EQUITY NOTE: RÁBA Automotive Holding

Recommendation: HOLD (unchanged)

Target price (12M): HUF 891 (revised down)

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Highlights

We maintain our previous HOLD recommendation on Rába Automotive Holding (RABA HB; RABA.BU) with a new 12M target price of 891 HUF/share, down from the previous 12M target price of 1,210 HUF/share. The target price is 6.2% lower than the HUF 950 closing price on 18 May. Total return is estimated at the same 6.2% on a 12-month forecast period, as no dividend payment is expected for Y2020.

The covid-19 pandemic radically changed the economic outlook in Rába's core businesses and markets when companies also must handle debt and liquidity issues.

Rába reported significant revenue drop and profit decline in its Q1 2020 earnings report, though the covid-19 pandemic could have only limited effect on its operation in the January-March period.

As a consequence of the markedly altered economic environment and growth outlook, we revised down our revenue and profit forecasts. The recent decline in enterprise value reflects the negative developments the covid-19 pandemic induced, which severely hit cyclical sectors like the automotive industry in the next 12 months. Our new target price also reflects the higher discount linked to illiquidity, as investors turn away from small company stocks.

The share price of Rába Automotive dropped 7% on 14 May 2020, the day after the earnings report was published, while the BUX lost 1.1% on the same day.

Summary

- Rába Automotive Holding's quarterly net sales revenues dropped 19%, to HUF 11.9bn, down from HUF 14.7bn in Q1 2019, the company announced in its Q1 2020 earnings report.
- Rába also reported considerable profit decline, its EBIT turned negative, while EBITDA slumped to HUF 709m from HUF 1.4bn one year ago.
- The company announced HUF 853 net quarterly loss, down from the HUF 744m net profit in the base period. Quarterly EPS fell from HUF 55 in Q1 2019 to HUF -63 in Jan-March 2020.
- In the meanwhile, the covid pandemic put economies and businesses to the test, and its economic consequences made the outlook very uncertain. The covid crisis heavily hit several industries, and investors' focus shifted from P/L statements to corporate balance sheets. Besides sales growth and profitability, liquidity and debt issues also must be addressed.
- Rába Automotive arrived at the present economic downturn with low liquidity but fair indebtedness compared to the financial crisis of 2008. Liquidity ratios

are expected to stabilise at low level by end-2020, while indebtedness is expected to increase.

- The pandemic and its economic consequences make forecasting challenging. We revised down our earlier revenue and profit forecast with sales revenues falling to HUF 33.0bn in Y2020, and EBITDA declining to HUF 1.3bn. Y2020 EPS is expected to drop to HUF -118.

Financial highlights of Q1 2020 earnings report

January-March (HUFm)	2020 Q1	2019 Q1	YoY Change
Domestic sales	3 025	5 780	-48%
Export sales	8 831	8 945	-1%
Net sales income	**11 856**	**14 725**	**-19%**
Direct cost of sales	9 390	11 758	-20%
Gross profit	**2 467**	**2 967**	**-17%**
Cost of sales and marketing	143	220	-35%
General managing costs	2 094	1 889	11%
Other operating expenses	462	130	256%
Total operating expenditures	**2 699**	**2 239**	**21%**
Other incomes	113	202	-44%
EBIT	**-120**	**930**	**-113%**
Pre-tax profit	**-748**	**923**	**-181%**
Tax	105	179	-42%
After-tax profit	**-853**	**744**	**-215%**

January-March	2020 Q1	2019 Q1	YoY Change
EPS (HUF)	**-63**	**55**	**-215%**
4Q-rolling EPS (HUF)	**-76**	**115**	**-166%**
EBITDA (HUFm)	**709**	**1 446**	**-51%**
Gross profit rate	**20.8%**	**20.2%**	**0.7 pp**
EBIT rate	**-1.0%**	**6.3%**	**-7.3 pp**
EBITDA rate	**6.0%**	**9.8%**	**-3.8 pp**
ROE	**-4.1%**	**3.5%**	**-7.6 pp**
4Q-rolling ROE	**2.7%**	**7.4%**	**-4.6 pp**
ROA	**-2.0%**	**1.7%**	**-3.7 pp**
4Q-rolling ROA	**2.5%**	**3.7%**	**-1.2 pp**

Source: Rába Automotive

Both domestic and export revenues dropped. Rába reported HUF 11.9bn total net sales in Q1 2020, 20% lower than in the corresponding period of 2019. Domestic sales revenues halved, while export revenues decreased only 1.0% in HUF terms. Weakening HUF helped to offset falling export revenues, as EURHUF climbed 6.6% YoY when comparing quarterly averages and USDHUF rose 9.8% in the same period.

