



Ferrari N.V. (RACE)

Updated August 4th, 2021 by Nathan Parsh

Key Metrics

Current Price:	\$211	5 Year CAGR Estimate:	0.4%	Market Cap:	\$39.9 billion
Fair Value Price:	\$146	5 Year Growth Estimate:	7.5%	Ex-Dividend Date:	4/20/2022
% Fair Value:	145%	5 Year Valuation Multiple Estimate:	-7.2%	Dividend Payment Date:	5/5/2022
Dividend Yield:	0.5%	5 Year Price Target	\$209	Years Of Dividend Growth:	0
Dividend Risk Score:	C	Retirement Suitability Score:	F	Last Dividend Increase:	5.2% (2020)

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 8/2/2021, Ferrari reported earnings results for the second quarter. All figures reported in USD. For the quarter, revenue grew 82.9% to \$1.23 billion, which was \$41 million less than expected. Earnings-per-share of \$1.32 compared extremely favorably to earnings-per-share of \$0.05 as Ferrari lapped an extremely difficult period from last year. Shipments nearly doubled to 2,685 units year-over-year (up 0.5% compared to Q2 2019). Shipments grew 564% in mainland China, Hong Kong and Taiwan, 92% for the rest of Asia Pacific, 89% for the EMEA and 70% in the Americas. V8 model shipments improved 111% while V12 was up 38%. We reaffirm our expectation of earnings-per-share of \$5.02 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	\$5.02	\$7.21
DPS	---	---	---	---	---	\$0.46	\$0.64	\$0.88	\$1.16	\$1.23	\$1.04	\$1.49
Shares¹	---	---	---	---	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 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 In millions of shares

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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	---	---	---	---	29.7	20.7	26.9	31.6	36.5	68.9	42.0	29.0
Avg. Yld.	---	---	---	---	0.0%	1.0%	0.7%	0.7%	0.8%	0.8%	0.5%	0.7%

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 \$8, or 3.9%, since our 5/4/2021 update. Using estimates for earnings-per-share for 2021, the stock trades with a P/E of 42. Ferrari's business was greatly impacted by COVID-19. Excluding last year's results, Ferrari has an average P/E of 29 since becoming a publicly traded company. We are reaffirming our 2026 target P/E of 29 to match this average earnings multiple. If shares revert to our 2026 target P/E of 25, then valuation would be a 7.2% 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

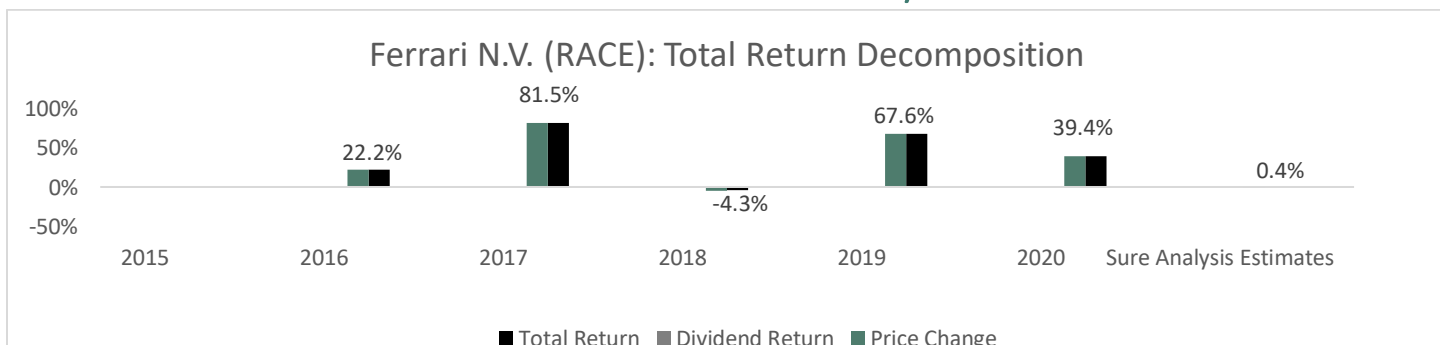
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	---	---	---	---	---	21%	19%	23%	28%	37%	21%	21%

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

Following second quarter results, Ferrari is expected to produce an annual return of 0.4% through 2026, down from our prior estimate of 1.2%. Our projection stems from 7.5% annual earnings growth and a starting yield of 0.5% offset by a mid-single-digit headwind from valuation. Ferrari once again posted strong numbers relative to last year. As with the prior quarter, total units shipped were a slight improvement from Q2 2019. That said, the valuation remains stretched in our view. We maintain our 2026 price target of \$209 as well as our sell rating on Ferrari due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue		2,861	3,101	3,673	3,167	3,437	3,870	4,039	4,217	3,951
Gross Profit		1,319	1,462	1,671	1,504	1,688	2,000	2,122	2,196	2,025
Gross Margin		46.1%	47.1%	45.5%	47.5%	49.1%	51.7%	52.6%	52.1%	51.3%
SG&A Exp.		312	345	399	376	327	373	387	384	384
D&A Exp.		305	359	384	305	274	295	341	394	487
Operating Profit		453	480	553	505	682	883	977	1,029	834
Operating Margin		15.8%	15.5%	15.0%	16.0%	19.9%	22.8%	24.2%	24.4%	21.1%
Net Profit		290	320	348	319	441	606	927	779	694
Net Margin		10.1%	10.3%	9.5%	10.1%	12.8%	15.7%	22.9%	18.5%	17.6%
Free Cash Flow		262	243	128	390	734	307	349	672	148
Income Tax		130	160	177	160	186	236	19	198	66

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets			5,379	5,644	4,237	4,070	4,968	5,550	6,101	7,702
Cash & Equivalents			157	163	200	484	777	908	1,006	1,676
Accounts Receivable			284	223	173	258	287	242	259	227
Inventories			328	360	323	343	472	447	471	567
Goodwill & Int. Ass.			1,421	1,280	1,197	1,205	1,470	1,637	1,818	2,170
Total Liabilities			2,181	2,630	4,258	3,721	4,028	4,001	4,435	5,501
Accounts Payable			671	651	555	650	729	748	797	878
Long-Term Debt		-	438	620	2,471	1,954	2,167	2,204	2,273	3,275
Shareholder's Equity			3,162	3,003	(27)	344	934	1,543	1,659	2,196
D/E Ratio			0.14	0.21	(90.0)	5.69	2.32	1.43	1.37	1.49

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets				6.3%	6.5%	10.6%	13.4%	17.6%	13.4%	10.1%
Return on Equity				11.3%	21.5%	279%	94.9%	74.8%	48.7%	36.0%
ROIC				9.6%	10.5%	18.6%	22.4%	27.0%	20.3%	14.7%
Shares Out.	---	---	---	---	189	189	189	189	186	185
Revenue/Share		15.14	16.42	19.44	16.77	18.19	20.39	21.32	22.49	21.31
FCF/Share		1.39	1.29	0.68	2.06	3.89	1.62	1.84	3.58	0.80

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

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