04 above estimates and improved 13.6% from the previous year. Revenue grew 6.5% to $1 billion, which was $25 million ahead of estimates. This was the largest year-over-year revenue increase since Q1 2018. Third quarter shipments improved 9.4% to 2,474 units. Ferrari's V8 models had a 9.5% increase in volume while V12 shipments improved 8.9%. By region, shipments were down 1.9% in mainland China, Hong Kong and Taiwan. Shipments were up 0.3% in the Americas, increased 13.7% in EMEA, and were higher by 23.1% for the rest of Asia. Adjusted EBITDA was higher by 11.5%. Ferrari maintained its guidance of $4.0 billion in revenue and a midpoint for adjusted earnings-per-share of $4.10. The company also announced that it was entering into an agreement with Armani to produce luxury goods with the Ferrari branding.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	---	---	---	---	---	---	$1.66	$2.22	$3.38	$3.89	***$4.10***	***$5.89***
DPS	---	---	---	---	---	---	---	$0.46	$0.64	$0.88	***$1.16***	***$1.67***
Shares[1]	---	---	---	---	---	---	189	189	189	189	***188***	***188***

Ferrari became a publicly-traded company in 2015, when it was spun-off from its former parent company Fiat Chrysler. The company has posted strong growth as a public company. The past few years have seen global economic expansion, which 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 tougher times. Given the name brand and growth in all markets, we estimate that Ferrari can grow earnings by a rate of 7.5% annually through 2024. This is a premium to other car manufacturers' expected growth rates.

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.

[1] Share count in millions

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Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	---	---	---	---	---	---	29.7	20.7	26.9	25.6	***41.5***	***25.0***
Avg. Yld.	---	---	---	---	---	---	0.0%	1.0%	0.7%	0.9%	***0.7%***	***1.1%***

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. Shares of Ferrari have increased another $14, or 9%, since our 8/16/2019 update. Using guidance for adjusted earnings-per-share for 2019, the stock trades with a P/E of 41.5. If shares revert to our 2024 target P/E of 25, then valuation would be a 9.6% headwind to total annual 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. In addition, the valuation poises a problem as it relates to effectiveness.

Safety, Quality, Competitive Advantage, & Recession Resiliency

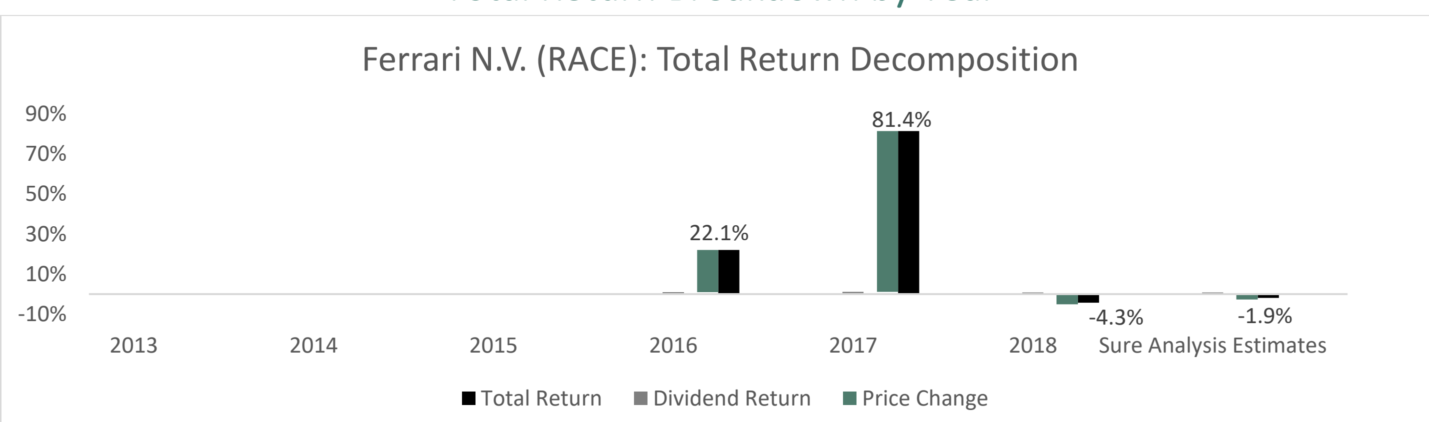
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	---	---	---	---	---	---	---	21%	19%	23%	***28%***	***28%***