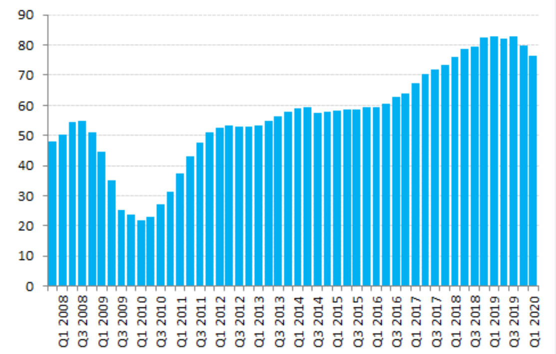
Quarterly export sales in FX terms decreased in Rába's key markets. Sales in the US declined 9% YoY in USD after the 4% YoY drop in Q4 2019. Rába's export revenue decline was sharper in the EU market. As macro indicators also showed, growth in the euro area stalled in Q4, and manufacturing PMIs and business confidence indicators also reflected deteriorating economic environment.

The upward trend observed before in the new registrations of medium and heavy trucks reversed in the middle of last year. From the second half of 2019, registration figures both in the passenger and the commercial car segment showed signs of exhaustion in the EU, and demand eroded further during the current covid-19 pandemic. PMIs remained subdued and Q1 2020 GDP plunged 3.8% in a yearly horizon.

The registrations of medium and heavy trucks plunged 25% YoY in January-March 2020 while the registration figures of buses fell more than 10% YoY in the same period. Like in its previous report, Rába also cites the weakening demand for its farm machinery products. EU sales declined by 15% in EUR terms, after falling 16% YoY in Q4 2019.

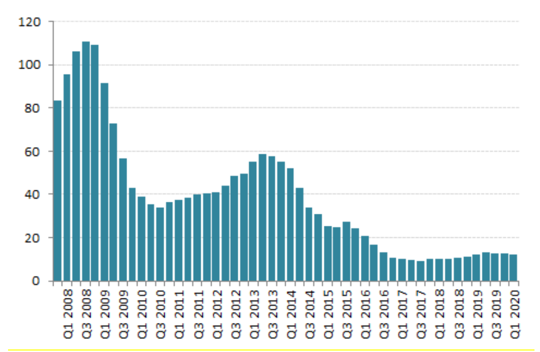
None of Rába's businesses proved to be resilient in the present downturn: the axle business suffered 19% revenue loss (in EUR) in the EU market, while the sales revenues of parts business declined 16% YoY (also in EUR terms) there. European sales of the vehicle business contracted only 4% YoY in FX terms.

12M-trailing EU export sales revenue of Rába Automotive (EURm)



Sources: Rába Automotive, OTP Research

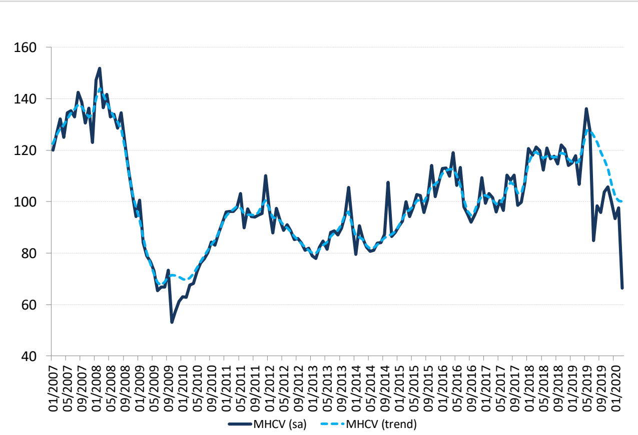
12M-trailing US export sales revenue of Rába Automotive (USDm)



Sources: Rába Automotive, OTP Research

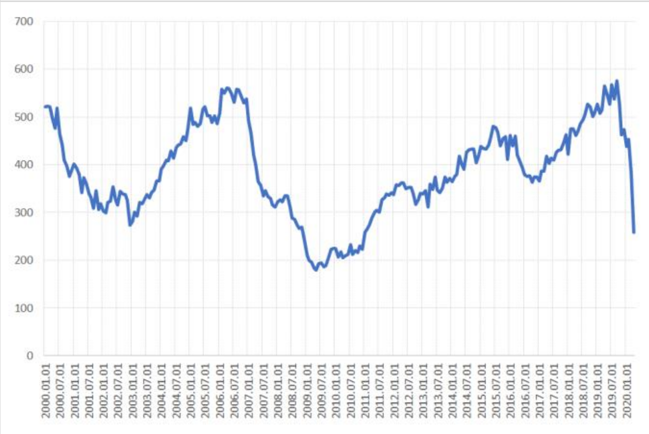
Demand in the US heavy truck market also changed direction in the last two quarters. After a two-year period of steady growth, the monthly registration figures of heavy commercial vehicles dropped in Q4 2019 in year/year comparison. After the October-December period of 2019 witnessed 5% drop according to the seasonally adjusted figures, in Q1 2020 heavy truck sales turned for a steep decline. With the deepening covid-crisis, heavy truck sales nose-dived in the US: April sales figures halved on a yearly horizon and plunged to a level not seen since the beginning of 2011.

