Ferrari N.V. (RACE)

Updated November 4th, 2020 by Nathan Parsh

Key Metrics

Current Price:	$202	**5 Year CAGR Estimate:**	-9.7%	**Market Cap:**	$38 billion
Fair Value Price:	$79	**5 Year Growth Estimate:**	7.5%	**Ex-Dividend Date:**	4/20/2021[1]
% Fair Value:	255%	**5 Year Valuation Multiple Estimate:**	-17.1%	**Dividend Payment Date:**	5/5/2021[2]
Dividend Yield:	0.6%	**5 Year Price Target**	$114	**Years Of Dividend Growth:**	4
Dividend Risk Score:	D	**Retirement Suitability Score:**	F	**Last Dividend Increase:**	5.2%

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. Ferrari's luxury vehicles cater to the very top of the consumer automotive market. In 2019, the company shipped more than 10,000 units, with about half of that in Europe, Middle East, and Africa, and a third coming from the Americas. The company generates about $5 billion in annual revenue under normalized conditions.

On 11/3/2020, Ferrari reported earnings results for the third quarter. All figures reported in USD. Revenue improved 2.1% to $1.04 billion, but missed estimates by $7.6 million. Earnings-per-share increased 8% to $1.08, $0.15 better than expected.

Production and deliveries improved on a sequential basis. However, shipments fell 6.5% to 2,313 units. The company continues to expect to recover 500 units out of the 2,000 that were lost due COVID-19 impacts on production. Ferrari's V8 model volumes were down 12.8% while V12 shipments were higher by 15.4%. Volumes were down more than 25% in mainland China, Hong Kong and Taiwan. Shipments to the Americas fell 34.7%, but grew 12.7% in the EMEA and 0.5% in rest of Asia markets. Adjusted EBITDA increased 6.4%. Consensus estimates for earnings-per-share has been lowered to $3.17 from $3.42 previously.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	---	---	---	---	---	$1.66	$2.22	$3.38	$3.89	$4.08	***$3.17***	***$4.55***
DPS	---	---	---	---	---	---	$0.46	$0.64	$0.88	$1.16	***$1.22***	***$1.75***
Shares[3]	---	---	---	---	---	189	189	189	189	186	***185***	***185***

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 2025. 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.

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[1] Estimated ex-dividend date

[2] Estimated dividend payment date

[3] In millions of shares

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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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	---	---	---	---	---	29.7	20.7	26.9	25.6	40.6	***63.7***	***25.0***
Avg. Yld.	---	---	---	---	---	0.0%	1.0%	0.7%	0.9%	0.5%	***0.6%***	***1.5%***

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 $16, or 8.6%, since our 8/4/2020 update. Using revised estimates for adjusted earnings-per-share for 2020, the stock trades with a P/E of 63.7. If shares revert to our 2025 target P/E of 25, then valuation would be a 17.1% 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 poses a problem as it relates to effectiveness.

Safety, Quality, Competitive Advantage, & Recession Resiliency

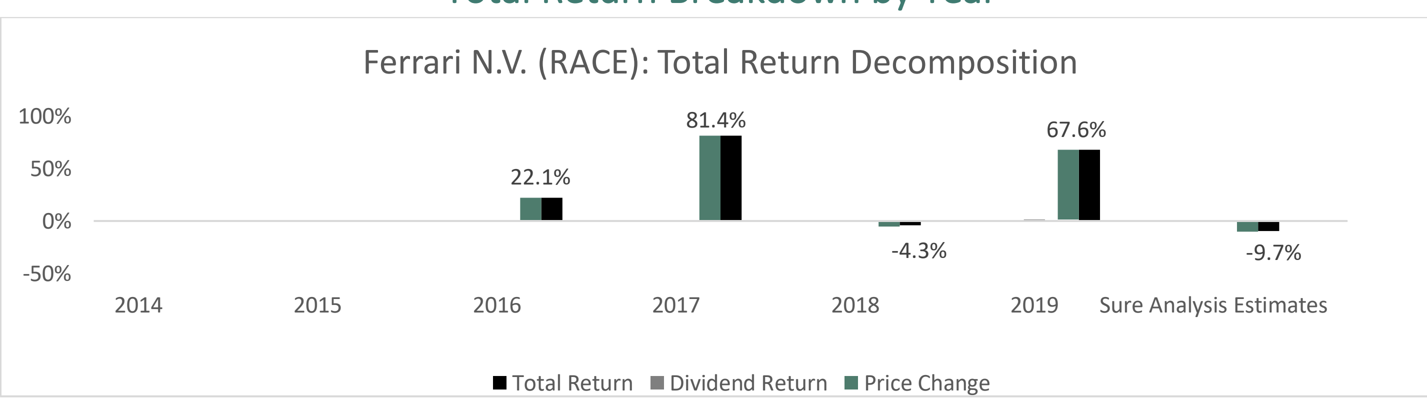
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	---	---	---	---	---	---	21%	19%	23%	28%	***38%***	***38%***

