Ferrari N.V. (RACE)

Updated February 4th, 2022 by Nathan Parsh

Key Metrics

Current Price:	$229	**5 Year CAGR Estimate:**	-0.4%	**Market Cap:**	$43 billion
Fair Value Price:	$152	**5 Year Growth Estimate:**	7.5%	**Ex-Dividend Date:**	4/20/2022[1]
% Fair Value:	151%	**5 Year Valuation Multiple Estimate:**	-7.9%	**Dividend Payment Date:**	5/5/2022[2]
Dividend Yield:	0.5%	**5 Year Price Target**	$218	**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. Last year's shipments rebounded to a new record of more than 11,000. Ferrari should generate about $5.5 billion in annual revenue this year.

Ferrari reported earnings results for the fourth quarter and full year 2022 on 2/2/2022. All figures reported in USD. For the quarter, revenue increased 3% to $1.32 billion, but missed estimates by $12 million. Earnings-per-share of $1.31 compared favorably to earnings-per-share of $1.22 in the prior year and was $0.15 better than expected. For the year, revenue grew 24% to $5 billion while earnings-per-share of $5.25 compared very favorably to $3.33 for 2020.

For the year, units shipped of 11,155 was a 22.3% improvement from 2020 and a 10.1% increase from 2019. Shipments grew 97% in mainland China, Hong Kong and Taiwan, 27.2% for the rest of Asia Pacific, 21.8% in the Americas, and 14% for the EMEA. V8 model shipments accounted for 83% of units shipped with V12 models contributing the remainder.

We expect Ferrari to earn $5.23 per share in 2022.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	---	---	---	$1.66	$2.22	$3.38	$3.89	$4.12	$3.33	$5.25	***$5.23***	***$7.51***
DPS	---	---	---	---	$0.46	$0.64	$0.88	$1.16	$1.23	$1.04	***$1.04***	***$1.49***
Shares[3]	---	---	---	189	189	189	189	186	185	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 2027. 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, with deliveries in 2023. 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] Estimated ex-dividend date
[2] Estimated dividend date
[3] In millions of shares

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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	---	---	---	29.7	20.7	26.9	31.6	36.5	68.9	49.3	***43.8***	***29.0***
Avg. Yld.	---	---	---	0.0%	1.0%	0.7%	0.7%	0.8%	0.8%	0.4%	***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 decreased $20, or 8%, since our 11/2/2021 update. Using estimates for earnings-per-share for 2022, the stock trades with a P/E of almost 44. Ferrari's business was greatly impacted by COVID-19. Excluding results in 2020, Ferrari has an average P/E in the high 20s since becoming a publicly traded company. We are reaffirming our 2027 target P/E of 29. If shares revert to our 2027 target P/E by this time then valuation would be a 7.9% 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

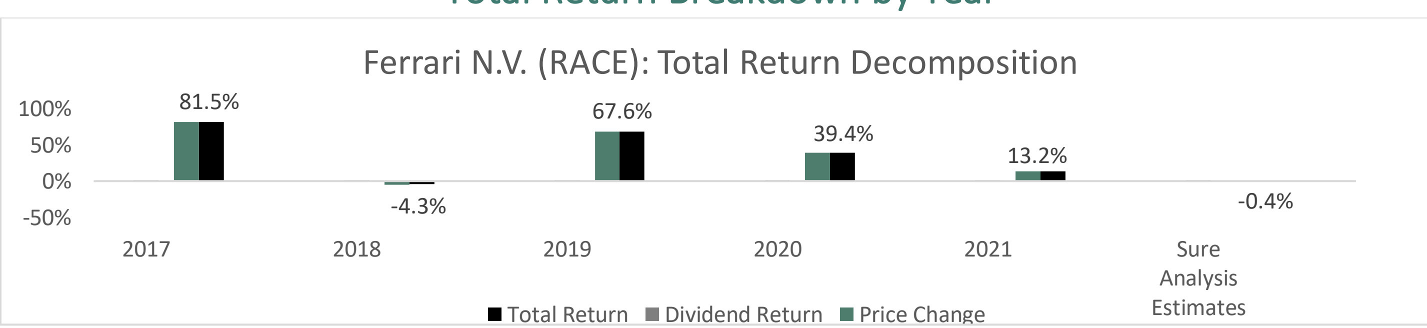
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	---	---	---	21%	19%	23%	28%	37%	20%	***20%***	***20%***

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 an annual return loss of -0.4% through 2027, up from our prior estimate of an annual loss of -2.8%. Our projection stems from 7.5% annual earnings growth and a starting yield of 0.5% offset by a high single-digit headwind from valuation. Ferrari closed 2021 on a good note and appears to have rebounded from the worst of the pandemic. Even so, the stock is trading at a significant premium to its average valuation. We have raised our five-year price target $9 to $218, but maintain our sell rating on Ferrari due to projected returns.

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	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
LTD/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