New medium & heavy truck registrations in the EU (SA, 2015 average = 100)



Sources: ACEA, OTP Research

Heavy weight truck retail sales in the US (seasonally adjusted annual rate, thousand units)



Source: US Bureau of Economic Analysis

The US agricultural machinery market also shows signs of weakening. The quarterly figures in the retail sales of agricultural machinery reflect decline in every segment: according to the seasonally adjusted data, sales in every equipment class declined by 5–8% YoY in Q1 2020, with the exception of two-wheeled farm tractors over 100 HP, which remained unchanged.

Quarterly US sales revenues decreased 9% YoY without FX effect. The weakening HUF helped counterbalance the drop, leading to more than 5% increase in HUF-denominated sales.

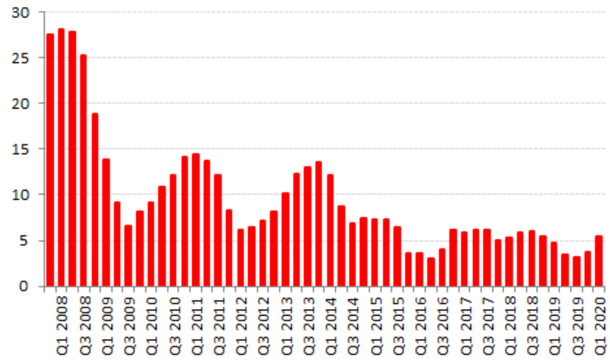
Sales in the area covering the CIS & Eastern Europe showed some strength. Although demand in the Russian heavy truck market remained weak, Rába more than doubled sales there. However, the market of commercial vehicles reflects a mixed picture: truck sales declined 1% YoY in Q1 2020, but bus sales grew by 29% YoY with March sales increasing 17% in yearly comparison.

However, demand on the Russian truck market is expected to weaken further in Q2 as a result of constraints due to the covid-19 pandemic. April trucks sales fell by a third in Russia, the latest statistics show.

Despite the falling export revenues, the exports' share in total sales revenue remained at elevated level, near 75%, up from 61% share a year earlier, mainly due to the decline in the vehicle segment's domestic sales revenue.

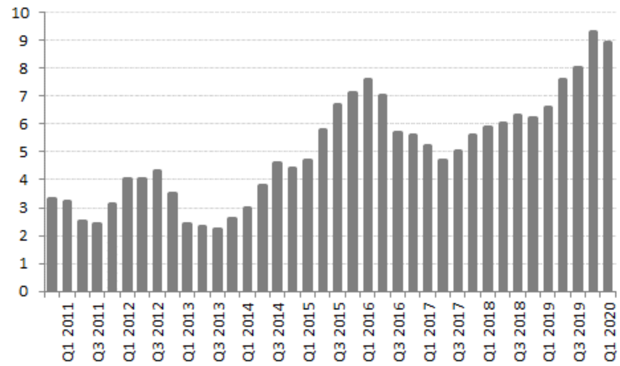
FX movements in the past quarter compensated for the sales drop, the HUF weakened about 7% YoY in Q1 2020 versus the EUR when considering quarterly averages, while the USD/HUF rate climbed almost 10% in the same period.

12M-trailing sales revenue of Rába Automotive in the CIS market (EURm)



Sources: Rába Automotive, OTP Research

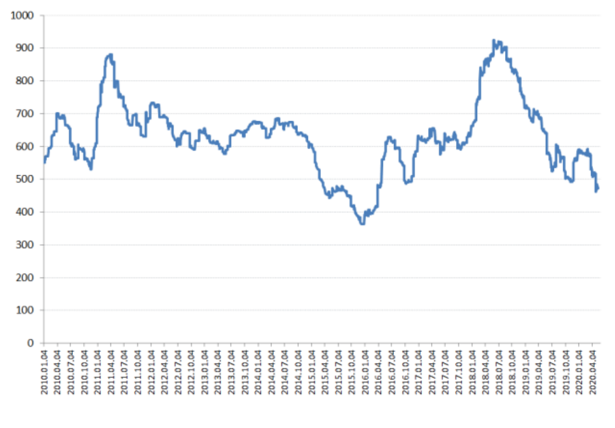
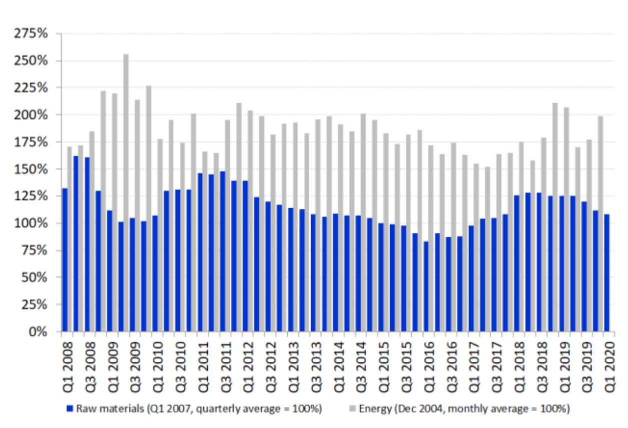
12M-trailing sales revenue of Rába Automotive in the 'other markets' (EURm)



