

EQUITY NOTE: RÁBA Automotive Holding

Recommendation: BUY (unchanged)

Target price (12M): HUF 1,317 (unchanged)

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News

On 11 October 2019 Rába Automotive Holding announced its dividend policy.

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).

In this framework, the yearly dividend will be maximised at 20% of the consolidated net profit but dividend yield cannot surpass the actual Hungarian 10Y government bond yield plus 1%. When considering the actual yearly dividend payout, the parameter offering the smaller yield will be preferred, Rába announced.

Rába's main target of dividend yield is the 3Y Hungarian government bond yield plus 0.5% as a minimum criterion. However, when this criterion does not coincide with the other two parameters mentioned above, this latter one has to be neglected.

In case of any significant incomes from the sale of parts of the property portfolio, a new decision has to be made on the actual dividend payment, Rába also announced.

The announcement also declares that the free profit reserves at an unconsolidated level are also allowed to fund consolidated dividend payment.

Comment

- After an almost 15-year hiatus, Rába Automotive returned to dividend payment in 2017. In the past few years Rába paid out exactly 20% of the consolidated net profit of the business years 2016, 2017 and 2018.
- When calculating dividend with 20% payout ratio and the average share price of the year, when the profit had been actually produced, Rába Automotive offered 1.6, 1.9 and 1.3% yearly dividend yields in that order in the years 2016-2018.
- Dividend yields of the past three years were far from 10Y government bond yields, averaging between yearly 2.9% and 3.1%. Yearly average 3Y bond yield stood at 1.6% in 2016, declined to 0.9% in 2017 and increased to 1.2% in 2018. 3Q average yield of the current year is around 1.0%.
- The announcement on dividend policy does not contain any new elements compared to how Rába managed dividend payment in the past years, and it expresses the company's rather conservative approach on dividend payment. By all means, the official publication of dividend policy is a step made forward in strengthening transparency.
- According to our valuation we expect EPS to grow to HUF 96 and 99 in 2019 and 2020. This will result in HUF 19 and 20 DPS this year and the next, respectively, when calculating with 20% payout ratio, and offers 1.8% dividend yield when calculating with the latest closing price of HUF 1,080. According to our baseline scenario 10Y government bond will yield 2.48% on average this year and 2.28% in 2020, while 3Y government bond yield will decline to 0.90% in 2019 and 0.77% in 2020.

- We note that the parameters of the dividend policy published lately also provide Rába opportunities to adapt and/or decrease dividend payouts in times when the economic environment worsens compared to the baseline scenario.
- We maintain our previous 12-month target price of HUF 1,317 based upon our DCF-valuation. As Rába pays out only a minor part of its net profit as dividend because the main priorities are capex and acquisitions, and Rába does not have long dividend payment history anyway, we do not consider the use of a DDM-model justified.
- Rába's Q3 earnings report is expected to be published on 13 November, 2019.

[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
17/05/2018	HOLD	HUF 1469	Quarterly Earnings Update
29/08/2018	BUY	HUF 1427	Quarterly Earnings Update
15/11/2018	BUY	HUF 1412	Quarterly Earnings Update
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

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

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