

EQUITY NOTE: RÁBA Automotive Holding

Recommendation: Under revision (Prev: Hold)

Target price (12M): Under revision (Prev: HUF 1,210)

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Due to the Covid-19 pandemic and its consequences on economies and businesses, we put our valuation of Rába Automotive Holding under revision until the company releases its next earnings report, scheduled for May 13, 2020. Our previous 'HOLD' recommendation and the HUF 1,210 target price is also suspended. In the second half of April 2020, Rába shut down its plants for two weeks, otherwise the company gave no hint how it copes in the markedly changed economic environment. We are looking forward to Rába's Q1 2020 earnings report in respect of new information on outlook of the company and its key markets as well.

In the meantime, Rába published the resolutions approved by the Board of Directors on behalf of shareholders' AGM in the current state of emergency on April 30, 2020. As expected, the BoD approved all the resolutions proposed and submitted, including

- 1) the final figures of the Y2019 financial statement;
- 2) and the 20 HUF/share dividend payment.
- 3) The BoD, in its competence of General Meeting, also authorizes the Company to sell the property it had put up for sale, at a minimum price of EUR 6,604,232 + VAT, through an auction conducted via the Electronic Auction System (EAS) operated by the majority owner Hungarian National Asset Management Inc. (MNV Zrt), and to sign a contract of sale with the bidder offering the highest purchase price.

Comments

- 1) The final version of the Y2019 financial statement contains minor changes of the balance sheets when compared to the Q4 2019 earnings report. The amount of long-term loans is 14% lower in the latest statement than in the preliminary report, while short-term loans and credits exceed the amount declared in the previous report.
- 2) The 20 HUF/share dividend equals 47% of consolidated EPS and is much higher than one of the caps outlined in the dividend payment policy published in October 2019 (DPS capped at 20% of total consolidated net profit according to one of the maximum criteria). However, it offers 2.0% dividend yield (calculated with HUF 1005 closing price on May 7, 2020) and fulfils both the minimum [3Y T-bond yield (0.8% in Q1 2020) + 0.5ppt] and the other maximum criterion [10Y government yield (2.47% in Q1 2020) + 1.0ppt]. On the other hand, the dividend payment policy favours the lower between the two ceilings and in this point of view this latest dividend payment decision does not fit perfectly in the rules outlined.
- 3) The company pays dividend at a time when there is a lot of uncertainty regarding the outlook. 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 than during the latest crisis, its liquidity ratio stood at end-2019 at the very same level as in 2008. 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.

- 4) The BoD also gave a nod to the sale of the property to the bidder offering the highest purchase price. As Rába Automotive Holding's majority shareholder is the Hungarian National Asset Management Inc. with more than 74% of the shares, the property must be auctioned via EAS in line with the regulation on the sale of state-owned assets.
- The reserve price is EUR 6.604.232 + VAT or HUF 2.119.298.049 + VAT totalling HUF 2.691.508.522 applying the 320.9 EUR/HUF exchange rate specified in the Y2020 state budget law.
 - The property is in a former industrial zone of Győr. After the remediation carried out more than a decade ago, that area was classified as a special zone for commercial purposes (e.g. shopping malls and other large areas for trade or related activities).
 - The independent property appraiser evaluated that piece of property in question at HUF 520 million + VAT including the risks of possible future costs linked to the demolition of the still existing buildings, landscaping, and the establishment of road connections and utilities. According to previous announcements the would-be bidder is one of Europe's leading multinational retailer companies.
 - The auctioning would be denominated in HUF. The final purchase price will be determined and paid in EUR in such a way that the last bidding price will be converted to EUR at the above-mentioned 320.9 EUR/HUF rate.
 - According to the submitted and approved resolution to the AGM, Rába Automotive expects from the deal approximately HUF 2.119 bn revenue, while it would have about HUF 82m expenses and costs related to the deal. The net profit of the transaction is estimated at HUF 2.037 bn.
 - The company expects to conclude the whole property sale in 12 months due to the lengthy licensing procedure. Calculating with the expected future FX rate, the final net income of the transaction may be about 9% higher in HUF terms, adding HUF 2.206 bn in net present value. However, it can easily happen that this on-off income will be received after 2020.
- 5) While the positive income effect of the property sale may continue into next year, businesses in the automotive industry have now a more important task to tackle. The Covid-19 epidemic turned to pandemic by March, and totally changed the economic landscape throughout the world. The pandemic prompted lockdowns, temporary closure of plants and businesses, thus damaging supply chains and depressing consumer demand among others, not to mention job market woes and human losses. The pandemic made economic outlook uncertain, and at this point, it remains to be seen how companies respond to this unique challenge. Under the circumstances, it cannot be ruled out that

companies revise their investment plans and cut capex. This will add a great deal of uncertainty to Rába's expected property sale, particularly if the would-be buyer operates in the cyclical consumer sector.

- 6) The European Commission's latest forecasts expect GDP to decline 7.4% in the EU and 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.
- 7) In these circumstances, we deem prudent to put the valuation of Rába Automotive Holding under revision until the company publishes its Q1 2020 earnings report (scheduled for May 13).

[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
Q1 2019	BUY	100%
	HOLD	0%
	SELL	0%
Q2 2019	BUY	100%
	HOLD	0%
	SELL	0%
Q3 2019	BUY	100%
	HOLD	0%
	SELL	0%
Q4 2019	BUY	100%
	HOLD	0%
	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

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

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