

# EQUITY NOTE: RÁBA Automotive Holding

Recommendation: HOLD (revised)

Target price (12M): HUF 1,280 (revised)

19 February 2021

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## Highlights

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We revised up our 12M target price on Rába Automotive Holding (RABA HB; RABA.BU) to 1,280 HUF/share from the previous HUF 1,197. Despite the somewhat better profit outlook, we revise down our previous BUY recommendation to HOLD, due to the strong stock market rally in December 2020 that pushed Rába's stock price to an elevated level. The new target price is 0.7% lower than the HUF 1,290 closing price on 18 February 2021. Total return is estimated at the same -0.7% on a 12-month forecast period, as no dividend payment is expected for Y2020.

Due to the covid-19 pandemic, Rába suffered sharp revenue decline in its key markets in 2020; both EBIT and EBITDA turned negative in Q2. After-tax profit sank into negative territory in the first three quarters of 2020. However, third-quarter earnings figures reflected strong QoQ recovery in the EU and the domestic market. The recovery continued in Q4 2020, QoQ growth characterized Rába's operation in almost every market and segment. As a result of the company's persistent efforts to manage the cost side, EBIT jumped to over HUF 1.1bn and EBITDA climbed to HUF 1.7bn in Q4, both recalling pre-covid times. Fourth-quarter EBIT offset operating losses suffered in Q1-Q3 last year, thus whole-year profitability swung into positive territory.

As the second wave of pandemic swept over Europe and a third wave may become imminent, governments are focusing on vaccination in order to reach a minimum level of immunity, and to be able to reopen some parts of the economy. Restrictions in Q4 2020 weighed on the industry, but not as much as in last spring. Recession persisted in the past quarter in most countries in Europe, the latest GDP statistics showed, but with covid vaccines within reach, the outlook for swift economic recovery may drastically change from the second quarter of 2021.

Volvo Group, one of Rába's largest peers reported dynamic Q4 expansion of order intakes in Europe, Rába's main export market. This improves the medium-term outlook for Rába as well.

Given the stronger-than-expected Q4 profitability and improving medium-term outlook, we revised up our profit forecasts. The current enterprise value reflects the expectations in terms of improving landscape as vaccination progresses, although uncertainty regarding the rebound of the European automotive market has not evaporated. The personnel changes in the Board of Directors of Rába

Holding add a new risk factor to the management's undisturbed operation, while fast-growing raw material prices may endanger the strict cost control the company lately followed.

The share price of Rába Automotive gained 40% in December but lost 6% in January. Rába dropped 14.0% YTD while the BUX gained 4.6% this year.

## Summary

Rába Automotive Holding's net sales revenues fell 7% YoY in Q4, to HUF 11.0bn, after 17% decrease in Q3, 43% plunge in Q2, and 19% drop in Q1 2020. Export revenues declined 12% YoY in HUF terms, with EU sales dropping 2% YoY in EUR terms (Q3: -16%; Q2: -52% YoY) and US sales shrinking 22% YoY w/o FX effect (Q3: -35%; Q2: -36% YoY).

Rába's quarterly sales figures were in line with our expectation, and as a new phenomenon, revenues increased on QoQ basis in almost every market and segment. In terms of sales revenues denominated in euros, the weakening HUF also added to the improving performance.

Rába's cost-cutting efforts also contributed to the better-than-expected profit figures. EBIT jumped to HUF 1.1bn and EBITDA amounted to HUF 1.7bn, recalling pre-covid profit figures. Q4 EBIT rate improved to 10% and EBITDA rate jumped to near 16%, margin levels not seen in a decade in Rába's history.

Outstanding fourth-quarter profitability only partly offset losses accumulated in the less fortunate prior quarters of 2020. As a result, Rába reported HUF 1.1bn yearly loss and HUF -85 EPS.

The pandemic, with the second wave hitting economies, still makes forecasting challenging. We revised up our previous forecast to reflect the better-than-expected profitability improvement in Q4 and improving business environment, especially if vaccination speeds up. Nevertheless, risks lie on the downside, regarding the short and medium-term outlook. Personnel changes in the BoD may add further risk to the company's operation.

### Financial highlights of Q4 2020 earnings report

HUFm	2020 Q4	2019 Q4	YoY Change
Domestic sales	3 600	3 466	4%
Export sales	7 391	8 393	-12%
<b>Net sales income</b>	<b>10 991</b>	<b>11 859</b>	<b>-7%</b>
Direct cost of sales	8 099	9 721	-17%
<b>Gross profit</b>	<b>2 891</b>	<b>2 138</b>	<b>35%</b>
Cost of sales and marketing	104	268	-61%
General managing costs	1 656	1 624	2%
Other operating expenses	294	345	-15%
Total operating expenditures	<b>2 054</b>	<b>2 237</b>	<b>-8%</b>
Other incomes	268	248	8%
<b>EBIT</b>	<b>1 105</b>	<b>148</b>	<b>647%</b>
<b>Net financial profit</b>	<b>-5</b>	<b>70</b>	<b>-</b>
Pre-tax profit	1 144	294	289%
Tax	105	147	-29%
<b>After-tax profit</b>	<b>1 038</b>	<b>147</b>	<b>609%</b>

	2020 Q4	2019 Q4	YoY Change
EPS (HUF)	77	11	609%
4Q-rolling EPS (HUF)	-84	42	-298%
<b>EBITDA (HUFm)</b>	<b>1 707</b>	<b>709</b>	<b>141%</b>
Gross profit rate	26.3%	18.0%	8.3pp
EBIT rate	10.1%	1.2%	8.9pp
EBITDA rate	15.5%	6.0%	9.5pp
ROE	5.3%	0.7%	-4.6pp
4Q-rolling ROE	-5.5%	2.7%	-8.2pp
ROA	2.4%	0.3%	2.1pp
4Q-rolling ROA	-2.7%	1.4%	-4.1pp

Source: Rába Automotive

#### The covid pandemic severely hit Rába's revenues in all markets last year, a rebound in economic activity supported spectacular QoQ revenue growth in Q4.