Sources: Rába Automotive, OTP Research

Domestic sales almost halved. The vehicle and the parts businesses lost a significant part of their domestic revenues in the past quarter. The vehicle segment lost almost 90% of its domestic sales revenues in Q1 YoY, as earlier orders from the Hungarian Army ran out, while new orders – despite the announcements and the renewal of the framework contract made with the Ministry of Defence in late 2018 – have not arrived.

Domestic sales revenues of the parts business unit (with domestic customers like Toyo Seat with indirect supply to Suzuki Hungary and Fehrer Hungária) shrank by 27% YoY in Q1 2020.

Steel market prices sharply declined as covid-19 epidemic turned global (hot-rolled coil, USD/metric tonnes)	Input cost indices of Rába Automotive (quarterly averages)
	
Source: Bloomberg	*Source: Rába Automotive Holding*

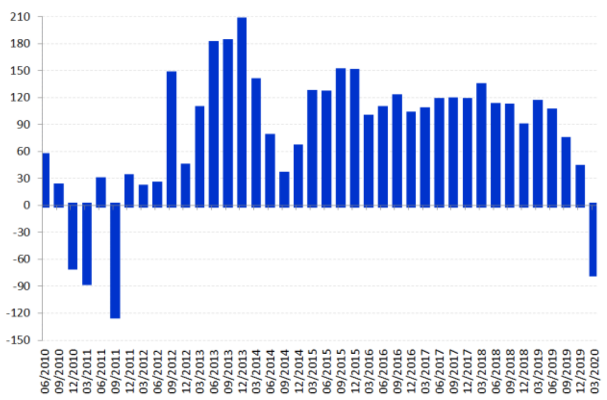
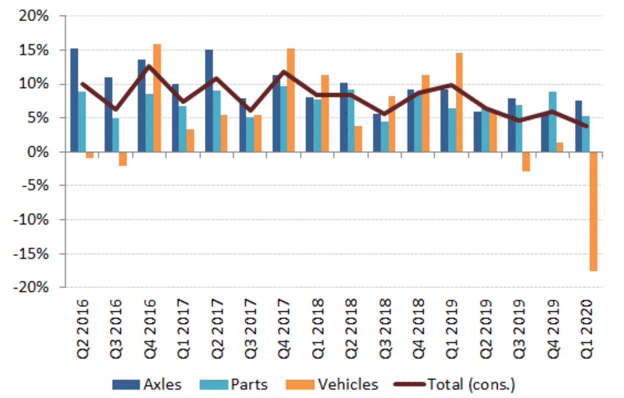
High share of fixed costs, coupled with falling sales, erased profitability. A marked decline in sales and the elevated level of some cost items (energy, labour) pared down company profit. Gross profit amounted to HUF 2.467bn in Q1 2020, 17% less than a year earlier. Gross margin slightly improved in a year/year comparison, as directs costs fell somewhat more than total sales income. Gross margin rose to 20.8%, from 18% in the last quarter of 2019 and from 20.2% a year earlier.

With other operative cost items rising more than 20%, EBIT turned negative in Q1 2020 and resulted in HUF 120m loss. EBITDA fell to the third of the amount reported a year earlier, EBITDA margin declined to 3.8%, a level not seen in the past nine years.

In terms of the segments, only Rába's vehicle business turned loss-making in both EBIT and EBITDA levels, but it put the whole company's profitability under pressure.

Also, as consequence of the significant net loss of the FX transactions, quarterly profit before tax turned negative. Net income fell to HUF -853m and quarterly EPS declined to HUF -63.

The input cost indices reported by Rába also reflect the decrease in raw material prices. At the same time, the quarterly energy price index was 6% higher in Q1 2020 than in Q4 2019, but on a yearly horizon the own-calculated index of Rába shows only 2% increase in energy costs. On the side of labour force, Rába's headcount decreased by 7% by the end of March 2020 compared to the base period.

