EthiFinance Ratings

FERRARI NV

64060977 CORPORATE

A+ ISSUER RATING
Long term

OUTLOOK
Positive

Initiation date 29/11/2022
Rating date 26/03/2024

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RATING ACTION AND RATIONALE

EthiFinance Ratings affirms Ferrari N.V's long-term rating at A+, but changes the outlook from Stable to Positive.

Our rating mainly reflects Ferrari's excellent financial profile. The interest coverage ratio rose from 53.2x as of end-2022 to 62.6x as of end-2023, while the EthiFinance Ratings-adjusted net leverage ratio has improved beyond our expectations reaching 0.1x vs 0.3x as forecast in April 2023. Our Positive outlook reflects our raised expectation of further significant improvement of the credit metrics in the years ahead. As it stands, we indeed expect Ferrari's adjusted net debt (excluding financial activities) to turn negative by 2025, on the back of strong profitability and cash generation, deriving from strong adjusted EBITDA, projected to remain around 29% of revenues over 2024-26. For 2023, Ferrari achieved 17.2% sales growth, of which 3% was attributed for each of pricing and volume. Meanwhile, 12.2% was attributed to personalization and product mix. This was supported by the sales of Daytona SP3, 812 Competizione and SF90 families, as well as positive country mix, particularly in the Americas and Mainland China, Hong Kong and Taiwan. The introduction of 5 new models (Roma, Purosangue, 296 GTS, 812 Competizione A and SF90) represented c. 42% of the total of 13,663 vehicles delivered in 2023 (+3.3% YoY). These models have largely contributed to the current robust order book, covering the next two years. In addition, our ratings remain supported by Ferrari's strong brand recognition allowing for premium pricing and above-benchmark margins, clearly surpassing those of traditional automotive OEMs, and more in line with those of the luxury car sector known for its commitment for exclusivity. Furthermore, its conservative financial policy and solid shareholder base both reinforce the A+ rating.

However, our rating is constrained by the specifics of Ferrari's business model. The company's exclusive focus on high-end sports cars, with only a minimal contribution from lifestyle and sponsorship activities (9.6% of FY23 sales), highlights a lack of diversification in its product lineup. Additionally, operational risks are exacerbated by the reliance on a singular manufacturing facility. Our rating is also constrained by electrification concerns, as Ferrari plans to integrate electric models into its lineup by the end of 2025, gradually phasing out ICE vehicles. This transition introduces uncertainties regarding shifts in consumer preferences and market demand.

In line with our methodology, the auto manufacturing industry has high ESG risks (sector heatmap score between 4 and 5) given its impact on the environment, which constrains our industry assessment. The sector has a high impact on climate attributed to the significant levels of GHG emissions, resulting from production processes which rely on heavy use of raw materials. Besides, the current electrification trend is increasing the pressure on natural resources such as cobalt and nickel. The sector also generates substantial amount of waste and air pollution, resulting in a high impact on biodiversity. On a more positive note, our assessment of the company's ESG policy is advanced (company ESG score of between 0 and 1), thanks notably to excellent governance score, good social practices, and positive trend in environmental considerations. Ferrari has indeed reduced its scope 1 & 2 emissions by 24% between FY21 and FY23. All in, the resulting ESG assessment is slightly negative for the final rating.

ISSUER DESCRIPTION

Ferrari is a world-renowned Italian luxury car manufacturer: Founded in 1947, it stands as a prominent brand within the ultra-premium segment of the automotive market, with a portfolio of more than 40 models, including both sports and racing cars. It is known also for its Formula 1 (F1) team with multiple world championship titles. Beyond its manufacturing and distribution operations, Ferrari extends financial services to its clientele in the United States, offering financing solutions through securitization via asset-backed financing. Ferrari is publicly traded on the New York Stock Exchange (NYSE) under the ticker 'RACE US' and on Euronext Milan as 'RACE IM'. As of March 18th, 2024, Ferrari's market capitalization was at € 70.2bn.

For FY23, Ferrari reported revenues of €5.97bn, equivalent to an increase of 17.2% YoY, for adjusted EBITDA of €1.8bn, equivalent to a margin of 30.7%. Our EthiFinance Ratings-net adjusted leverage ratio was 0.1x at end-2023.

LIQUIDITY

We assess Ferrari's liquidity profile to be 'Superior' as the company can repay all its upcoming debt without refinancing for more than two years.

