Ferrari N.V. (RACE)

Updated February 2nd, 2024 by Nathan Parsh

Key Metrics

Current Price:	$389	**5 Year CAGR Estimate:**	6.2%	**Market Cap:**	$73 Billion
Fair Value Price:	$318	**5 Year Growth Estimate:**	10.0%	**Ex-Dividend Date:**	04/19/24[1]
% Fair Value:	122%	**5 Year Valuation Multiple Estimate:**	-3.9%	**Dividend Payment Date:**	05/03/24[2]
Dividend Yield:	0.5%	**5 Year Price Target**	$513	**Years Of Dividend Growth:**	2
Dividend Risk Score:	C	**Retirement Suitability Score:**	F	**Rating:**	Hold

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 $7 billion in annual revenue.

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

On February 1st, 2024, Ferrari announced fourth quarter and full year results for the period ending December 31st, 2023. All figures reported in USD. For the quarter, revenue grew 10.9% to $1.66 billion, which was $19.7 million more than expected. Earnings-per-share of $1.76 compared very favorably to earnings-per-share of $1.32 in the prior year and was $0.27 above estimates. For 2023, revenue grew 22.3% to $6.5 billion while earnings-per-share of $7.47 compared to $5.28 in the prior year. For the year, units shipped totaled 13,633, which represented a 3.3% increase from the prior year. Shipments were up 10.6% for the Americas, 1.8% for EMEA, and 1.5% for the rest of Asia. Mainland China, the smallest area of operation, was lower by 4.0%. Internal combustion engine models accounted for 56% of units shipped during the quarter with hybrid models contributing the remainder. The company noted that its hybrid market share doubled during the period and the company's Purosangue brand began to ramp up during the second half of the year.

We project that Ferrari will earn $8.38 in 2024, which would be a 12.2% increase from last year. We have initiated our forecast accordingly.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	---	$1.66	$2.22	$3.38	$3.89	$4.12	$3.33	$5.25	$5.28	$7.47	***$8.38***	***$13.50***
DPS	---	---	$0.46	$0.64	$0.88	$1.16	$1.23	$1.04	$1.47	$2.00	***$2.00***	***$3.22***
Shares[3]	---	189	189	189	189	186	185	185	183	182	***182***	***182***

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. 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, growth in all markets, and recent results, we now estimate that Ferrari can grow earnings by a rate of 10% annually through 2029. This is a premium to other car manufacturers' expected growth rates, but below the company's five-year earnings CAGR of 15.3%. Ferrari will also be investing in new products to generate growth. For example, Ferrari has released 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.

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[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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	---	29.7	20.7	26.9	31.6	36.5	68.9	49.3	40.6	45.3	***46.4***	***38.0***
Avg. Yld.	---	0.0%	1.0%	0.7%	0.7%	0.8%	0.8%	0.4%	0.7%	0.6%	***0.5%***	***0.6%***

Much like Ferrari's sports cars, the current share price is trading a 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 $58, or 17.5%, since our November 7th, 2023 report. Using estimates for earnings-per-share for 2024, the stock trades with a P/E of 46.4. Ferrari's business was greatly impacted by COVID-19, but has more than recovered since. Ferrari has typically had an average P/E in the high 20s to low 40s since becoming a publicly traded company. We are raising our 2029 target P/E to 38 from 32 to bring it more in-line with the stock's long-term average valuation. If shares revert to our 2029 target P/E by this time then valuation would be a 3.9% headwind to total annual returns.

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

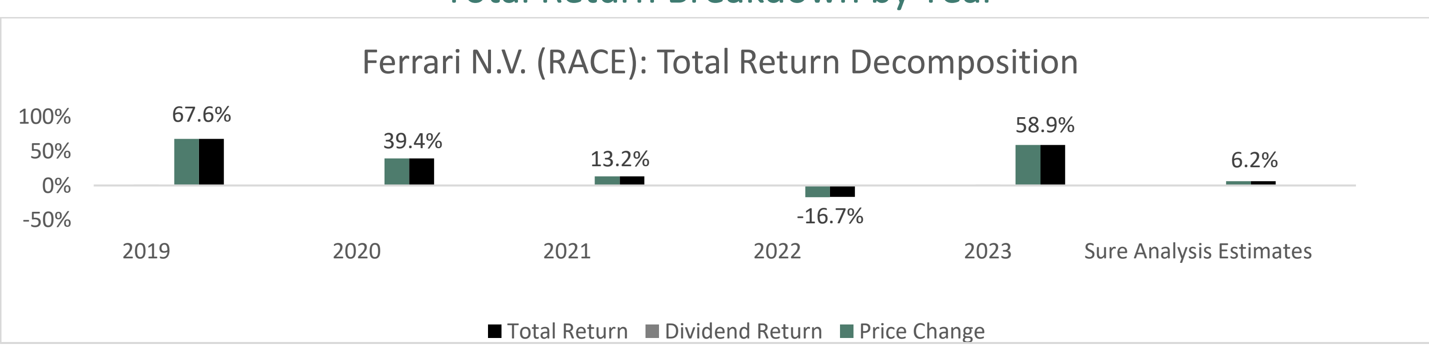
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	---	---	21%	19%	23%	28%	37%	20%	28%	27%	***24%***	***24%***

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

Following fourth quarter results, Ferrari is expected to produce an annual return of 6.2% through 2029, up from our prior estimate of 0.7%. Our projection stems from 10.0% annual earnings growth and a starting yield of 0.5% that are partially offset by a valuation headwind. Shipments were up modestly for 2023, with most markets experiencing an increase in demand. Market share has also improved. Still, Ferrari's valuation does leave something to be desired. We have raised our five-year price target $182 to $513 due to EPS estimates, expected EPS growth rates, and a higher target multiple. We now rate shares of Ferrari as a hold 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