The decline of 4Q EPS did not stop (HUF)	EBITDA margin at Rába's business units
	
Source: Rába Automotive Holding, OTP Research	*Source: Rába Automotive Holding, OTP Research*

Comments

- **The current pandemic situation totally alters the economic landscape and puts economies to a very different growth path compared to what was expected at the beginning of this year.**
  - The European Commission's latest forecasts expect GDP to decline by 7.4% in the EU and fall by 7.7% in the euro area this year. According to the IMF's latest projections published in the WEO April 2020, other key markets of Rába, like the USA (-5.9%) and Russia (-5.5%) may also suffer significant economic decline this year.
  - According to the latest statistics, euro area GDP fell by 3.8% QoQ in the first three months of 2020, with Germany reporting 2.2% QoQ GDP decline in the same period. At the same time, the US economy shrank by an annualized 4.8%, the steepest pace of contraction since Q4 2008.

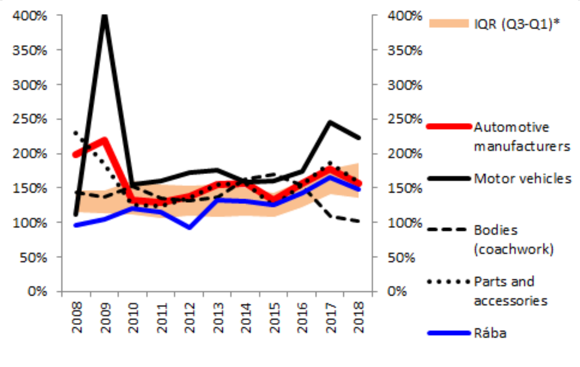
- **The covid crisis challenges the European automotive industry in a period when cyclical downturn already started to weaken demand**
  - Registration figures in the key markets of Rába have already started to show signs of weakening from the second half of 2019 (depending on vehicle segments and geographical areas) before the covid-19 pandemic.
  - The pandemic prompted lockdowns, temporary closure of plants and businesses, but damaging supply chains and depressing consumer demand also must be mentioned as 'side effects'. The pandemic made economic outlook very uncertain, and under these circumstances, consumers are expected to postpone their investment and companies revise their investment plans and cut capex.

- **In the present situation, investors' focus shifted from P/L statements to corporate balance sheets.**
  - It remains to be seen how companies adapt to the markedly different conditions, with demand practically vanishing and corporate cash flows turning negative for an indefinite period.

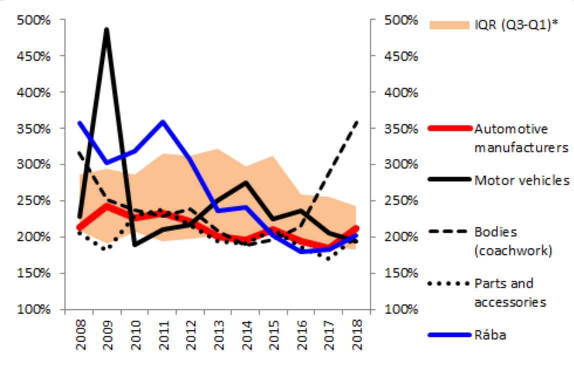
- Besides sales growth and profitability, liquidity and debt issues also must be addressed, while the corporate default rates are expected to increase and creditability to worsen.

- **Rába Automotive faces the current crisis with very low liquidity, but fair indebtedness**
  - Rába's liquidity stood below the industry average in Hungary at the end of 2018, with the 148% current ratio falling within the IQR, calculated with financial data of 22 subsectors when making an economy-wide comparison. By end-2019, current ratio declined to 91%. At the same time quick ratio dropped from 51% at end-2018 to 34% by end-2019.
  - Although the quick ratio of 51% (end-2018) was higher than the industry average in Hungary, it significantly deteriorated year by year (data from Y2019 unfortunately are not yet available for the whole economy). The end-March 2020 data showed some improvement at corporate level, but as the index also reflects the relative balance between accounts receivables and payables it is expected to further deteriorate as customers keep away.
  - Considering indebtedness, Rába's position is more comfortable, with leverage (total assets/total equity) of 200% in 2018 and 2019 as well. In comparison with the industry average in Hungary, Rába's leverage was lower than the one in the automotive sector in the past few years, but slightly higher than what is typical in the subsector of components manufacturing.

Rába's current ratio has been usually below the industry average (local manufacturers w/o OEMs)

