



Ferrari N.V. (RACE)

Updated May 21st, 2023 by Nathan Parsh

Key Metrics

Current Price:	\$298	5 Year CAGR Estimate:	2.0%	Market Cap:	\$56 B
Fair Value Price:	\$220	5 Year Growth Estimate:	7.5%	Ex-Dividend Date:	04/19/24 ¹
% Fair Value:	135%	5 Year Valuation Multiple Estimate:	-5.8%	Dividend Payment Date:	05/03/24 ²
Dividend Yield:	0.7%	5 Year Price Target	\$317	Years Of Dividend Growth:	2
Dividend Risk Score:	D	Retirement Suitability Score:	F	Race:	Sell

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 generates more than \$6 billion in annual revenue.

On February 24th, 2023, Ferrari raised its annual dividend 35.8% to \$1.9957.

On May 4th, 2023, Ferrari announced first quarter results for the period ending March 31st, 2023. All figures reported in USD. For the quarter, revenue increased 25.1% to \$1.57 billion and was \$54 million above estimates. Earnings-per-share of \$1.78 compared favorably to earnings-per-share of \$1.37 in the prior year and was \$0.22 better than expected.

For the quarter, units shipped totaled 3,567, which was a 9.7% increase from the prior year. Shipments grew 39% in mainland China, Hong Kong and Taiwan, 27% for the Americas, and 19.5% for the rest of Asia. EMEA, the company's largest market, fell 12%. Internal combustion engine models accounted for 65% of units shipped during the quarter with hybrid models contributing the remainder.

We expect Ferrari to earn \$6.89 in 2023, up from \$6.71 previously. We have updated our forecast accordingly.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	---	---	\$1.66	\$2.22	\$3.38	\$3.89	\$4.12	\$3.33	\$5.25	\$5.28	\$6.89	\$9.89
DPS	---	---	---	\$0.46	\$0.64	\$0.88	\$1.16	\$1.23	\$1.04	\$1.47	\$2.00	\$2.87
Shares³	---	---	189	189	189	189	186	185	185	183	183	183

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 2028. 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. 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

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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	---	---	29.7	20.7	26.9	31.6	36.5	68.9	49.3	40.6	43.3	32.0
Avg. Yld.	---	---	0.0%	1.0%	0.7%	0.7%	0.8%	0.8%	0.4%	0.7%	0.7%	0.9%

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 \$35, or 13.3%, since our February 21st, 2023 report. Using estimates for earnings-per-share for 2023, the stock trades with a P/E of 43.3. Ferrari's business was greatly impacted by COVID-19. Excluding results in 2020, Ferrari has typically had an average P/E in the high 20s to low 40s since becoming a publicly traded company. We are reaffirming our 2028 target P/E to 32 from 29 to better reflect this trend. If shares revert to our 2028 target P/E by this time then valuation would be a 5.8% 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. That said, the latest dividend increase was very strong. Share repurchases may become a larger part of the allocation strategy in the future, but so far, we have not seen this.

Safety, Quality, Competitive Advantage, & Recession Resiliency

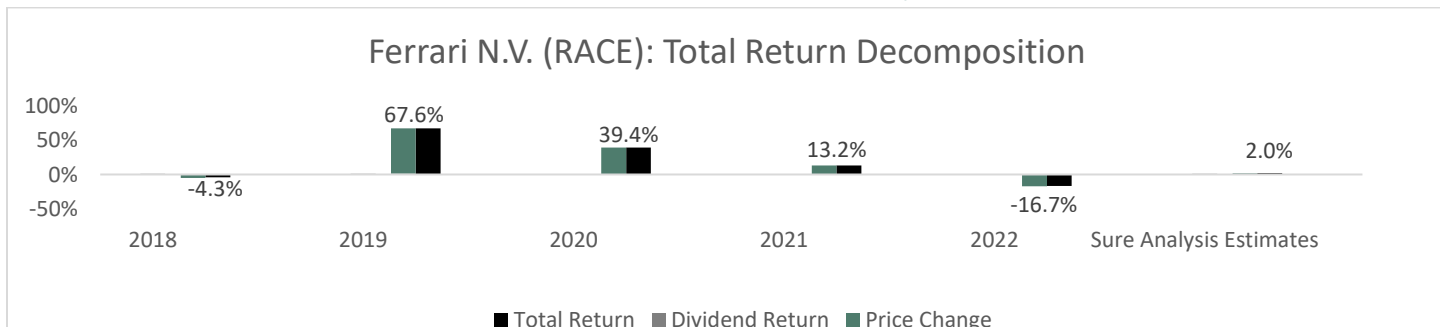
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	---	---	---	21%	19%	23%	28%	37%	20%	28%	29%	29%

