

EQUITY NOTE: RÁBA Automotive Holding

Recommendation: BUY

Target price (12M): HUF 1,412 (unchanged)

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News

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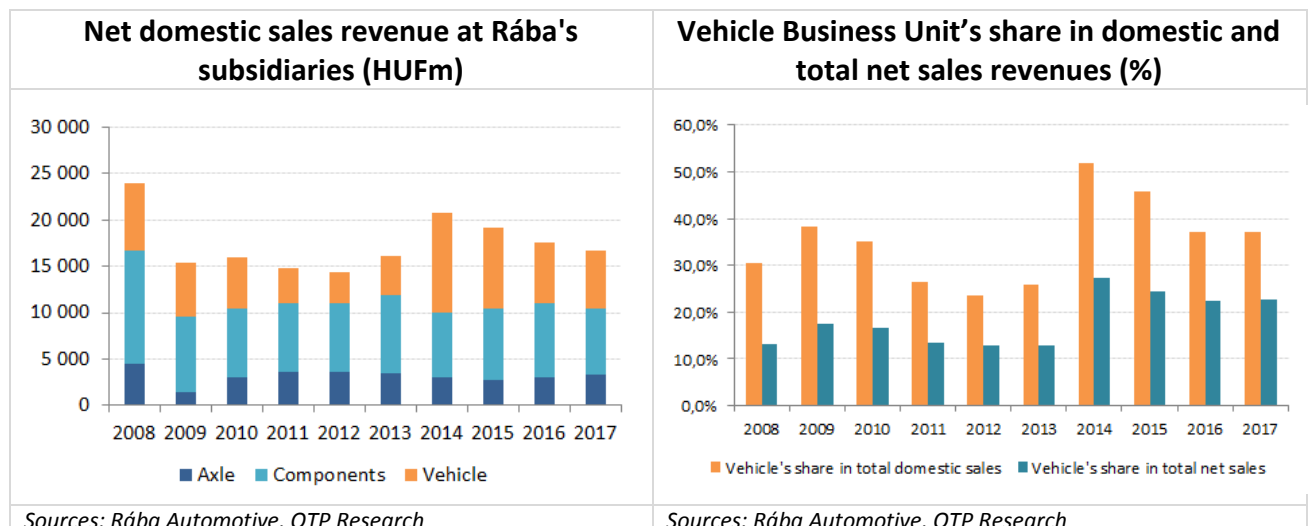
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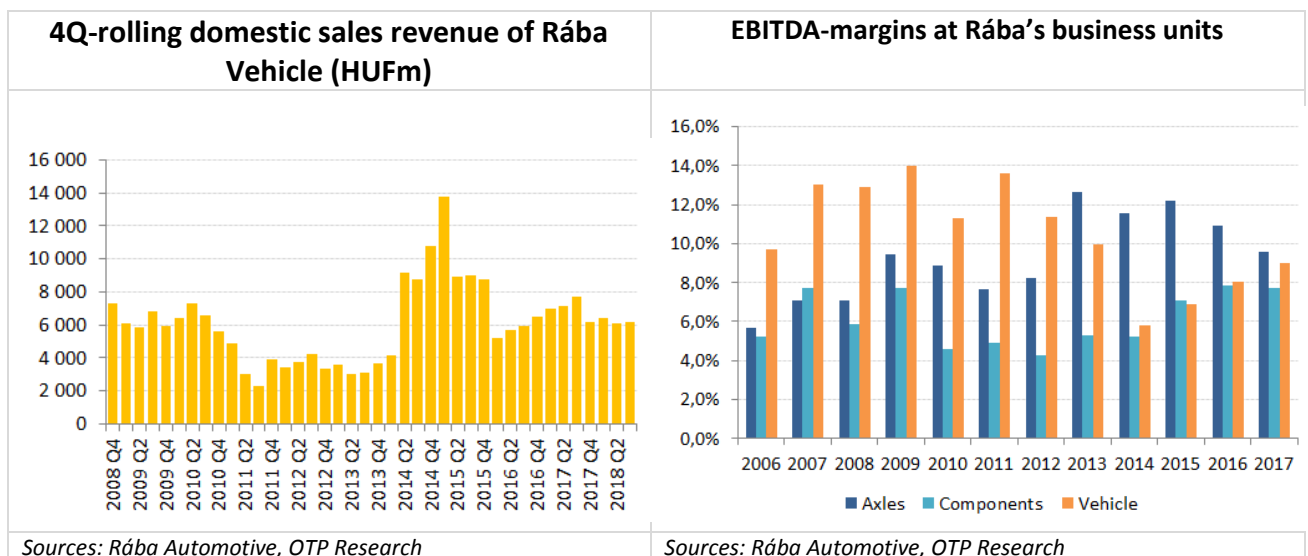
On 20 November, 2018 Rába Automotive Holding announced the renewal of the framework contract between its subsidiary Rába Vehicle Ltd. ('Rába Jármű') and the Hungarian Ministry of Defence. As part of the Vehicle Procurement Program between 2018 and 2026, Rába Vehicle will supply custom-made off-road vehicles adjusted to the needs of the Hungarian Defence Forces. The original framework contract of 15 years will be extended until 2026. As announced, the diverse military vehicles, named Family H, developed and manufactured by Rába, support the long-term modernisation of the fleet of the Hungarian Defence Forces. Under the framework contract there are no preset procurement obligations, the quantities to be supplied will be determined by the Ministry of Defence according to the schedule of the development of the defence forces.