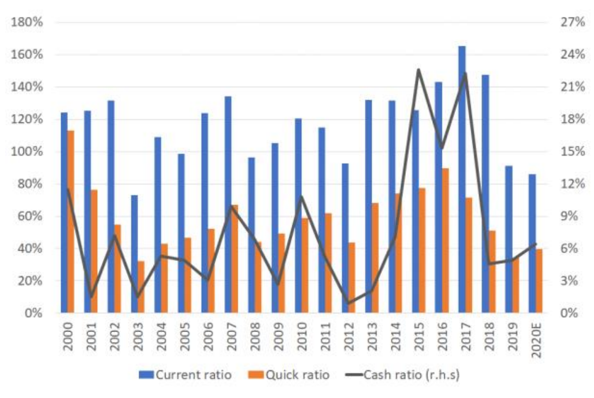
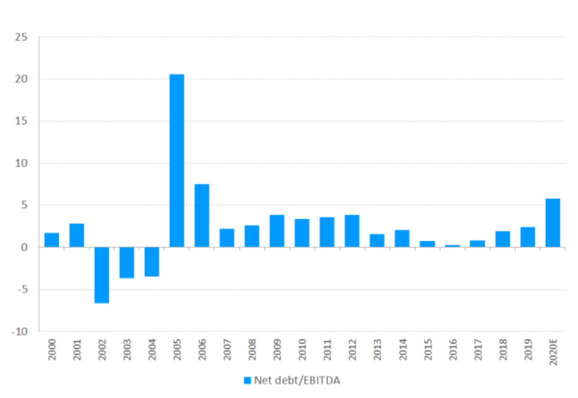


Rába's leverage significantly decreased in the past decade (local manufacturers w/o OEMs)



Sources: GKI, National Tax and Customs Administration, OTP Research

**Calculation is based upon the financial reports of Hungarian enterprises with double-entry bookkeeping, which were submitted to the National Tax and Customs Administration. Upper and lower quartiles are calculated with financial data of companies classified in 22 economic subsectors.*

Liquidity history of Rába Automotive	Net Debt/EBITDA
	
Sources: Rába Automotive, OTP Research	*Sources: Rába Automotive, OTP Research*

- **The outlook remains very uncertain**
  - After the financial crisis in 2008, Rába lost significant part of its revenues and it took several years to build back the lost markets and become profitable again. Rába's liquidity was very low that time; it was below the lower quartile of the economic sectors while its leverage was very high. Although Rába's indebtedness was much lower at the end of 2019 and in Q1 2020 than during the latest crisis, leverage deteriorated from Q4 2019 to Q1 2020 and its liquidity ratio stood at end-2019, and below the level of 2008 at the end of the past quarter. It is crucial how companies, especially in the cyclical sectors, will manage debt and liquidity issues in the current covid crisis, which is expected to damage economies and businesses more than the one in 2008/2009.
  - Rába seems to have dropped the idea of having orders from the Hungarian Ministry of Defence in the frame of the original military development scheme. Consequently, the domestic sales revenues of Rába's vehicle business and of the whole Rába Holding are expected to remain subdued for a longer period.
  - In April, manufacturing PMI in the eurozone fell to the lowest since 2007 as governments across the region were forced to impose strict measures to contain the covid-19 outbreak. Output, new orders, export sales, and purchasing activity all fell at record rates, while supply-side constraints intensified to an unprecedented extent. Looking ahead, confidence about future sank to record low. PMI data of coming months are crucial in terms of recovery expectations.

Valuation

- Considering the developments in the past months, we updated our top-line and bottom-line estimates, but the covid crisis makes forecast challenging. We followed the EC's economic forecasts as a guideline to a possible growth scenario in the short and medium run.
- We cut our Y2020 revenue estimate for Rába from HUF 51.8bn to HUF 33.0bn mainly due to the expected decline in EU sales, even though the HUF's weakening is expected to partially offset the export revenue drop in FX terms. Domestic revenues may remain subdued this year, partly due to the failed co-operation between the Hungarian Ministry of Defence and Rába's vehicle business, while the current crisis may affect domestic orders from other partners as well.
- The quick deterioration of EBIT and EBITDA margins in Q1 2020 points to lower profitability in the coming quarters as sales revenues in business units turned lower or even negative in the past quarter. Rába shut down all its factories for two weeks in April and with a possible summer break Rába could be able to manage costs when revenue growth is loaded with uncertainties.
- We expect Y2020 EBIT to turn negative, HUF -826m and EBITDA to fall to HUF 1.3bn, after HUF 1.3bn EBIT and HUF 3.5bn EBITDA in Y2019. We note that the current period bears a great deal of uncertainty, and our forecast has certain risks both to the upside and downside. Economic data for Q2 and Q3 may surely ease the uncertainties considering the revenue and profit outlook.
- In our DCF model, we increased the small company discount we apply, from 2.5% to 3.0 as investors may turn away from small corporates with low market liquidity. It can be also interpreted as investors price in higher default rates when considering allocations in companies with lower market cap and stock turnover.
- In quarter/quarter terms, long-term yields also picked up, and contributed to somewhat higher expected discount rate.
- As a result of the changes implemented in our valuation model, our 12-month target price declined to HUF 891/share from the previous target price of HUF 1,210/share. The 12M target price is 6.2% lower than the HUF 950 target price offering the same 6.2% TR as Rába is not expected to pay dividend after Y2020 results.
- The future sale of Rába's real estate is also part of our valuation. Although the company announced in December 2019 that a possible buyer had made an offer and the BoD acting on behalf of the shareholders' AGM entitled the management to sell the property in question; in the current stance, the transaction bears considerable chance of fizzling out.
- However, if the transaction finally concludes with the previously announced purchase price, it may add HUF 81/share to the present target price.