Rába Automotive reported HUF 11.0bn net sales revenue in Q4 2020, slightly above our HUF 10.7bn forecast. On a quarterly basis, net sales revenues jumped by 29% in October-December last year, after 16% QoQ growth in Q3, and 38% QoQ decline in Q2. YoY revenue drop became a persistent phenomenon of Rába's operation last year as the latest period was the fifth consecutive quarter when the sales revenues of Rába Automotive dropped. However, the YoY gap is shrinking, with domestic revenues reflecting some 4% growth in Q4 2020 compared to the corresponding period one year earlier.

Export revenues in Q4 2020 still lagged behind that of the base period one year earlier. HUF-denominated export revenues fell 11% YoY but gained 25% QoQ as pandemic-related new restrictions in Q4 affected the manufacturing industry to a lesser extent.

On the other hand, developments in the FX market also supported Rába's recovery: the EUR/HUF increased nearly 9% when comparing quarterly averages, while the USD/HUF rose less than 1% in one year. Without FX effect, Rába suffered double-digit sales decline in Q4 2020 in every market except the EU, where quarterly sales dropped 2.0% YoY.

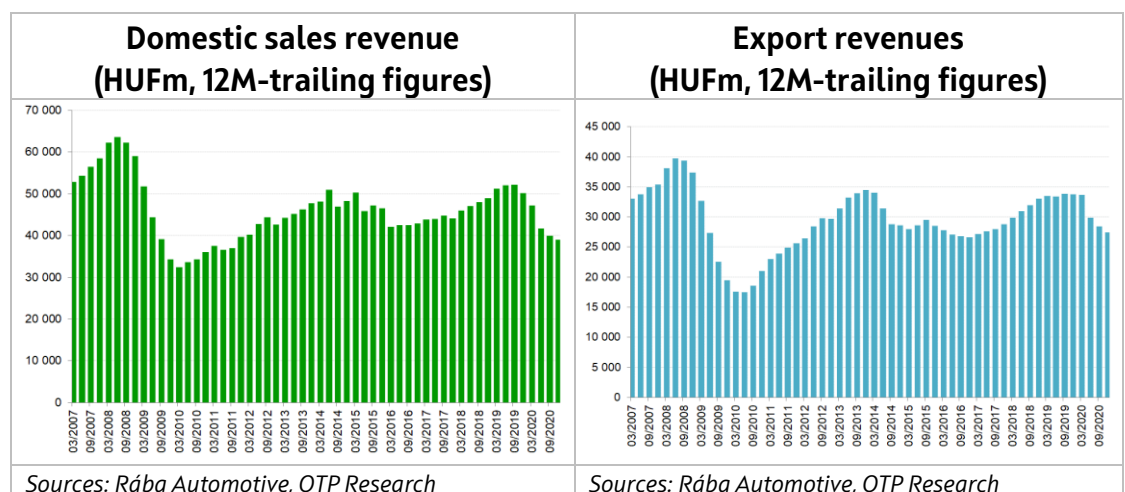
The declined demand in the automotive industry, due to the pandemic, severely hit Rába in Q2, but Q3 and Q4 YoY revenue drop was milder as demand had started to build up. All of Rába's units closed Q4 with QoQ growth, following one, two, or three quarterly declines after Q4 2019. In yearly comparison, only the Components business escaped the revenue decline in the latest quarter. This segment may

have bottomed out in Q3 as the total revenues of this segment already gained 25% QoQ in HUF terms in Q4, with EU sales adding 15% QoQ and domestic revenues jumping 34% QoQ. In YoY terms, the Components business' revenue increased by a tiny 1% in the past quarter.

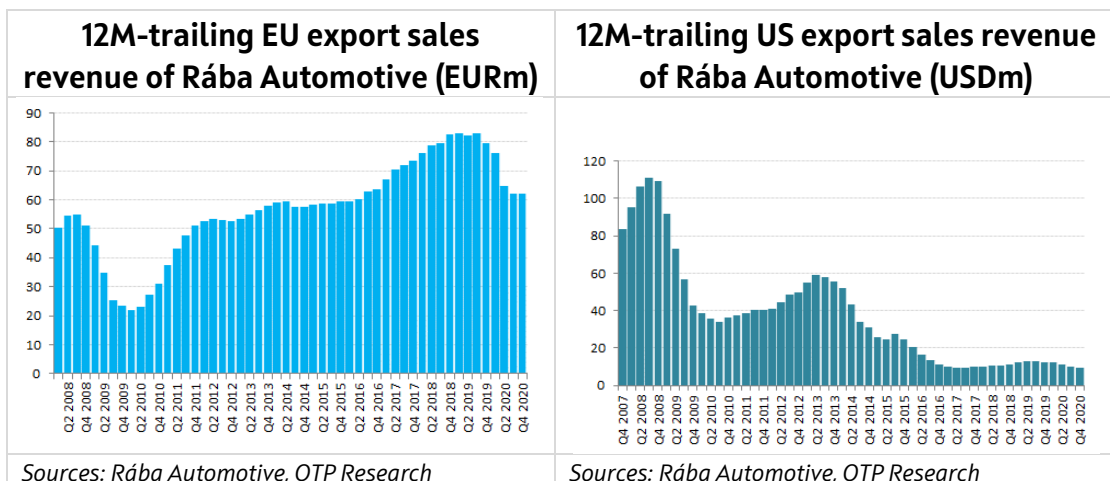
The Axle business unit, which generates a major part of the revenue, witnessed 9% YoY decrease in the past quarter, with considerably milder drop than the 17% and 31% YoY declines reported in Q3 and Q2, respectively. In quarterly comparison, the Vehicle business unit finally left in Q4 2020 the decreasing revenue path it had taken in the previous couple of quarters. Although last quarter saw 26% YoY revenues drop, exports increased by 25% QoQ, while domestic sales gained 84%.

