

# **EQUITY NOTE: RÁBA Automotive Holding**

**Recommendation: BUY (unchanged)**

**Target price (12M): HUF 1,480 (changed)**

**05 December 2019**

Equity Analyst:  
Orsolya Rátkai

## **Announcement No.1**

Phone:  
+36 1 374 7270

Email:  
ratkaio@otpbank.hu

After preliminary negotiations, Rába Automotive Holding received a purchase offer with respect to its property in the 'Városrét' area of Győr, the company announced on 4 December. According to the announcement, the would-be buyer is a multinational retail company, who would buy a part of Rába Holding's 43-hectare real estate for over HUF 2bn. The paperwork of the deal will be finalized in the coming months, while the transaction with the conditions negotiated by the two partners has to be approved by the AGM in April 2020. Rába expects the deal to give further impetus to the sale of the remaining parts of the whole property.

## **Comment No.1**

- The real estate in focus is the one Rába Holding had been planning to sell for a long while, though the main priority was to sell it as a whole. The total market value of the whole property was HUF 5.338bn in 2018, according to the independent appraisal Rába published in the annex of the financial report of 2018.
- If the next AGM votes for the conclusion of the transaction, the deal may add about HUF 2bn as one-off item to Rába Holding's total revenues. The purchase price and the payment schedule of the transaction remained undisclosed.
- The expected revenue from the property sale may be accounted as other income. In line with the present accounting policy at Rába Holding, the real estate for sale is entered in the books at book value, that is HUF 338.2m. As a result, the transaction is expected to yield about HUF 1.7bn net income next year as a one-off item.
- The present value of the transaction is estimated to add 141 HUF/share to the enterprise value.
- The transaction is also a milestone in the perspective of the possible sale of the remaining property assets. We drew up different scenarios, depending on the time horizon within which the remaining assets are expected to be sold (see our report of February 2018), and we applied the average of the different outcomes.
- On the whole, the recently announced transaction and the future theoretic sale of the remaining property assets are estimated to add 220 HUF/share to the enterprise value compared to our conservative forecast of 99 HUF/share.
- As a consequence, our 12-month target price also needs to be adjusted. Our new 12-month target price is 1,480 HUF/share, up from previous 1,350 HUF/share. The new target price is 25% higher than yesterday's closing price. In total return it may yield 27%, although our dividend forecast covers only Rába Holding's ordinary operation. We maintain our BUY rating.

## **Announcement No.2**

Rába Automotive Holding Co. recently announced the new framework contract between its parts business unit 'Rába Automotive Component Ltd.' and one of the largest multinational Tier1 suppliers of the automotive industry.

Under the recent cooperation agreement, signed for seven years, Rába Automotive Components Ltd's factory in Mór will supply 50,000 pick-ups with fitted back seat frames for EUR 2 million annually from May 2020 onward, Rába Automotive Holding announced.

Rába sees strategic importance in this latest agreement, which also contains technological transfer. In the midst of the current transition going on in the automotive industry, the optimization of the European supply chains opens up the opportunity for Rába to establish new business relations, similar to this one, and even further cooperation.

## **Announcement No.3**

On 19 November 2019 Rába Automotive Holding published an announcement about the successful test period of the new machinery bought under the investment programme the company started in 2016. The aims of the investment programme were the modernisation and automatization of certain manufacturing processes at Rába's axle business, as well as a capacity enlargement. Besides the technology upgrade of the manufacturing of the axle business' core products, efficiency and quality improvements are also expected to get a boost.

More than 30,000 front axles will be produced in the new line this year – this makes up about 8–9% of the EU market, Rába announced. The company also plans to manufacture 150,000 units per year, covering roughly 50% of the EU demand. Production will be fully switched to the new technology by the end of Q1 2020; until then the old and the new production lines work simultaneously.

As the serial production begins in the new line, Rába also has initiated the conclusion of the grant application in the frame of the Hungarian Government' Large Enterprise Investment Support Programme. Under this investment programme, Rába is entitled to a HUF 2bn grant, which the company expects to receive this year.