MAIN FINANCIAL FIGURES AND FORECASTS

Main financial figures. €m	2022	2023	2024E	2025E	2026E	23v22%
Turnover	5 096	5 970	6 450	6 978	7 556	17.2%
EBITDA (Adjusted) (1)	1 358	1 831	1 903	2 045	2 214	34.9%
EBITDA Margin (1)	26.6%	30.7%	29.5%	29.3%	29.3%	15.1%
EBIT (Adjusted)	1 069	1 512	1 601	1 690	1 801	41.4%
EBIT Margin	21.0%	25.3%	24.8%	24.2%	23.8%	20.7pp
Interest expenses	(26)	(29)	(36)	(34)	(32)	14.7%
EBT	1 044	1 482	1 565	1 656	1 769	42.0%
Total Assets	7 766	8 051	8 329	8 764	9 376	3.7%
Equity (Adjusted)	2 602	3 071	3 468	3 949	4 518	18.0%
Total Financial Debt (Adjusted) (2)	1 818	1 434	1 262	1 131	1 085	-21.1%
Net Financial Debt (Adjusted) (2)	362	254	115	(106)	(383)	-29.7%
Equity/TFD (2)	143.2%	214.1%	274.8%	349.2%	416.5%	49.5pp
NFD/EBITDA (1) (2)	0.3x	0.1x	0.1x	-0.1x	-0.2x	-0.1x
Funds From Operations	1 547	2 070	2 066	2 222	2 403	33.8%
FFO/NFD (2)	427.8%	814.5%	1790.3%	n.a.	n.a.	90.4pp
EBITDA/Interest (1)	53.2x	62.6x	53.1x	60.9x	68.6x	9.4x

(1) Adj EBITDA is inclusive of Capitalized R&D
(2) Adj Net Debt is inclusive of employee benefits and exclusive of restricted cash related to securitizations

CREDIT RATING

CREDIT RATING	
Business Risk Profile	**BBB+**
Industry Risk Assessment	*BB+*
Competitive Positioning	*BBB+*
Governance	*A+*
Industry's ESG	***Negative***
Financial Risk Profile	***AAA***
Cash flow and leverage	*AA+*
Solvency	*AA-*
Company's ESG	***Positive***
Anchor Rating	***A+***
Modifiers	-
Final Rating	***A+***

RATING SENSITIVITY

Long-term positive factors (↑)

Given that the current rating is at the higher end of its category, the likelihood of an upgrade to AA- for Ferrari in the near term is quite high, as reflected by our Positive outlook. Therefore, should Ferrari's financial risk profile improve in line with our forecasts, particularly through it achieving and maintaining a negative net debt position, this could pave the way for a rating upgrade. A trigger for such an upgrade is indeed a negative adjusted net leverage ratio on a sustainable basis.

Long-term negative factors (↓)

We could downgrade our rating should Ferrari's credit metrics deteriorate, with its adjusted net leverage ratio returning to levels above 1.0x on a sustainable basis coupled with an interest coverage ratio below 30.0x. Such a deterioration may result, for example, from more stringent environmental regulations in the years ahead, leading to higher taxes being paid, more R&D expenditure, or a market demand decline owing to the phasing out of some of the ICE models going forward. Additionally, a rating downgrade could result from a more aggressive financial policy, with debt-funded M&A or a significantly generous pay-out ratio.

Sources of information

The credit rating issued in this report is unsolicited. The credit rating is based exclusively on public information, being the main sources the following:

1. Annual Audit Report.
2. Corporate Governance Report.
3. Corporate Website.
4. Information published in the Official Bulletins.

The information was thoroughly reviewed to ensure that it is valid and consistent, and is considered satisfactory. Nevertheless, EthiFinance Ratings assumes no responsibility for the accuracy of the information and the conclusions drawn from it.

Level of the rated entity participation in the rating process

Unsolicited Credit Rating	
With Rated Entity or Related Third Party Participation	NO
With Access to Internal Documents	NO
With Access to Management	NO

Additional information

- The rating was carried out in accordance with Regulation (EC) N°1060/2009 of the European Parliament and the Council of 16 September 2009, on credit rating agencies. Principal methodology used in this research are :
    - Corporate Rating Methodology - Long Term : https://files.qivalio.net/documents/methodologies/CRA 190 V3 Corporate%20Methodology 2023-10-06.pdf
- The rating scale used in this report is available at https://www.ethifinance.com/en/ratings/ratingScale.
- EthiFinance Ratings publishes data on the historical default rates of the rating categories, which are located in the central statistics repository CEREP, of the European Securities and Markets Authority (ESMA).
- In accordance with Article 6 (2), in conjunction with Annex I, section B (4) of the Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009, it is reported that during the last 12 months EthiFinance Ratings has not provided ancillary services to the rated entity or its related third parties.
- The issued credit rating has been notified to the rated entity, and has not been modified since.