Recovery on the domestic market is also palpable as besides QoQ growth, YoY revenue increase also mostly returned (the Vehicle business is the exception as the much-awaited military orders were not placed, which still weighs on the unit's domestic performance).

With stronger recovery in domestic revenues, export's share in total sales revenue decreased to 67% in Q4, after 69% reported in Q2 and Q3, and far from pre-covid level of 74% registered in Q1 2020.

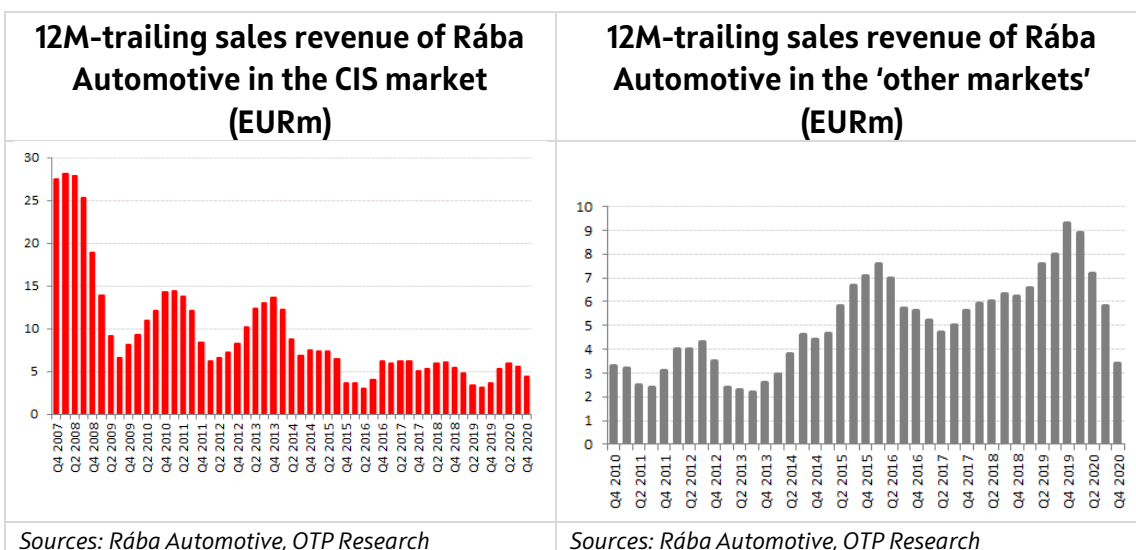


In the EU, Rába's main export market, the company's revenues dropped only mildly in Q4 2020 in yearly comparison, but witnessed 25% QoQ growth after a double-digit decline in the previous quarters, with 45% QoQ plunge and 52% YoY decline w/o FX effect in the most battered April-June period. In the USA, Rába's second most important export market, Q4 2020 sales added 40% QoQ in USD, and fell 22% YoY as revenues probably hit bottom in Q3. (Export sales in the USA fell 36% and 35% YoY in USD terms in Q2 and Q3, respectively).



Quarterly revenue growth in the US market also showed recovery as sales revenues jumped by 40% in Q4 compared to Q3, after 35% QoQ contraction (without FX effect) in Q3, and 28% decline in Q2. However, the somewhat lower USD/HUF – when comparing quarterly averages in Q4 and Q3 – slightly pared down QoQ growth in HUF terms.

