Ferrari N.V. (RACE)

Updated February 3rd, 2021 by Nathan Parsh

Key Metrics

Current Price:	$208	**5 Year CAGR Estimate:**	-3.0%	**Market Cap:**	$38 billion
Fair Value Price:	$119	**5 Year Growth Estimate:**	7.5%	**Ex-Dividend Date:**	4/20/2021
% Fair Value:	175%	**5 Year Valuation Multiple Estimate:**	-10.6%	**Dividend Payment Date:**	5/5/2021
Dividend Yield:	0.6%	**5 Year Price Target**	$171	**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 2020, shipments fell more than 10% to 9,119 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 2/2/2021, Ferrari reported earnings results for the fourth quarter and full year 2020. All figures reported in USD. For the quarter, revenue grew 25.7% to $1.29 billion, which was $19.5 million more than expected. Earnings-per-share of $1.22 represented an increase of 23.2% compared to the prior year and was $0.01 above estimates. For 2020, revenue declined 3.8% to $4 billion. Earnings-per-share declined decreased 19.2% to $3.33, but was $0.16 ahead of our estimates.

Much of the decline on the top and bottom-lines for the full year can be attributed to production disruptions related to COVID-19. Units shipped fell 10%, though production did increase in the second half of the year as the company had expected. Shipments to the EMEA, Americas and mainland China, Hong Kong and Taiwan fell 1.6%, 19.8% and 45.5%, respectively, during the year. The decline in mainland China. Hong Kong and Taiwan was due in large part to advanced sales recorded in 2019. Rest of Asia improved 1.3%. Analysts expect Ferrari to earn $4.76 in 2021 as the company's is seeing strong orders for the year.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	---	---	---	---	$1.66	$2.22	$3.38	$3.89	$4.12	$3.33	***$4.76***	***$6.83***
DPS	---	---	---	---	---	$0.46	$0.64	$0.88	$1.16	$1.23	***$1.23***	***$1.77***
Shares[1]	---	---	---	---	189	189	189	189	186	185	***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 2026. 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

[1] In millions of shares

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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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	---	---	---	---	29.7	20.7	26.9	25.6	40.6	68.9	***43.7***	***25.0***
Avg. Yld.	---	---	---	---	0.0%	1.0%	0.7%	0.9%	0.5%	0.5%	***0.6%***	***1.0%***

Much like Ferrari's sports cars, the current share price is trading a significant premium to the stock's historical average. 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 $6, or 2%, since our 11/4/2020 update. Using estimates for earnings-per-share for 2021, the stock trades with a P/E of 43.7. If shares revert to our 2026 target P/E of 25, then valuation would be a 10.6% 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 poses a problem as it relates to effectiveness.

Safety, Quality, Competitive Advantage, & Recession Resiliency

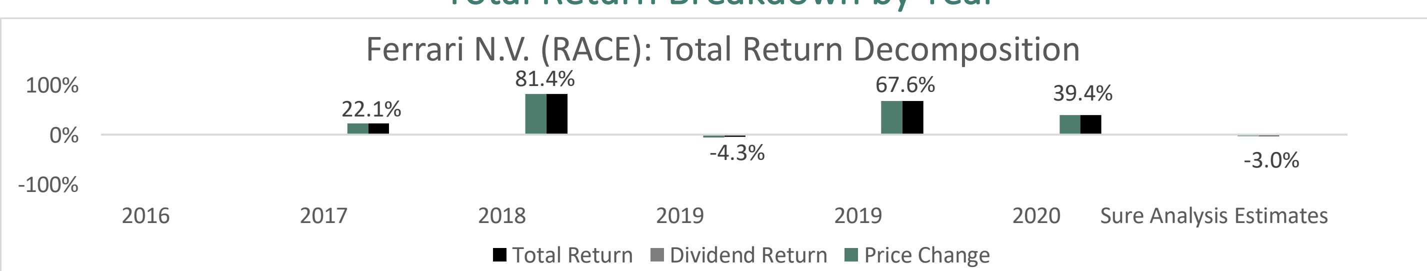
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	---	---	---	---	---	21%	19%	23%	28%	37%	***26%***	***26%***

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 fourth quarter results, Ferrari is expected to produce a negative return of 3.0% through 2026, an improvement from our prior forecast of a negative return of 9.7%. Our projection stems from 7.5% annual earnings growth and a starting yield of 0.6% offset by a significant headwind from valuation. Ferrari was indeed impacted by the COVID-19 pandemic, especially in the second quarter when production shutdown for nearly two months. The company did see a rebound in the second half and expects to have robust order growth in 2021. That said, shares continue to trade with an elevated valuation. We have increased our five-year price target $57 to $171, but maintain our sell rating on the stock due to expected returns.

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