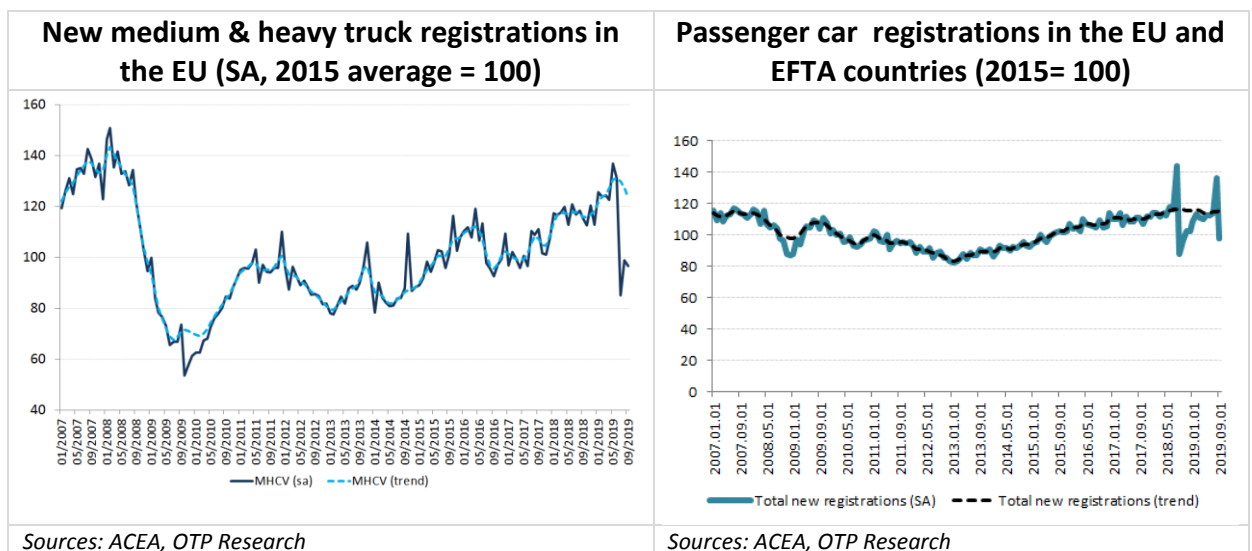
According to the announcement, Rába Automotive applies residual dividend policy with main priorities of capital expenditures and acquisitions (except in case of unexpected and/or extraordinary circumstances when ad hoc decision will determine the actual dividend payment).

The investment programme will end in Q2 2020, when the supplementary capacity will also be implemented.

## **Comments**

- In the past few weeks, Rába Holding did a great job of attracting investors' attention. Both announcements of the recent weeks reflect positive developments in the company's main operation.
- Although the 2m EUR/year order has a relatively small share in Rába Automotive Holding's total export revenues, we agree with the company emphasising the importance of the future opportunities its recent agreement with a global Tier1 supplier (its name is undisclosed) may provide.

- It is also a positive development that Rába Holding's components business 'Rába Járműalkatrész' has one more long-term cooperation, besides Suzuki Hungary and Toyo Seat Hungary Ltd.
- Rába Járműalkatrész's total sales to the EU amounted to EUR 20.1m in 2018, up by 12% from 2017. The company's 3Q cumulated sales to the EU increased to EUR 18.0m, 18% higher than a year earlier, while EU sales jumped 19% YoY in Q3 alone.
- Like in the medium and heavy weight commercial vehicle market in the EU, demand growth in the passenger car segment was fairly dynamic in the first half of this year, but there was a considerable drop in registration figures in the past few months partly due to the market correction after the introduction of WLTP. However, the demand trend well reflects the current sluggish growth environment in the eurozone.
- We expect Rába Holding's total consolidated EU sales to remain at the level of EUR 80m this year, around the level of 2018. Sales to the EU are forecast to increase to EUR 84m in 2020.



[The initiation report, which contains the assumptions of the models used, is available here.](#)

[The valuation methodology used in this present equity research note to determine our price targets and recommendations is available here. \(Also available in Hungarian\)](#)

This investment recommendation has not used proprietary models.

The risk warning, which includes the adequate explanations of the length of time of the investment to which the recommendation relates as well as a sensitivity analysis of the assumptions, is indicated in the part of this recommendation where the length of time and the risks of the investment are presented.

Any information relating to the date and time for the price mentioned in this recommendation is revealed in the part of the recommendation where the given price is indicated.