Deduction of 12M target price

Rába's valuation (HUFm)	2019	2020	2021	2022	2023	2024	FCFF in the explicit period
FCFF	-278	437	839	827	921	1 018	
Discount factor	0,95	0,94	0,93	0,93	0,93	0,93	
DCF	-263	410	695	639	662	719	3 124
Terminal value (HUFm)							18 158
Net present value (HUFm) of TV							12 865
Enterprise Value (incl. possible future property sale) HUFm							18 645
Net debt							7 653
Equity value - Dec 31 2020, HUFm							10 992
Number of shares							13 352 765
Expected return on equity							8,3%
12M Target price							**891**
Current price							950
Upside/Downside							-6,2%
TR Upside/Downside							-6,2%

Source: OTP Research

CONSOLIDATED INCOME STATEMENT	HUFm					
	2017	2018	2019	2020E	2021E	2022E
Total sales revenue	43 842	48 632	49 782	33 041	39 888	45 714
Direct cost of sales	-34 577	-38 262	-40 463	-27 094	-31 911	-37 028
Gross profit	9 265	10 370	9 319	5 947	7 978	8 686
Indirect costs of sales	-7 116	-8 620	-7 979	-6 773	-7 180	-7 543
EBIT	2 149	1 751	1 340	-826	798	1 143
EBITDA	4 100	3 790	3 455	1 268	2 871	3 195
Net financial profit/loss	-101	-109	-411	-600	-300	-300
Profit before tax	2 048	1 642	1 004	-1 426	498	843
Tax	-479	-445	-433	-143	-139	-261
After-tax profit	1 569	1 197	572	-1 569	358	582
Dividend	307	238	114	0	0	116
EPS	117	90	43	-117	27	44
DPS	23	18	9	0	0	9

**Unconfirmed, estimated on the basis of official consolidated total sales and preliminary export sales figures.*

CONSOLIDATED BALANCE SHEET HUFm	2017	2018	2019	2020E	2021E	2022E
Property, plant, equipment	15 818	19 145	25 394	25 394	24 124	22 855
Intangible assets	282	198	148	119	96	86
Non-current assets	16 876	20 021	25 453	26 450	25 077	23 829
Inventories	7 008	9 072	7 651	5 947	7 734	8 228
Receivables and other current assets	9 864	12 266	6 488	7 533	9 094	10 430
Cash and cash equivalents	2 638	684	805	1 084	1 619	2 126
Current assets	19 562	22 057	15 006	14 565	18 581	20 784
TOTAL ASSETS	36 438	42 078	41 569	40 664	43 306	44 262
Share capital	13 473	13 473	13 473	13 473	13 473	13 473
Own shares	-109	-109	-109	-109	-109	-109
Capital reserve	0	0	0	0	0	0
Stock option reserve	0	0	0	0	0	0
Retained earnings	6 613	7 500	7 833	6 799	7 157	7 622
Total Equity	19 978	20 865	21 197	20 163	20 522	20 987
Long-term loans and other liabilities	4 373	5 916	4 165	3 567	3 057	2 548
Provisions	163	245	237	264	264	264
Non-current liabilities	4 619	6 265	4 711	3 589	3 080	2 570
Loans and credits	1 582	2 186	4 561	5 170	5 679	6 189
Payables and other short-term liabilities	10 140	12 517	10 847	11 359	13 730	14 217
Current Liabilities	11 841	14 948	15 662	16 911	19 705	20 705
TOTAL EQUITY AND LIABILITIES	36 438	42 078	41 569	40 664	43 306	44 262

CONSOLIDATED CASH FLOW HUFm	2017	2018	2019	2020E	2021E	2022E
EBITDA	4 100	3 790	3 455	1 268	2 871	3 195
Cash flow from operation	1 075	1 243	8 379	2 417	1 539	1 631
Cash flow from investment	-3 154	-5 184	-8 658	-1 981	-700	-805
FCFF	-2 079	-3 941	-278	437	839	827
FCFE	813	-1 873	111	-213	623	620

Sources: Rába Automotive, OTP Research

Risks surrounding Rába's economic activity

Liquidity risk: In the current covid crisis, liquidity and debt issues stepped into the limelight as companies must maintain liquidity and solvency at a time when revenues decline in a better case or simply vanish for a period in the worst case. In industry comparison, Rába operates with relative low liquidity, which further decreases in times of economic distress (e.g. the financial crisis of 2008/2009). Earlier data prove that Rába's liquidity position already weakened by end-2019 and remained at the same low level in Q1 2020. Compared to 2008 and 2009, Rába's indebtedness is much lower now; however by end-Q1 2020 leverage considerably increased and net debt/EBITDA jumped to 18.4x from 2.4x at end-2019. Debt/EBITDA ratio climbed from 2.1x in Y2018 to 2.7x by end-2019, then jumped to 21.6x at the end of March 2020.