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, the next recession could be concerning if luxury vehicle purchases were to decline significantly (as we expect they would).

Final Thoughts & Recommendation

After first quarter results, Ferrari is expected to produce an annual return of 2.0% through 2028, down from our prior estimate of 3.8%. Our projection stems from 7.5% annual earnings growth and a starting yield of 0.7% that are offset by a valuation headwind. Shipments continue to be strong and most regions are performing well. That being said, Ferrari's valuation leaves a lot to be desired. We have raised our five-year price target \$9 to \$317 due to EPS estimates, but we now rate shares of Ferrari as a sell due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	3,101	3,673	3,167	3,437	3,870	4,039	4,217	3,951	5,053	5,373
Gross Profit	1,462	1,671	1,504	1,688	2,000	2,122	2,196	2,025	2,591	2,580
Gross Margin	47.1%	45.5%	47.5%	49.1%	51.7%	52.6%	52.1%	51.3%	51.3%	48.0%
SG&A Exp.	345	399	376	327	373	387	384	384	412	451
D&A Exp.	359	384	305	274	295	341	394	487	540	576
Operating Profit	480	553	505	682	883	977	1,029	834	1,271	1,311
Operating Margin	15.5%	15.0%	16.0%	19.9%	22.8%	24.2%	24.4%	21.1%	25.2%	24.4%
Net Profit	320	348	319	441	606	927	779	694	983	984
Net Margin	10.3%	9.5%	10.1%	12.8%	15.7%	22.9%	18.5%	17.6%	19.5%	18.3%
Free Cash Flow	243	128	390	734	307	349	672	148	646	631
Income Tax	160	177	160	186	236	19	198	66	247	251

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	5,379	5,644	4,237	4,070	4,968	5,550	6,101	7,702	7,771	8,328
Cash & Equivalents	157	163	200	484	777	908	1,006	1,676	1,522	1,489
Accounts Receivable	284	223	173	258	287	242	259	227	209	249
Inventories	328	360	323	343	472	447	471	567	612	724
Goodwill & Int. Ass.	1,421	1,280	1,197	1,205	1,470	1,637	1,818	2,170	2,178	2,244
Total Liabilities	2,181	2,630	4,258	3,721	4,028	4,001	4,435	5,501	5,267	5,537
Accounts Payable	671	651	555	650	729	748	797	878	903	968
Long-Term Debt	438	620	2,471	1,954	2,167	2,204	2,273	3,275	2,914	2,954
Shareholder's Equity	3,162	3,003	(27)	344	934	1,543	1,659	2,196	2,498	2,781
LTD/E Ratio	0.14	0.21	(90.0)	5.69	2.32	1.43	1.37	1.49	1.17	1.06

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets		6.3%	6.5%	10.6%	13.4%	17.6%	13.4%	10.1%	12.7%	12.2%
Return on Equity		11.3%	21.5%	279%	94.9%	74.8%	48.7%	36.0%	41.9%	37.3%
ROIC		9.6%	10.5%	18.6%	22.4%	27.0%	20.3%	14.7%	18.0%	17.6%
Shares Out.	---	---	189	189	189	189	186	185	185	183
Revenue/Share	16.42	19.44	16.77	18.19	20.39	21.32	22.49	21.31	27.36	29.35
FCF/Share	1.29	0.68	2.06	3.89	1.62	1.84	3.58	0.80	3.49	3.45

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

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