OTP Bank Plc's recommendations and price targets history for Rába Automotive Holding in the past twelve months:

Period	Recommendations	Percent of Recommendations
Q4 2018	BUY	100%
	HOLD	0%
	SELL	0%
Q1 2019	BUY	100%
	HOLD	0%
	SELL	0%
Q2 2019	BUY	100%
	HOLD	0%
	SELL	0%
Q3 2019	BUY	100%
	HOLD	0%
	SELL	0%

Date	Recommendation	Target Price	Publication
22/11/2018	BUY	HUF 1412	Equity Note
21/02/2019	BUY	HUF 1502	Quarterly Earnings Update
04/04/2019	BUY	HUF 1403	Equity Note
15/04/2019	BUY	HUF 1403	Equity Note
15/05/2019	BUY	HUF 1403	Quarterly Earnings Update
29/08/2019	BUY	HUF 1317	Quarterly Earnings Update
17/10/2019	BUY	HUF 1317	Equity Note
14/11/2019	BUY	HUF 1350	Quarterly Earnings Update
04/12/2019	BUY	HUF 1480	Equity Note

[The list of all recommendations made in the past 12 months is available here.](#)

#### **Disclaimer 1**

This research/commentary was prepared by the assignment of the Budapest Stock Exchange Ltd. (registered seat: 1054 Budapest, Szabadság tér 7. Platina torony I. ép. IV. emelet; company registration number: 01-10-044764, hereinafter: BSE) under the agreement that was concluded by and between BSE and OTP Bank Plc (registered seat: H-1051 Budapest, Nádor utca 16., Hungary, company registration number: 01-10-041585, hereinafter: OTP Bank or Investment Service Provider).

The BSE shall not be liable for the content of this research/commentary, especially for the accuracy and completeness of the information therein and for the forecasts and conclusions. The Service Provider is entitled to all

copyrights regarding this research/commentary however BSE is entitled to use and advertise/disseminate it without amending its content.

This research/commentary shall not be qualified as investment advice specified in Point 9 Section 4 (2) of Act No. CXXXVIII of 2007 on Investment Firms and Commodity Dealers and on the Regulations Governing their Activities.

Furthermore, this document shall not be qualified as an offer or call to tenders for the purchase, sale or hold of the financial instrument(s) concerned by the research/commentary.

## **Disclaimer 2**

1. Pursuant to the Commission-delegated regulation 2017/565/EU of the European Parliament, the content of this document shall be considered as an investment research, which recommends or suggests an investment strategy, explicitly or implicitly concerning one or more financial instruments or the issuers of financial instruments, including any opinion as to the present or future value or price of such instruments. The statements in this investment research contain objective or independent explanation. Furthermore, pursuant to Directive 2014/65/EU of the European Parliament and of the Council, this document shall be considered as investment recommendation. This document does not take into account investors' individual interests, circumstances, or objectives; therefore, in the absence of personal recommendation, it shall not be considered as an investment advice.  
OTP Bank intends to make this document available to its clients or to the public, or to make it accessible to other persons in a way that allows this document to be disseminated to the public.
2. Information herein reflects the market situation at the time of writing. It provides only momentary information and may change as market conditions and circumstances develop. Additional information may be available on request. Where a figure relates to a period on or before the date of communication, the figure relates to the past and indicates a historic data. Past performance is not a reliable indicator of future results and shall be not treated as such. OTP Bank makes no representation or warranty, express or implied, is made regarding future performance of any financial instrument mentioned in this communication. OTP Bank shall have no liability for the information contained in this for any loss or damage whether direct, indirect, financial, economic, or consequential, whether or not caused by the negligent act or omission of OTP Bank, provided that such limitation of liability shall not apply to any liability which cannot be excluded or limited under the applicable law.
3. The issuer of this report does not claim that the information presented herein is perfectly accurate or complete. However it is based on sources available to the public and widely believed to be reliable. Also the opinions and estimates presented herein reflect a professional subjective judgment at the original date of publication and are therefore subject to change thereafter without notice. Furthermore there can be no guarantees that any market developments will unfold as forecasted. Opinions and estimates constitute our judgment and are subject to change without notice.
4. The issuer(s) of the product(s) mentioned in this document do not hold more than 5% of OTP Bank's registered capital. OTP Bank is a market maker of the financial instrument that is discussed in this document. Neither was OTP Bank a lead-manager (organizer) or joint lead manager (organizer) of any public placement of the issuer's financial instruments (e.g. securities) in the previous 12 months. Regarding investment services defined in Sections A and B of Annex 1 of Directive 2014/65/EU, OTP Bank is not a party of the agreement with the issuer. OTP Bank maintains a conflict of interest policy and it keeps such records, and is has requirements that regulate the transmission of bank secrets and securities secrets, which requirements shall be considered as the effective internal organizational and management solutions as well as information barriers to prevent or manage conflicts of interest. The remuneration of the person(s) participating in preparing the recommendation is not directly related to the transactions carried out as part of the investment services specified in Sections A and B of Annex 1 of Directive 2014/65/EU, or to transactions carried out by them or by other legal entities of the same group or to trading fees that they or another legal