Ferrari's lasting competitive advantage is its brand. In some ways, the more expensive its vehicles, the more inaccessible they are 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, this recession could be concerning if luxury vehicle purchases were to decline significantly (as we expect they would).

Final Thoughts & Recommendation

After third quarter results, Ferrari is expected to produce a negative return of 9.7% through 2025, down from a negative return of 6.7% previously. Though still down year-over-year, the company's shipments have recovered at a remarkable pace from the second quarter. Ferrari expects to recover about a quarter of the estimated loss vehicle production related to the COVID-19 pandemic. However, we continue to be extremely weary of the stock's valuation, which is approaching 64 times earnings. Shares trade at almost 260% of our fair value estimate. We have reduced our 2025 price target $10 to $114 due to revised EPS estimates and maintain our sell rating on shares of Ferrari.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue			2,861	3,101	3,673	3,167	3,437	3,870	4,039	4,217
Gross Profit			1,319	1,462	1,671	1,504	1,688	2,000	2,122	2,196
Gross Margin			46.1%	47.1%	45.5%	47.5%	49.1%	51.7%	52.6%	52.1%
SG&A Exp.			312	345	399	376	327	373	387	384
D&A Exp.			305	359	384	305	274	295	341	394
Operating Profit			453	480	553	505	682	883	977	1,029
Operating Margin			15.8%	15.5%	15.0%	16.0%	19.9%	22.8%	24.2%	24.4%
Net Profit			290	320	348	319	441	606	927	779
Net Margin			10.1%	10.3%	9.5%	10.1%	12.8%	15.7%	22.9%	18.5%
Free Cash Flow			262	243	128	390	734	307	349	672
Income Tax			130	160	177	160	186	236	19	198

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets				5,379	5,644	4,237	4,070	4,968	5,550	6,101
Cash & Equivalents				157	163	200	484	777	908	1,006
Accounts Receivable				284	223	173	258	287	242	259
Inventories				328	360	323	343	472	447	471
Goodwill & Int. Ass.				1,421	1,280	1,197	1,205	1,470	1,637	1,818
Total Liabilities				2,181	2,630	4,258	3,721	4,028	4,001	4,435
Accounts Payable				671	651	555	650	729	748	797
Long-Term Debt				438	620	2,471	1,954	2,167	2,204	2,273
Shareholder’s Equity				3,162	3,003	(27)	344	934	1,543	1,659
D/E Ratio				0.14	0.21	(89.9)	5.69	2.32	1.43	1.37

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets					6.3%	6.5%	10.6%	13.4%	17.6%	13.4%
Return on Equity					11.3%	21.5%	279%	94.9%	74.8%	48.7%
ROIC					9.6%	10.5%	18.6%	22.4%	27.0%	20.3%
Shares Out.						189	189	189	189	186
Revenue/Share			15.14	16.42	19.44	16.77	18.19	20.39	21.32	22.49
FCF/Share			1.39	1.29	0.68	2.06	3.89	1.62	1.84	3.58

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