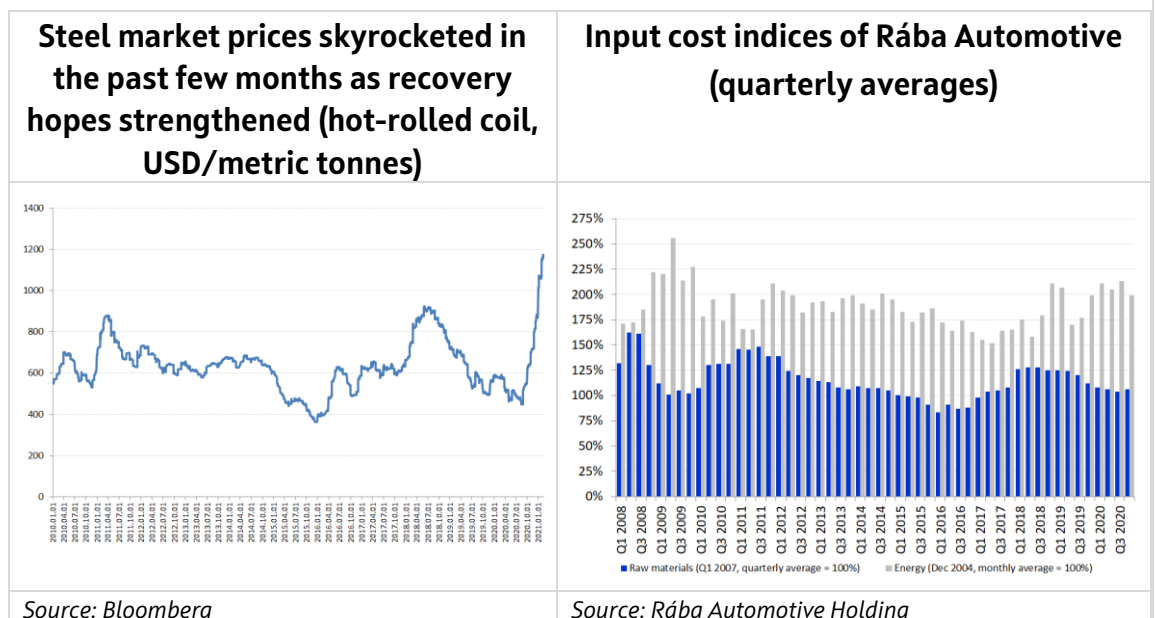
Export revenues in CIS and Eastern Europe turned for the worse in the second half of Y2020 as sales halved in a yearly basis in Q3 and fell 65% YoY in Q4 after the jump in Q2. On a quarterly basis, CIS export gained 20% in October-December. Exports to 'other markets' shrank further in Q4 2020, the 64% YoY decline in Q3 was followed by 80% YoY plunge, while QoQ decline was 25% in FX terms in the last quarter of 2020.



**Profitability improved further in Q4, delivering outstanding profit rates not seen in the past several years.** Despite the slightly higher raw material prices but lower energy prices, Rába not only maintained the elevated level of gross margin reported in Q3 2020 (20.3%) but it also managed to lift it beyond 26%, well above the long-term average and to a level not seen since the end of Y2012. As a result, gross profit increased to HUF 2.9bn in Q4 2020, from HUF 1.7bn in Q3 (+66% QoQ) and HUF 2.1bn in Q4 2019 (+35% YoY).

As we wrote earlier, the company implemented measures to control the cost side when the revenue side faded. Rába announced changes in order to cut general management and administration costs, including the reorganisation of the corporate structure, optimising purchasing, and implementing exceptionally tough cost control.

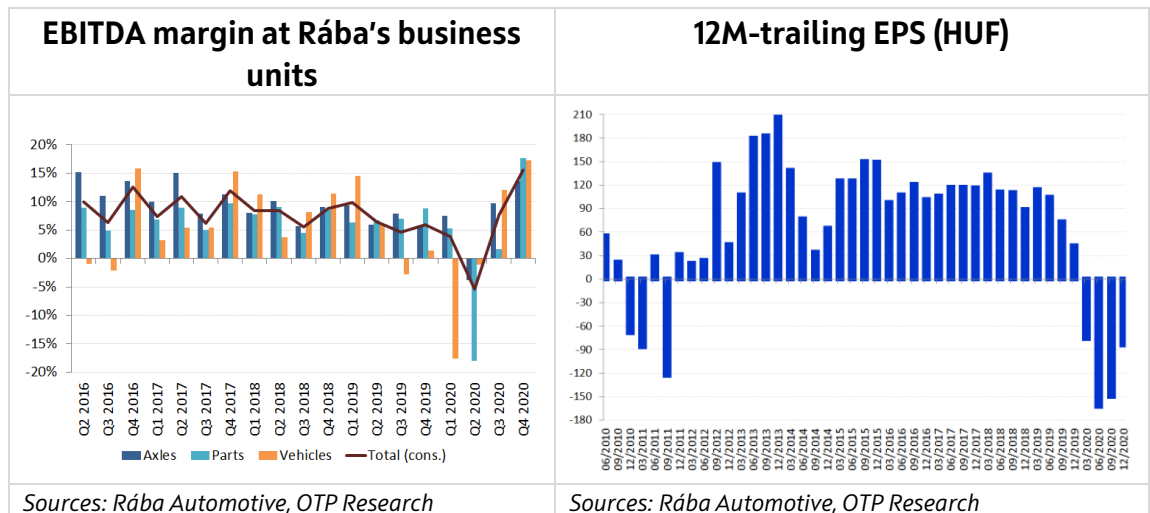
Payroll significantly decreased on quarterly and yearly basis as well. The company laid off 5% of its workforce only in the October-December period, while the number of employees fell more than 11% in whole year 2020. In the last quarter of 2020, energy costs weighed less on profitability than in previous quarters of Y2020, and raw material prices stabilized. Rába's EBIT jumped to HUF 1.1bn and EBITDA increased to HUF 1.7bn in Q4. In terms of profit margins, it means 10% EBIT rate and 15.5% EBITDA rate, reflecting impressive profitability not seen in the past 10 years, and unusual among Hungarian automotive suppliers.



**Outstanding profitability in Q4 helped Rába turn profitable in terms of EBIT for Y2020 as a whole.** The HUF 68m operating profit represents only 5% of the EBIT in Y2019, while EBITDA is only 30% lower than a year ago. Considerable amount of net financial losses weighed on Rába's operation during the year, and as a result, profit before tax turned negative (HUF -785m). With 44% effective tax rate, net loss grew to HUF -1.1bn in Y2020 compared to the HUF 572 profit in Y2019, but 4Q cumulative net loss amounted to HUF 2.0bn in Q3 2020.