person of the same group receive. OTP Bank does not hold net long or short positions that exceed 0.5% threshold of the issuer's total registered capital.

5. OTP Bank has developed appropriate internal procedures for (i) the personal transactions and tradings of financial analysts and other relevant persons, (ii) the physical separation of the financial analysts involved in the production of investment research and other relevant persons; moreover, information barriers have been implemented, (iii) for accepting and managing incentives and remuneration.
6. This communication does not contain a comprehensive analysis of the described issues; it is only for information purposes. No part, chapter, or the entirety of this information shall be considered as investment advice, not even if any part of this document contains a description of a certain financial instrument in terms of its possible price or yield development, and the related investment options. This information shall not be considered as legal, tax or accounting advice.
7. This information reflects the market situation at the time when the document was prepared. You may request more information from OTP Bank. This document was prepared based on publicly accessible information made available to OTP Bank from one or more sources. This document was prepared using data, facts and information from the following essential sources: Bloomberg, Reuters, Hungarian Central Statistical Office, Eurostat, Magyar Nemzeti Bank (Hungary's central bank), and European Central Bank (ECB). Although the information in this document has been prepared in good faith from sources that OTP Bank believes to be reliable, we do not represent or warrant its accuracy or completeness. This document represents the opinion and estimations of analysts at OTP Research, based on publicly available data. You may receive different recommendation from the staff of OTP Bank, in particular if you are provided investment advice based on an investment advice agreement. The content of this document is based on the opinion of OTP Research's analyst at the time when the document was prepared, and they may be subject to change at any time in the future without further notice.
8. Please be informed that, irrespective of the statements of this investment research, OTP Bank is entitled to deal or trade as market maker, acting in good faith and in accordance with the usual way of market-making, with the financial instruments distributed by the issuer(s) specified in this document, as well as to provide other investment activities or ancillary (investment) services, and/or other financial or ancillary financial services to the issuer and other persons.
9. This document shall not be a basis for any further analysis in relation to the financial instruments contained therein. Any reference in this document to the future distribution of a financial instrument shall be construed as indicative, preliminary and informative, and any analysis of such financial instrument is exclusively based on publicly available information listed in the respective prospectus or announcement. The content of this document shall not imply that OTP Bank acts as an agent, a fiduciary, or an advisor to, or on behalf on, any prospective purchaser of the financial instruments discussed herein.
10. For certain persons, access to the products and/or services discussed in this document may not be granted, or it may be limited. The act of preparing this document by OTP Bank, its uploading to the website, its publication may under no circumstances be considered as OTP Bank's intention to make available product and/or service information in the prospectus to persons whom any country or state prohibits from having or obtaining the given product and/or service, including the promotion and the advertisement thereof. This communication and any of the financial instruments and information contained herein are not intended for the use of private investors in the UK and US. OTP Bank is not allowed to provide direct investment services to US investors. Any individual decision or investment made based on this publication is made solely at the risk of the client and OTP Bank shall not be held responsible for the success of the investment decisions or for attaining the Client's target.
11. This publication contains generic presentation of information and knowledge, thus it does not take into account the individual clients' unique and special interests, financial condition, or their ability and willingness to take risks. Therefore please contact our staff or contact your banking consultant for advice before you make an investment decision. The assessment and the consideration of the individual circumstances is



provided by the suitability and compliance tests that assess clients' financial knowledge, experience, risk-taking abilities, as well as the examination of the target market.

