

EQUITY NOTE: RÁBA Automotive Holding

Recommendation: SELL (unchanged)

Target price (12M): HUF 1,115 (unchanged)

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Highlights

Equity Analyst:
Ákos Szemán

Phone:
+36 1 486 6277

Email:
akos.szeman@otpbank.hu

The company sent out a notice regarding an Extraordinary General Meeting to be held on October 25th, which is related to the approval of the sale of the “Rábaring” test track. The planned transaction has a minimum net price of HUF 557 million and it will be conducted through the Electronic Auction System. If the property sale is carried out at this price, then it will have a one-off cash flow impact of HUF 522 million and profit impact of HUF 405 million or ~HUF 30 per share. The transaction would have a positive impact on the bottom line and liquidity profile, and it would warrant an estimated upward target price adjustment of ~HUF 60. For now, however, we maintain our SELL recommendation and 12M target price of HUF 1,115 on Rába given the property sale is yet to be approved and implemented.

Property transaction

- Towards the end of September, the company sent out a notice regarding an Extraordinary General Meeting to be held on October 25th related to the approval of property sale. Subsequently it was revealed that **the transaction is related to the so-called “Rábaring”, which is a test track situated some 30km from Győr**, on the southern periphery of Écs settlement. The property includes, among others, tracks developed for high-speed, fatigue, gravel, steering and special testing. The company and its subsidiaries conduct no activities on the premises, so the sale has no impact on operations. The test track is recorded at amortised cost among properties in the company's accounts with a total value of HUF 117 million. It was also **appraised by independent property valuator PwC with an estimated adjusted replacement value of HUF 557 million**.
- The sale of the property will be conducted through the EAR Electronic Auction System, operated by MNV Zrt., and the company will sign a contract of sale with the highest bidder. The planned transaction has a **minimum net price of HUF 557 million** (in line with the valuation given), which translates into a price per square meter of ~HUF 554. The financial impact of the transaction – at minimum price – would be a HUF 557 million increase in ‘Other revenues’ with an **overall cash flow impact of HUF 522 million (after costs of ~HUF 35**

million) and profit impact of HUF 405 million (after HUF 117 million amortised cost). This would be -HUF 30 per share one-off impact.

Valuation impact:

- Our base case, to remain on the conservative side, is that the property will be sold at the minimum net price of HUF 557 million, which would have a one-off HUF 405 million profit or -HUF 30 per share impact.
- We note that last year the company also had a property transaction (conference centre and hotel in downtown Győr), which was carried out in Q2 2021 and had HUF 815 million impact on profits (purchase price ~HUF 1.45bn).
- The property transaction would have a positive impact on this year's net income under the assumption that it will be closed this year. We also assume that the company will retain the cash inflow and will not pay it out as a special dividend. As a result, the **sale of the test track would also improve the liquidity profile of the company resulting in a lower net debt figure** (HUF 522 million cash flow impact).
- **Considering the above effects together, the property sale would warrant an estimated upward target price adjustment of ~HUF 60.** For now, however, we maintain our SELL recommendation and 12M target price of HUF 1,115 on Rába given the property sale is yet to be approved and implemented.

Risks surrounding Rába's economic activity

Liquidity risk: In the current covid crisis, liquidity and debt issues came to the fore 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 relatively 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. In Q2, liquidity ratios deteriorated, but by end-Q4 2020 current ratio, quick ratio and cash ratio also improved compared to end-2019. When assessing Rába's indebtedness, it stands out that it is lower than it was in 2008/2009. The company had a Net Debt / EBITDA ratio of 2.5x at the end of 2020, while it was 2.1x at the end of 2021.

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, to 70% in 2020, and to 71% in 2021. Exports' weight in sales revenues is expected to remain above 70% in the coming years.

