

EQUITY NOTE: AGM without surprise

Recommendation: HOLD (unchanged)

Target price (12M): HUF 1,475 (unchanged)

April 13, 2018

News

Rába held its Annual General Meeting on April 12, 2018. Shareholders approved the final normal and consolidated financial figures of Rába for 2017 drawn up in line with IAS. Rába's annual sales revenue amounts to HUF 43.8bn, operating profit grew to HUF 2.1bn, EBITDA decreased to HUF 4.10bn, while net profit jumped to HUF 1.6bn resulting in an EPS of HUF 117. The General Meeting approved the dividend payment of HUF 23 per share with payment starting on May 29, 2018.

The General Meeting re-elected Mr István Pintér as CEO and the Chairman of the Board of Directors for a definite period from April 14, 2018 until May 19, 2021.

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Comment

Final net sales increased to HUF 43.842 bn compared to the previously reported HUF 43.839 in Y2017. That tiny difference makes up 0.01% of the total sales income and must have been related to exports, e.g. the change in parity.

As a result, gross profit increased to HUF 9.265bn from the previously reported HUF 9.262bn, while the YoY increase remained at 4.1%. Rába reported HUF 2.15bn EBIT, while EBITDA decreased to HUF 4.1bn last year according to the final figures. Final net profit of Y2017 totalled HUF 1.57bn, representing a 14% increase YoY and resulting in HUF 117 EPS just like in the case of the preliminary earnings figures.

The AGM decided to raise dividend to HUF 23 per share up from HUF 20 per share paid upon net profit of Y2016, close to our expectation calculated on the basis of preliminary figures. However, dividend payout ratio remained the same, at 20%. Dividend yield stands modestly at 1.6%.

The prolongation of Mr Pintér's mandate as CEO and Chairman of the Board causes no surprise and adds certainty to the fulfilment of Rába's investment programs started in 2016 to improve efficiency and offset disadvantages of the lack of labour supply and rising wages. As the company announced, equipment with new technology will be installed and tool manufacturing starts in H1 as part of the programs, while the new forging line will be tested and put into operation in H2 2018.

As the final earnings figures show only tiny difference compared to the preliminarily reported data, we still maintain our sales and profit forecasts. Strong growth in the European economy (the EC revised its projection to 2.2% in 2018) also fuels the European commercial vehicle market, resulting in higher possible sales potential for automotive suppliers. As a result, we previously raised our EPS forecast for Y2018 to HUF 119 from 117 HUF in Y2017, while rising wages and raw material costs may weigh on profitability.

We maintain our previous HOLD recommendation on Rába Automotive Holding (RABA HB; RABA.BU) and the previous 12M target price of 1,475 HUF/share, 3% higher than the HUF 1,430 closing price as of April 12. Total return is estimated at 4.8% on a 12-month forecast period.

CONSOLIDATED INCOME STATEMENT		HUFm					
	2014	2015	2016	2017	2018E	2019E	2020E
Domestic sales	19 526	17 838	16 216	15 233	17 177	17 616	18 130
Export sales*	28 390	28 315	26 413	28 609	30 012	32 705	34 708
Total sales revenue	47 916	46 154	42 629	43 842	47 189	50 321	52 839
Direct cost of sales	-38 725	-36 317	-33 200	-34 577	-37 751	-39 754	-42 271
Gross profit	9 191	9 837	9 429	9 265	9 438	10 567	10 568
Indirect costs of sales	-7 299	-7 640	-7 429	-7 116	-7 550	-8 454	-8 771
EBIT	1 891	2 196	2 000	2 149	1 888	2 113	1 797
EBITDA	4 122	4 465	4 122	4 100	4 407	4 581	4 421
Net financial profit/loss	-584	-104	-11	-101	189	211	180
Profit before tax	1 308	2 093	1 989	2 048	2 076	2 325	1 976
Tax	-456	-410	-612	-479	-478	-535	-455
After-tax profit	852	1 682	1 378	1 569	1 599	1 790	1 522
Dividend	0	0	271,648	0	543	679	679
EPS	66	129	103	117	119	133	113
DPS			20	23	40	50	50

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

CONSOLIDATED BALANCE SHEET		HUFm					
	2014	2015	2016	2017	2018E	2019E	2020E
Property, plant, equipment	14 977	14 832	14 410	15 818	16 363	18 581	19 800
Intangible assets	1 071	789	500	282	433	404	389
Non-current assets	17 276	16 723	15 799	16 876	17 471	19 614	20 783
Inventories	6 629	6 211	5 728	7 008	7 588	9 174	9 619
Receivables and other current assets	11 304	8 375	10 075	9 864	9 438	9 261	10 568
Cash and cash equivalents	1 025	3 199	1 900	2 638	1 482	2 323	1 477
Current assets	18 976	17 807	17 703	19 562	18 508	20 758	21 663
TOTAL ASSETS	36 252	34 530	33 502	36 438	35 979	40 371	42 447
Share capital	13 048	13 138	13 473	13 473	13 473	13 473	13 473
Own shares	0		-109	-109	-109	-109	-109
Capital reserve	73	64	0	0	0	0	0
Stock option reserve	97	67	0	0	0	0	0
Retained earnings	1 857	3 837	5 314	6 613	7 263	8 374	9 216
Total Equity	15 075	17 107	18 679	19 978	20 627	21 738	22 581
Long-term loans and other liabilities	6 424	3 006	2 239	4 373	3 567	4 745	5 888
Provisions	315	261	150	163	44	0	0
Non-current liabilities	6 739	3 267	2 434	4 619	3 611	4 745	5 888
Loans and credits	3 185	3 570	746	1 582	1 823	3 667	2 628
Payables and other short-term liabilities	11 252	10 587	11 541	10 140	9 918	10 145	11 274
Current Liabilities	14 438	14 156	12 389	11 841	11 740	13 888	13 978
TOTAL EQUITY AND LIABILITIES	36 252	34 530	33 502	36 438	35 979	40 371	42 447

CONSOLIDATED CASH FLOW	HUFm						
	2014	2015	2016	2017	2018E	2019E	2020E
EBITDA	4 122	4 463	4 122	4 100	4 407	4 581	4 421
Cash flow from operation	3 778	6 641	3 244	2 084	2 806	2 914	3 385
Cash flow from investment	-3 278	-1 790	-1 203	-3 097	-3 455	-4 611	-3 794
FCFF	500	4 851	2 041	-1 013	-649	-1 697	-409
FCFE	1 107	1 924	-1 556	309	477	1 489	-167

Source: OTP Research

Deduction of 12M target price

Rába's valuation (HUFm)	FCFF in the explicit period					
	2017	2018	2019	2020	2021	2022
FCFF	-2 079	-649	-1 697	-409	3 588	2 767
Discount factor		0,92	0,92	0,92	0,91	0,89
DCF		-600	-1 448	-321	2 572	1 774
Terminal value (HUFm)						
Net present value (HUFm) of TV						31 348
Enterprise Value (incl. possible future property sale)						17 922
Net debt						21 078
Equity value - Dec 31 2017						3 316
Number of shares						17 762
Expected return on equity						13 352 765
12M Target price (from Feb 28, 2018 on)						9,1%
Current price						1 475
Upside/Downside						1 430
TR Upside/Downside						3,1%
						4,8%

Source: OTP Research

Notes:

[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.

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

Date	Recommendation	Target price	Publication
15/12/2017	HOLD	HUF 1380	Initiation coverage
22/02/2018	HOLD	HUF 1475	Equity note

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

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