Quarterly EPS also turned positive: it increased to HUF 77. Rába's 12M trailing EPS amounted to HUF -84, improving a lot compared to the decade-long negative record of HUF -162 in Q2 2020.



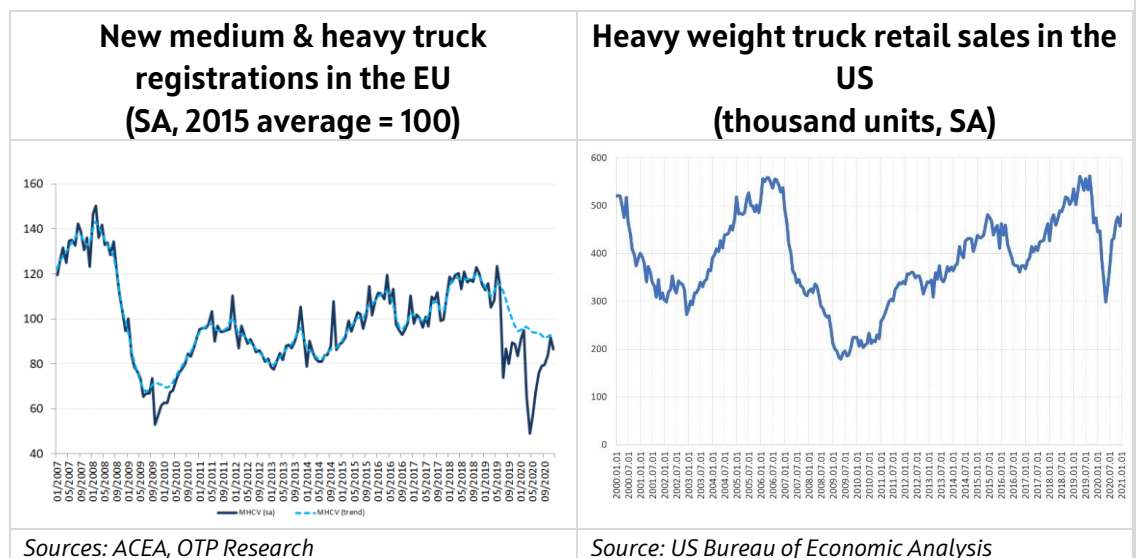


## Comments

- **The covid crisis in Q2 2020 steepened the deteriorating trend in the EU's automotive market. Q3 and Q4 have brought rising manufacturing PMIs, reflecting an improving economic environment. The recently published Q4 GDP data also gave evidence that, even though economic activity had deteriorated in the eurozone with second-wave restrictions, but not as much as in last spring.**
  - QoQ growth returned in the euro area in Q3, after the dramatic decline in Q2. Manufacturing PMIs and business confidence indicators also reflected somewhat improving economic environment, mainly in the manufacturing sector. However, as the second wave of the pandemic swept over Europe, economic sentiment in some parts of Europe deteriorated again by November, due to renewed restrictions.
  - In the second wave, governments implemented more optimised restrictions in order to avoid the kind of sharp downturn experienced in Q2. These actions bore some fruits as euro area GDP dropped only (SA) 0.6% QoQ compared to the 11.7% QoQ decline in Q2, and some member states (namely Germany and Spain) even achieved mild QoQ growth (0.1% and 0.4%, respectively).
  - The YoY decline steepened to 5.0% in Q4 2020 in the euro area, after the 4.3% YoY drop reported in Q3 2020.
  - EU27 GDP fell 4.8% YoY in Q4 2020, after 4.2% contraction in Q3. Compared to the previous quarter, Q4 GDP dropped in the EU27 country group after 11.4% quarterly plunge in Q2 and 11.5% QoQ growth in Q3.
  - The European Commission's latest forecasts (Winter 2021 Economic Forecast, issued on 2 February 2021; on the day when the Q4 2020 flash estimate was published) expect GDP to increase by 3.7% in the EU27, and by 3.8% in the euro area this year. It was revised down compared to EC's Autumn 2020 Economic Forecast, and it can be revised further down as the second estimate to Q4 growth came slightly higher than expected. Economic growth is expected to gain momentum in the EU27 in 2022, with GDP expanding by 3.9% but euro area growth remaining at 3.8% next year. The EC's growth scenario calculates with

one more quarter with QoQ decline (Q1 2021) but the following quarters are expected to deliver positive real growth both in the EU27 and the eurozone.

- **Although truck registrations fell sharply in 2020, Q3 and Q4 figures brought some relief**
  - The registrations of medium- and heavy-duty trucks in the EU plunged 25% YoY in Y2020, while the registrations of buses fell 20% YoY. Demand kept on growing in Q4 on a quarterly basis according to seasonally adjusted data, as registrations increased by 12% for new medium and heavy trucks, and by 14% for new medium and heavy buses and coaches, but lost steam compared to the 35% and 55% QoQ jumps reported in Q3 in the respective segments. On a yearly horizon, Q4 2020 registrations also reflect some improvement as they stopped decreasing in the case of medium- and heavy-duty trucks (slight uptick of 0.5%), after almost two years of decline. In the market of heavy buses and coaches, this bright spot has still failed to appear, as registrations still showed 2% YoY drop.