With the Hungarian economy returning to the path of recovery and as inflation came to fore, the MNB started a tightening cycle and raised the base rate from 0.6% to 10.75% in several steps. The aim was to reverse the HUF's weakening trend and tackle inflation, but the results were mixed. The tightening of monetary conditions is expected to cause gradual HUF appreciation and consequently, the strengthening HUF stops supporting Rába's HUF-denominated export performance.

Raw material & energy prices: Steel prices on the global commodity market started to 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. Steel benchmark kept on falling throughout the second half of Y2019 and the first half of 2020 and bottomed out in Q3 2020. Since then, hot-rolled coil benchmark price has skyrocketed: the average price in Q4 2021 was 230% above the quarterly average registered in Q4 2020, however, this was followed by a sharp downturn towards the end of the year. This did not last long, and prices bounced back after the start of the Russia-Ukraine conflict. Recently, however, due to recessionary fears raw material prices have fallen back again.

Economic environment: The economic landscape radically changed in Q1 2020 due to the coronavirus pandemic, and economies went off from their previously expected growth paths. There is still a lot of uncertainty considering the possible recovery and normalization, which also adds downside risk to our forecast. And while Hungary's monetary and exchange rate policies are also changing, in case of an external shock, like the current one, 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 earlier announcement on the resolutions of the BoD on behalf of the shareholders' AGM in 2020, 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 83 HUF/share to Rába's enterprise value, calculated based on the disclosed data. However, in the current environment, companies may postpone their investment plans, while administrative and regulatory hurdles may also hinder the transaction.

Labour supply: Labour market developments, particularly the labour shortage that prevailed earlier, may have arrived 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, covid may change the landscape in this sense as well, but its effect is hardly palpable at this point, as wage dynamics in the manufacturing industry remained at an elevated level this year, the latest statistics show.

With the fast recovery of the Hungarian economy, the unemployment caused by the pandemic may get absorbed very quickly, and result in tight labour market. This will further strengthen wage dynamics, which did not really lose steam even in the period hit by the pandemic. Further increasing payroll expenses may dent Rába's profitability again.

Ownership: In mid-July Rába announced an ownership change concerning Rába's main shareholder MNV (Hungarian National Asset Management Inc.). Under the recently amended decree, Nemzeti Védelmi Ipari Innovációs Zártkörűen Működő Részvénytársaság (National Defence Industry Innovation Ltd.; NVII) has been appointed to exercise all of the rights and obligations of the state as owner, as of 4 June, 2021. The shares of Rába Automotive Holding owned by the Hungarian state were transferred on 20 July 2021 from the securities account of MNV Zrt to the securities account of NVII. On 23 August, Rába published an announcement about the disposal of voting rights, informing that the influence of NVII in Rába Automotive has changed. According to media reports, which offer more details, the tight-lipped official announcement covers that 20% of Rába's voting right has been placed from NVII to the 'Foundation for Széchenyi University'. Furthermore, the company announced on 18 February 2022 that the remaining voting rights of NVII have been acquired by the Ministry for Innovation and Technology. As a result, the voting rights of NVII decreased from 54.83% to 0%.

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.

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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Period	Recommendations	Percent of Recommendations
Q4 2021	BUY	0%
	HOLD	100%
	SELL	0%
Q1 2022	BUY	0%
	HOLD	100%
	SELL	0%
Q2 2022	BUY	0%
	HOLD	0%
	SELL	100%
Q3 2022	BUY	0%
	HOLD	0%
	SELL	100%

Date	Recommendation	Target Price	Publication
26/08/2021	HOLD	HUF 1476	Quarterly Earnings Update
01/09/2021	HOLD	HUF 1476	Equity Note
18/11/2021	HOLD	HUF 1400	Quarterly Earnings Update
25/02/2022	HOLD	HUF 1350	Quarterly Earnings Update
22/04/2022	HOLD	HUF 1350	Equity Note
23/05/2022	SELL	HUF 1100	Quarterly Earnings Update
29/08/2022	SELL	HUF 1115	Quarterly Earnings Update

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

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This document was prepared by:

Ákos Szemán
Equity Analyst

OTP Research

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