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

Ferrari has been one of the best performing stocks in the market in 2019, rising more than 59% year-to-date. As a result, the stock's valuation continues to reach new heights. Unit shipments rose at a high-single-digit clip and the majority of regions saw growth during the quarter. The stock remains well-above our target P/E for 2024 and more than offsets our expected earnings growth and dividend yield. Ferrari is expected to post a loss of 1.9% per year over the next five years, down from our previous forecast of a 0.1% annual return. We reiterate our sell recommendation on the stock.

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	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	N/A	N/A	N/A	N/A	N/A	3673	3167	3437	3870	4039
Gross Profit	N/A	N/A	N/A	N/A	N/A	1671	1504	1688	2000	2122
Gross Margin	N/A	N/A	N/A	N/A	N/A	45.5%	47.5%	49.1%	51.7%	52.6%
SG&A Exp.	N/A	N/A	N/A	N/A	N/A	399	376	327	373	387
D&A Exp.	N/A	N/A	N/A	N/A	N/A	384	305	274	295	341
Operating Profit	N/A	N/A	N/A	N/A	N/A	553	505	682	883	977
Operating Margin	N/A	N/A	N/A	N/A	N/A	15.0%	16.0%	19.9%	22.8%	24.2%
Net Profit	N/A	N/A	N/A	N/A	N/A	348	319	441	606	927
Net Margin	N/A	N/A	N/A	N/A	N/A	9.5%	10.1%	12.8%	15.7%	22.9%
Free Cash Flow	N/A	N/A	N/A	N/A	N/A	128	390	734	307	349
Income Tax	N/A	N/A	N/A	N/A	N/A	177	160	186	236	19

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	N/A	N/A	N/A	N/A	N/A	5644	4237	4070	4968	5550
Cash & Equivalents	N/A	N/A	N/A	N/A	N/A	163	200	484	777	908
Accounts Receivable	N/A	N/A	N/A	N/A	N/A	223	173	258	287	242
Inventories	N/A	N/A	N/A	N/A	N/A	360	323	343	472	447
Goodwill & Int. Ass.	N/A	N/A	N/A	N/A	N/A	1280	1197	1205	1470	1637
Total Liabilities	N/A	N/A	N/A	N/A	N/A	2630	4258	3721	4028	4001
Accounts Payable	N/A	N/A	N/A	N/A	N/A	651	555	650	729	748
Long-Term Debt	N/A	N/A	N/A	N/A	N/A	620	2471	1954	2167	2204
Shareholder's Equity	N/A	N/A	N/A	N/A	N/A	3003	-27	344	934	1543
D/E Ratio	N/A	N/A	N/A	N/A	N/A	0.21	-89.97	5.69	2.32	1.43

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	N/A	N/A	N/A	N/A	N/A	6.3%	6.5%	10.6%	13.4%	17.6%
Return on Equity	N/A	N/A	N/A	N/A	N/A	11.3%	21.5%	279%	94.9%	74.8%
ROIC	N/A	N/A	N/A	N/A	N/A	9.6%	10.5%	18.6%	22.4%	27.0%
Shares Out.	N/A	N/A	N/A	N/A	N/A	189	189	189	189	189
Revenue/Share	N/A	N/A	N/A	N/A	N/A	19.44	16.77	18.19	20.39	21.32
FCF/Share	N/A	N/A	N/A	N/A	N/A	0.68	2.06	3.89	1.62	1.84

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