In March 2020, Moody's placed several European automotive part suppliers under review for possible downgrade. When comparing some of Rába's financial ratios to those of its peers, only the debt/EBITDA ratio of Rába is an outlier, as it is much higher than the peer group's median.

In a quest to find out possible default rates of companies with similar financial characteristics to Rába, we also examined a group of components in Stoxx 600 Europe Index that have credit rating. Data show that companies with financial ratios in the range like Rába's, mostly have S&P's BBB rating or, less often, BB rating.

In a different paper of 2019, one-year transition matrix adds 0.18% probability of default to companies with initial BBB rating. Below the investment grade, the probability of default climbs to 1.06% for companies with initial BB rating, while the probability of default jumps to 5.2% for companies with B rating.

FX risk: As export sales have a dominant share in Rába's sales performance, the company is exposed to exchange rate fluctuations. About 60–70% of the total sales revenue is FX-dominated, which climbed from 65% in 2017 to 67% in 2018 and in 2019, and is expected to remain well above 60% in the coming years. In the present circumstances, with revenues declining due to the covid-19 pandemic, a weaker HUF (in yearly comparison) may offset sales drop in FX terms.

Raw material & energy prices: Raw material (steel) prices stopped increasing last year. Steel prices on the global commodity market started do decline in mid-2018. Since the second half of 2018, benchmark steel prices have been dropping, and by the middle of 2019, prices fell more than 20%, when comparing quarterly averages. In Q3 2019 steel prices remained on a declining path. Q3 quarterly average price fell 11% from the Q2 quarterly average and it is 37% lower than the average price registered in the third quarter of 2018. Steel price declined further 7% in Q4 compared to Q3, but late November and December witnessed a pronounced price hike. The year-end price was 12% above the market price registered at the end of Q3 2019. Q1 2020 brought 18% YoY drop in steel prices when comparing quarterly average prices. At the same time, energy prices stabilizing at a relatively high level also put Rába's profitability under pressure again.

Economic environment: Economic landscape radically changed in Q1 2020 due to the coronavirus pandemic and economies will go off from the previously expected growth path. There are a lot of uncertainties considering the economic downturn and the possible recovery, which also add downside risk to our forecast. And while the Hungarian monetary and exchange rate policy is also changing, in case of an external shock, like now, we can see that the monetary policy will be able to accommodate itself to that situation through exchange rates.

Risks surrounding Rába's property for sale: According to Rába's announcement on the resolutions of the BoD on behalf of the shareholders' AGM, the management was authorized the sell part of the company's property portfolio. It is expected to be fulfilled in one year's time. When it happens, the sales revenue as a one-off item will add some 81 HUF/share to Rába's enterprise value, calculated based on the disclosed data. However, in the current environment, companies may postpone their investment plans.

Labour supply: The present labour market developments, particularly the prevailing labour shortage may arrive at a point when it may harm the companies' growth potential, and result in higher labour costs, or extra capex need to substitute labour force with robotization, or may lead to chronic capacity shortage. Rába is located in Western Hungary, where unemployment practically vanished, and the local labour market is very supply-driven. However, wage dynamics in the manufacturing industry have slowed lately; that may ease the pressure on Rába as well.

Ownership: Apparently, the state-owned MNV's 75% ownership in Rába made no palpable changes to the company's operation or strategy. A significant part of MNV's asset portfolio consists of companies linked to public services – from this point of view Rába, an industrial manufacturer which operates under market conditions, does not seem to fit the owner's portfolio. MNV has not published a comprehensive strategy or a clear view on its goals with Rába, except the declaration at the time of the buyout on strengthening the state's presence in strategic sectors like the automotive industry. Lately, Rába could not benefit from the proximity of this strategic owner, and the framework contract of 2018 bore no visible fruit for the company.

A further risk is that directives centrally declared on the operation of state-owned companies make no difference between companies, and do not take into consideration the sector's characteristics. Although we consider the dominant state ownership a real risk, this research does not factor it in.

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.

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

Period	Recommendations	Percent of Recommendations
Q2 2019	**BUY**	**100%**
	HOLD	0%
	SELL	0%
Q3 2019	**BUY**	**100%**
	HOLD	0%
	SELL	0%
Q4 2019	**BUY**	**100%**
	HOLD	0%
	SELL	0%
Q1 2020	BUY	0%
	HOLD	**100%**
	SELL	0%

Date	Recommendation	Target Price	Publication
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
20/02/2020	HOLD	HUF 1210	Quarterly Earnings Update
07/05/2020	under revision	under revision	Equity Note
19/05/2020	HOLD	HUF 891	Quarterly Earnings Update

The list of all recommendations made in the past 12 months is available here.

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