12. Before making an informed decision to invest and to use the services, please carefully read through all documents, including the documentation, prospectus, regulations, terms and conditions, announcements and key information documents for that product/service, and carefully consider the subject, the risk, the fees and costs of your investment, the possibility of any loss, and seek information about the tax regulations regarding the product and the investment. The prices of financial instruments and securities are changing, outright sales are realized at then current market prices, which may involve losses.

The information and opinions in this document do not substitute or take the place of the issuance documentation for the given financial assets (e.g. prospectus, fund management rules), or their brochures or announcements.

13. You assume total responsibility and risk for any specific decision or investment; OTP Bank shall not be held responsible for the effectiveness of investment decisions or for reaching your purpose, nor for the individual investment decision made based on this document or any part thereof, or for their consequences. Investments in financial instruments carry a certain degree of risk, which may affect the effectiveness of the investment decision, and investors may not receive the whole amount they had expected the investment to yield in their investment targets; they may not preserve even the invested amount, therefore the invested capital might even decrease, be wholly lost, or even lead to additional payment obligation.
14. Trading with leveraged products (such as foreign exchange contracts, or shares and indices that have underlying products) carries a considerable amount of risk, and these products are not suitable for all investors. Trading with leveraged products carries the risk of losing all capital, and it may incur losses that exceed the amount invested.
15. **The figures and information described herein refer to the past, and past performance is not a reliable indicator of future yields, changes, or performance.** The changes on money and capital markets, the fluctuation of prices, the development of investments and their yields are influenced by the combined effect of multiple factors; one important factor of them is the change in investors' expectations. **The development of prices, the future yield of financial assets, indices or indicators, the examination of their changes, trends, and future performance is based on estimations and forecasts, which forecasts do not allow reliable conclusions to be drawn about the future moves of prices, real future yields, changes, or performance.** For each product and service, please assess their tax accounting implications, and other tax consequences, taking into account that they cannot be precisely assessed without knowing the effective tax regulations of the client's individual circumstances; and these legislative provisions as well as the circumstances may change over time.
16. OTP Bank reserves the right to modify this document in the future, without prior notice. The planned frequency of updates to the recommendation is quarterly. The initiation report preceding this research was published on 18 December 2017.
17. OTP Bank (business registration number: 01-10-041-585; registered seat: Nádor utca 16., Budapest H-1051, Hungary; authorised by Magyar Nemzeti Bank (former supervisory authority: Hungarian Financial Supervisory Authority, 'PSZÁF'). Supervisory authority: Magyar Nemzeti Bank (National Bank of Hungary – H-1054 Budapest, Szabadság tér 9); financial customer services: H-1013 Budapest, Krisztina krt. 39. The terms and conditions of this equity research and disclaimer shall be governed by and construed in accordance with Hungarian law.
18. Please note that the Internet is not a secure environment and OTP Bank does not accept any liability for any loss caused by the result of using this report in a form altered or delayed by the wilful or accidental interception, corruption or virus infection.
19. OTP Bank, in compliance with the applicable law, assumes no responsibility, obligation, warranty or guarantee whatsoever for any direct or indirect damage (including losses arising from investments), or for

the costs or expenses, detrimental legal consequences or other sanctions (including punitive and consequential damage) sustained by any natural or legal person as a result of the purchase or sale of financial instruments or engaging investment services described herein, even if OTP Bank was warned of the possibility of such occurrences.

20. If you received this document from OTP Bank Plc, then it was sent to you with your previous consent. You may withdraw this permission by sending an e-mail to [research@otpbank.hu](mailto:research@otpbank.hu) or writing a letter addressed to 'Research Center', Hungary H-1051, Budapest, Nádor utca 21. Please refer to your name and e-mail address in both cases.
21. The personal data in this investment research are processed by OTP Bank. The legal basis for processing the data is the legitimate interest of OTP Bank. The detailed information about the processing of personal data and the related rights of data subjects is available [here](#).

This document was prepared by:

Orsolya Rátkai  
Senior Equity Analyst  
OTP Research

This document was finalized at **5:52:34 PM** on 05 December 2019