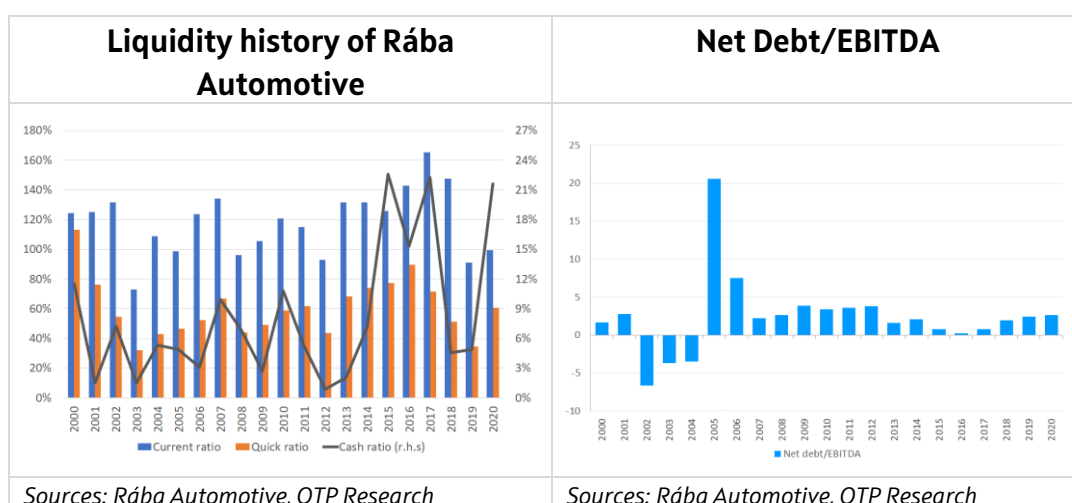
- **After the dramatic decline in Q2, the US heavy truck market started to recover in the third quarter and remained on track in the fourth quarter. The US agricultural machinery market strengthened further.**
  - Recovery in the US heavy truck market continued in Q4 2020, quarterly registration figures increased by 14% QoQ and reflected 4% YoY drop after registering 26% QoQ growth and 25% YoY decline in Q3 2020.
  - Monthly sales figures returned to pre-pandemic level by October 2020 and sales went up further in January 2021, but did not exceed the peak registered in Q3 2019. As we wrote earlier, the US heavy truck market enjoyed an almost three-year period of steady growth from Q3 2016 to Q3 2019. From the September 2019 peak, registration figures decreased steeply well before the covid outbreak. With the covid epidemic outburst, monthly registration figures nosedived: seasonally adjusted quarterly sales figures plunged 24% QoQ in Q2 2020 and touched the bottom in June last year.
  - In yearly comparison, the 18% decline in Q1 accelerated to 40% fall in Q2 and slowed to 25% drop in Q3. By the end of the year, the gap shrank further and Q4 sales showed only 4% lag from the sales figures one year before.



- Considering the whole last year, the retail sales of heavy trucks fell 23% in Y2020 compared to Y2019, in the biggest yearly drop since the global financial crisis (2008/2009).
- During the pandemic, the agricultural machinery market showed more resilience than the truck market in 2020 as agriculture itself is more resilient to cyclical changes. From quarter to quarter, sold units increased in almost every machinery category and exceeded the long-term average between 2015 and 2019. In the most common category –the segment of two-wheeled farm tractors with capacity of less than 40HP– retail sales increased by 4% QoQ and 36% YoY in Q4 2020 and other segments also witnessed double-digit growth[1] in yearly comparison. In 2020 as a whole, the market of two-wheeled farm tractors expanded by 18%, while the market of four-wheeled farm tractors gained 4% and self-propelled combine sales increased 6%.
- **Sales to the area covering the CIS lost steam, sales dropped in Q3 and Q4**
  - Weak demand has characterised the heavy truck and bus markets in the CIS throughout the past year. Statistics showed 7% decline of registrations in the new heavy truck market in the January-December period, while the bus market also shrank 7%. The latest available data from January 2021 reflect the persistence of last year's downward trend, the new bus market in Russia declined 11% YoY and while new truck sales fell 16% YoY. We note that Rába's performance (tripling revenues) in Q2 2020 was due to very low base, while the 44% YoY decline in Q3 reflected more the real market development.
- **The current pandemic situation totally altered the economic landscape and it put economies and enterprises onto a very different growth path from one expected at the beginning of 2020. However, with covid vaccination having started, the outlook for a swift economic recovery is markedly improving.**
  - The pandemic, with the ongoing second wave, still makes economic outlook uncertain as governments balance between safety-first approach and winking at gradual reopening once pandemic statistics show permanent improvement. With covid vaccination rollout having started, the chances for the economies to return to their pre-covid growth paths increased a lot. At the same time, the emersion of newer and newer variants of SARS-Cov2 risks this swift economic recovery or makes it at least uncertain. Certain degree of recession persisted in Q4 and is expected to continue in Q1 2021 (even though we do not expect e.g. supply chain challenges in the industrial sectors), but outlook for a recovery next year has improved. We expect a growth spike in Q2 and Q3 2021. Vaccination may alter the economic landscape by providing strong support for future growth. The revival of investment may add further impetus, as enterprises catch up on their postponed purchases.
  - **Only one of Rába's two European peers has released its Q4 2020 earnings report so far. Volvo reported positive developments again in the past quarter, just like in Q3 2020.** Net order intake for heavy- and medium-duty trucks jumped 42% YoY in Q4 2020 in Europe, after 21% YoY expansion in Q3 (in the number of trucks). Total order intake increased by 61% YoY in the past quarter. In whole 2020, heavy- and medium-duty truck orders upped a meagre

2%, compared to 2019. In terms of deliveries, the fourth quarters did not bring any growth in Europe or globally, but cumulative four-quarter delivery figures showed 23% YoY decline in Europe, and 28% decrease for the total market. As a forward-looking guidance, Volvo, as one of the biggest market players, raised its forecast for the EU30 market of heavy- and medium-duty trucks for 2021. The company expects 290,000 new registrations in this segment for 2021, 50,000 more than in its earlier forecast, and it is reflecting 25% YoY growth after 28% decline in 2020.