Comments

- Rába's Vehicle Business Unit primarily supplies the domestic market, the share of exports remains below 30% as average of the past 10 years. A dominant part of the domestic orders comes from the public sector (the Hungarian Army, Fire Service), while the Vehicle Business Unit supplies the military and the civilian sectors both inland and outside the borders.
- When comparing with other business units, the Vehicle Business Unit has a relatively small weight in total net sale, while its share in domestic sales is more pronounced. Public sector orders cover near HUF 3bn a year as an average of the past few years that equals about the half of Rába Vehicle's domestic net sales.



- As Rába Vehicle manufactures not only chasses but also complete vehicles, it seems realistic that profit margin shows correlation with product complexity. Rába Vehicle reached the highest EBITDA margins among the business units between 2006 and 2012 (the 15-year framework contract with the Ministry of Defence started in 2003) as in the initial period of the co-operation Rába Vehicle delivered more units than in the past few years. In the past couple of years EBITDA margin started to improve at the Vehicle Business Unit, while at the same time the Axles Business Unit's profitability continuously deteriorated. Though nominally, Rába Vehicle's profit figure equals about the third of Rába Axles's.
- Beyond doubt, the extension of the former frame contract is very positive, and could give a boost to domestic sales. More importantly, at this time when there is a downside risk concerning European demand growth, increasing domestic sales may offset slowing sales performance to Europe. In our present sales forecast, we use public investment forecast as the main proxy indicator for domestic sales income.



- In lack of explicit public information on the scheduling of military orders, it remains to be seen how orders and future sales revenues at Rába Vehicle develop in the coming years. As a result, we left unchanged our recently updated sales forecast, published in our [latest quarterly earnings update](#). When new information emerges on the military orders and shipments, our forecast will be revised.
- The market reaction on the news of the extended framework contract with the Ministry of Defence was modest, Rába's stock price increased by 0.8% on 21 November, 2018. We maintain our BUY recommendation on Rába Automotive Holding (RABA HB; RABA.BU) with the previous 12M target price of 1,412 HUF/share. The target price is 13% higher than the HUF 1,245 closing price on 21 November. Total return is estimated at 16% on a 12-month forecast period.

[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:

Date	Recommendation	Target Price	Publication
15/12/2017	HOLD	HUF 1380	Initiation Coverage
22/02/2018	HOLD	HUF 1475	Quarterly Earnings Update
13/04/2018	HOLD	HUF 1475	Equity Note
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

Period	Recommendations	Percent of Recommendations
Q4 2017	BUY	0%
	HOLD	100%
	SELL	0%
Q1 2018	BUY	0%
	HOLD	100%
	SELL	0%
Q2 2018	BUY	0%
	HOLD	100%
	SELL	0%
Q3 2018	BUY	100%
	HOLD	0%
	SELL	0%

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

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