- **In the extraordinary situation the pandemic brought last year, corporate balance sheets came to the focus. Rába Automotive's liquidity improved quarter-by-quarter but leverage also increased in 2020.**
  - At the end of 2018, Rába's liquidity stood below the industry average in Hungary, with the 148% current ratio falling within the IQR, calculated with the financial data of 22 subsectors, when making an economy-wide comparison. By end-2019, current ratio declined to 91% and fell below the IQR. In Q4 2020, current ratio improved, at the end of the year it stood at 99%, after 87% at the end of September, and 80% at the end of June. At the same time, quick ratio climbed to 61% by the end of Y2020, from 34% at end-2019. Cash ratio also improved considerably, jumping to 21.6% by the end of the year, from 4.9% at the end of 2019.
  - Considering indebtedness, Rába's position remained comfortable, with leverage (total assets/total equity) slightly increasing to 212% by the end of 2020, up from 196% at the end of 2019. 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. Other debt indicators like net debt/EBITDA and debt coverage show some deterioration in 2020 in comparison to the figures of 2019, but interest rate coverage improved last year.



## Valuation

- Considering the developments of the past months, we revised up our top-line and bottom-line estimates. Although we still have not left behind the pandemic, the start of vaccination is a big step forward to normalization and the gradual easing of current restrictions. However, new variants of the covid virus put economic recovery at considerable risk, growth outlook remains uncertain, particularly in the short run.
- Based on the available data one of Rába's global peers had released, the European market of heavy- and medium-duty trucks may hold out recovery stronger than expected a few months ago. With Rába's better-than-expected Q4 figures (mainly on the cost side), we implemented some modifications in our valuation model. We note that, in the current circumstances, the position of small companies and those at the end of the supply chain is less certain. To reflect the higher grade of uncertainty, we previously increased the illiquidity discount in our valuation model and we still maintain it.
- Considering Rába's better-than-expected Q4 profitability, the strong cost control Rába maintains and the better-than-previously-forecast recovery outlook in the European market of heavy- and medium-duty trucks, we revised up our profit estimates. We expect this year's EBIT to increase to HUF 1.1bn, after HUF 68m operating profit in 2020. This year's EBITDA is expected to rise to HUF 3.2bn, from HUF 2.4bn in 2020. 12M EPS is forecast to climb to HUF 46 in 2021. In 2022, EBIT may reach HUF 1.4bn and EBITDA is expected to near HUF 3.5bn. Y2022 EPS is expected to improve further and increase to HUF 59. However, we are aware of the downside and upside risks to our forecast. It is a question how Rába manages costs when raw material prices set off, as it happened with steel prices in the past few months, while slow vaccine rollout in many countries may harm swift economic recovery and delay the withdrawal of restriction measures.
- Consequently, we revised up our 12M target price to 1,280 HUF/share from the previous HUF 1197. Our valuation model focuses on the forecast horizon between 2021 and 2025. The new 12M target price is 0.7% lower than the HUF 1,290 closing price on 18 February, 2021. The new target price offers the same -0.7% TR as Rába is not expected to pay dividend from 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 had entitled the management to sell the property in question, the transaction may fizzle out, at least no information has been issued to indicate otherwise.
- However, if the transaction finally concludes with the previously announced purchase price, it may add 81 HUF/share to the current target price.

## Deduction of 12M target price

Rába's valuation (HUFm)	2019	2020	2021	2022	2023	2024	2025	FCFF in the explicit period
FCFF	-278	-1 185	298	824	1 161	1 379	196	
Discount factor	0,95	0,96	0,95	0,90	0,85	0,79	0,73	
DCF	-263	-1 134	270	673	803	755	82	2 584
Terminal value (HUFm)								29 626
Net present value (HUFm) of TV								22 552
Enterprise Value (incl. possible future property sale) HUFm								26 829
Net debt								10 941
Equity value - Dec 31 2021, HUFm								15 888
Number of shares								13 352 765
Expected return on equity								7,6%
12M Target price								<b>1 280</b>
Current price								1 290
Upside/Downside								-0,7%
TR Upside/Downside								-0,7%

Source: OTP Research

CONSOLIDATED INCOME STATEMENT	HUFm					
	2018	2019	2020	2021E	2022E	2023E
Domestic sales	15 827	16 257	11 560	12 740	13 904	13 643
Export sales	32 805	33 525	27 194	29 749	33 849	35 916
<b>Total sales revenue</b>	<b>48 632</b>	<b>49 782</b>	<b>38 754</b>	<b>42 489</b>	<b>47 753</b>	<b>49 559</b>
Direct cost of sales	-38 262	-40 463	-30 722	-33 991	-38 680	-40 143
<b>Gross profit</b>	<b>10 370</b>	<b>9 319</b>	<b>8 032</b>	<b>8 498</b>	<b>9 073</b>	<b>9 416</b>
Indirect costs of sales	-8 564	-7 979	-7 964	-7 351	-7 641	-7 830
<b>EBIT</b>	<b>1 807</b>	<b>1 340</b>	<b>68</b>	<b>1 147</b>	<b>1 433</b>	<b>1 586</b>
<b>EBITDA</b>	<b>3 846</b>	<b>3 455</b>	<b>2 409</b>	<b>3 220</b>	<b>3 485</b>	<b>3 618</b>
Net financial profit/loss	-109	-411	-909	-300	-300	-300
<b>Profit before tax</b>	<b>1 698</b>	<b>1 004</b>	<b>-785</b>	<b>847</b>	<b>1 133</b>	<b>1 286</b>
Tax	-501	-433	-345	-237	-351	-296
<b>After-tax profit</b>	<b>1 197</b>	<b>572</b>	<b>-1 130</b>	<b>610</b>	<b>781</b>	<b>990</b>
Dividend	238	267	0	122	156	198
<b>EPS</b>	<b>90</b>	<b>43</b>	<b>-83</b>	<b>46</b>	<b>59</b>	<b>74</b>
<b>DPS</b>	<b>18</b>	<b>20</b>	<b>0</b>	<b>9</b>	<b>12</b>	<b>15</b>

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

CONSOLIDATED BALANCE SHEET		HUFm				
	2018	2019	2020	2021E	2022E	2023E
Property, plant, equipment	19 145	25 394	25 987	24 637	23 880	23 123
Intangible assets	198	148	89	58	48	44
<b>Non-current assets</b>	<b>20 021</b>	<b>26 563</b>	<b>27 015</b>	<b>25 143</b>	<b>24 457</b>	<b>24 009</b>
Inventories	9 072	7 651	5 808	8 239	7 612	7 794
Receivables and other current assets	12 266	6 488	5 944	7 258	9 546	10 644
Cash and cash equivalents	684	805	3 303	1 725	2 221	1 742
<b>Current assets</b>	<b>22 057</b>	<b>15 006</b>	<b>15 170</b>	<b>17 354</b>	<b>19 379</b>	<b>20 180</b>
<b>TOTAL ASSETS</b>	<b>42 078</b>	<b>41 569</b>	<b>42 185</b>	<b>42 498</b>	<b>43 836</b>	<b>44 189</b>
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	7 500	7 833	6 532	6 527	7 152	7 944
<b>Total Equity</b>	<b>20 865</b>	<b>21 197</b>	<b>19 897</b>	<b>19 892</b>	<b>20 517</b>	<b>21 309</b>
Long-term loans and other liabilities	5 916	3 567	6 546	4 563	3 803	3 169
Provisions	245	237	197	237	237	263
<b>Non-current liabilities</b>	<b>6 265</b>	<b>3 917</b>	<b>7 006</b>	<b>4 911</b>	<b>4 150</b>	<b>3 542</b>
Loans and credits	2 186	5 354	3 167	8 300	9 060	8 426
Payables and other short-term liabilities	12 517	10 929	11 820	9 043	9 721	10 493
<b>Current Liabilities</b>	<b>14 948</b>	<b>16 455</b>	<b>15 282</b>	<b>17 695</b>	<b>19 169</b>	<b>19 339</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>42 078</b>	<b>41 569</b>	<b>42 185</b>	<b>42 498</b>	<b>43 836</b>	<b>44 189</b>

CONSOLIDATED CASH FLOW		HUFm				
	2018	2019	2020	2021E	2022E	2023E
EBITDA	3 790	3 455	2 409	3 220	3 485	3 618
Cash flow from operation	1 243	8 379	1 584	522	2 189	2 745
Cash flow from investment	-5 189	-8 658	-2 769	-225	-1 365	-1 584
FCFF	-3 946	-278	-1 185	298	824	1 161
FCFE	-1 878	111	1 644	82	617	-338

Sources: Rába Automotive, OTP Research

## 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 now than in 2008/2009. However, by end-2020 leverage increased and net debt/EBITDA climbed to 3.0x from 2.4x at end-2019. Debt/EBITDA ratio grew from 2.7x at the end-2019 to 5.7 by the end of 2020.

**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 to 70% in 2020. Export's weight in sales revenues is expected to remain above 70% in the coming years. In the present circumstances, with revenues declining due to the covid-19 pandemic, a weaker HUF (in yearly comparison) partly offset sales' drop in FX terms.

**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 price in the middle of February was 150% higher than the lowest price in the middle of August.

At the same time, energy prices seem to be stabilizing at a relatively high level, putting Rába's profitability under pressure, even though the Q4 energy price reported by Rába is 7% lower than in Q3.

**Economic environment:** Economic landscape radically changed in Q1 2020 due to the coronavirus pandemic, and economies went 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, while administrative and regulatory hurdles may also hinder the transaction.



**Labour supply:** Labour market developments, particularly the labour shortage that prevailed earlier could 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, latest statistics show.

**Ownership:** Apparently, the state-owned MNV's 75% ownership in Rába so far 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 that 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 the directives centrally declared on the operation of state-owned companies do not differentiate 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.

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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 2020	BUY	0%
	<b>HOLD</b>	<b>100%</b>
	SELL	0%
Q2 2020	BUY	0%
	<b>HOLD</b>	<b>100%</b>
	SELL	0%
Q3 2020	BUY	0%
	<b>HOLD</b>	<b>100%</b>
	SELL	0%
Q4 2020	<b>BUY</b>	<b>100%</b>
	HOLD	0%
	SELL	0%

Date	Recommendation	Target Price	Publication
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
13/08/2020	HOLD	HUF 891	Quarterly Earnings Update
03/12/2020	BUY	HUF 1197	Quarterly Earnings Update
18/02/2021	HOLD	HUF 1280	Quarterly Earnings Update

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

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