

RAK Ceramics PJSC

Profitability soars on margin gains amid robust regional demand

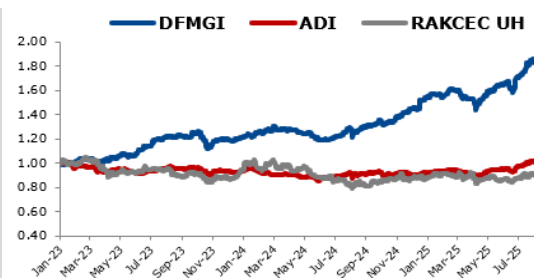
Current Price
AED 2.65

Target Price
AED 3.45

Upside/Downside (%)
+30%

Rating
BUY

- Revenue in the UAE region surged 25.2% YoY in 2Q25, supported by robust real estate sector growth and favorable market conditions.
- Gross margin rose 108 bps YOY to 40.6% in 2Q25 owing to operational efficiency.
- KSA revenue fell 9.8% YoY in 2Q25, impacted by liquidity constraints, intensified competition, and oversupply from local tile manufacturers.
- Capex guidance lowered from AED 350-400 Mn to AED 300-350 Mn in 2025.
- The Company proposed an interim dividend of 10 fils per share for 1H25, to AED 99.4 Mn.



2Q25 Net Profit higher than our estimate

RAK Ceramics PJSC (RAKCEC/"The Company") net profit attributable to equity shareholders increased 30.4% YOY to AED 66 Mn in 2Q25, higher than our estimate of AED 36 Mn. The growth in net profit is primarily supported by strong revenue expansion driven by robust demand in key regions such as the UAE and the Middle East, coupled with expansion in margin from efficiency gain and premium product mix, partially offset by higher tax expense.

P&L Highlights

RAKCEC's revenue increased 6.4% YOY to AED 827 Mn in 2Q25, driven by strong demand for the company's products in the UAE and other Middle East countries. Tiles segment revenue grew 10.1% YOY to AED 474 Mn in 2Q25 due to robust performance in the UAE, India, Bangladesh, and German markets. The segment growth is attributed to volume growth of 8.0% YOY and value growth of 10.2% YOY in 2Q25. Sanitaryware revenue segment grew 3.6% YOY to AED 121 Mn, supported by strong demand in the UAE market. Tableware segment revenue declined 7.9% YOY to AED 85 Mn, impacted by lower demand in the USA market, partially offset by healthy demand in the UAE, Europe, and African markets, due to an expansion of distributors. The revenue from the Others segment increased 6.6% YOY to AED 146 Mn in 2Q25, due to a rise in revenue from the Faucet segment, partially offset by a fall in revenue from the Ceramic Trading Business. Faucet's segment increased 11.7% YOY to AED 122.3 Mn in 2Q25, mainly due to noticeable performance in Europe, KSA, and Africa. While its trading business declined 13.8% YOY to AED 23.9 Mn in 2Q25. The Company's direct cost grew 4.5% YOY to AED 491 Mn in 2Q25, thereby gross profit inched up 9.3% YOY to AED 336 Mn in 2Q25, whereas gross profit margin increased from 39.6% in 2Q24 to 40.6% in 2Q25, primarily due to rise in operational efficiency. Gross profit margins of the Tiles Segment expanded 330 bps YOY to 42.5%

Stock Information

Market Cap (AED, mn)	2,663.13
Paid Up Capital (mn)	993.70
52 Week High	2.69
52 Week Low	2.28
ang	1,512,516

2Q25 Result Review (AED, Mn)

Total Assets	5,292
Total Liabilities	3,000
Total Equity	2,292
EBITDA	161
Net Profit	66

Financial Ratios

Dividend Yield (12m)	7.46
Dividend Pay-out (%)	44.94
Price-Earnings Ratio(x)	11.61
Price-to-Book Ratio (x)	1.21
Book Value (AED)	2.22
Return on Equity (%)	10.18

Stock Performance

5 Days	3.88%
1 Months	5.10%
3 Months	10.29%
6 Months	5.93%
1 Year	14.53%
Month to Date (MTD%)	3.88%
Quarter to Date (QTD%)	8.50%
Year to Date (YTD%)	7.63%

in 2Q25, driven by improved efficiencies and higher growth in the UAE market. Sanitaryware segment gross profit margin softened 30 bps YOY to 32.5% in 2Q25, impacted by persistent challenges in Bangladesh. Tableware gross profit margin expanded 380 bps YOY to 56.0% in 2Q25, due to higher sales to the airline industry and premium hospitality projects. Whereas, Faucet's gross margin fell 640 bps YOY to 27.0% in 2Q25, attributed to lower margin in the European market due to ongoing transformation activities. Opex rose 8.1% YOY to AED 246 Mn in 2Q25 owing to higher sales volume and higher SG&A expenses mainly for selling. RAKCEC's EBITDA expanded 17.4% YOY to AED 161 Mn in 2Q25. Whereas EBITDA margin grew 182 bps YOY to 19.5% in 2Q25. D&A expenses surged 7.9% YOY to AED 54 Mn in 2Q25. The Company's operating profit increased 12.8% YOY to AED 90 Mn in 2Q25. While operating profit margin increased 62 bps YOY to 10.9% in 2Q25. Impairment charges fell from AED 7 Mn in 2Q24 to AED 5 Mn in 2Q25. Other income increased from AED 17 Mn in 2Q24 to AED 27 Mn in 2Q25 due to provision write-back, higher gain on disposal and higher discount earned on purchases & freight, partially offset by lower rental income from investment properties. Investment from associates increased substantially from AED 2 Mn in 2Q24 to AED 4 Mn in 2Q25. Financial charges declined 5.6% YOY to AED 29 Mn in 2Q25 due to lower benchmark rates and debt. Additionally, tax expenses increased significantly from AED 9 Mn in 2Q24 to AED 20 Mn in 2Q25 due to higher corporate taxes paid in UAE. Furthermore, the profit attributable to non-controlling interest holders rose 7.1% YOY to AED 1 Mn in 2Q25.

Balance Sheet Highlights

RAKCEC's net debt increased from AED 1.4 Bn in 1Q25 to AED 1.6 Bn in 2Q25, due to a rise in capital expenditure and working capital requirements. The Company's working capital boosted from AED 1.4 Bn in 1Q25 to AED 1.5 in 2Q25, primarily due to higher receivable days, impacted by the Eid holiday and increased inventory from a rise in finished goods stock, while trade payable days declined owing to CAPEX-related payments. The Company incurred CAPEX of AED 156 Mn in 1H25, of which AED 102 Mn was allocated to upgrading its large-format tile manufacturing plants. The net debt to EBITDA ratio increased from 2.49x in 1Q25 to 2.59x in 2Q25.

Target Price and Rating

We maintain our BUY rating on RAK Ceramics PJSC with an unchanged target price of AED 3.45. The Company delivered strong net profit growth in 2Q25, attributed to strong revenue expansion driven by robust demand in key regions such as the UAE and the Middle East, coupled with an expansion in margin from efficiency gain and premium product mix, partially offset by an increase in UAE tax expenses. Revenue growth was particularly due to robust demand in key markets such as the UAE and other Middle East countries. UAE witnessed a strong revenue growth of 25.2% YOY in 2Q25, supported by robust momentum in the real estate sector and favorable market dynamics, which fuel growth of the Company's Tiles and Sanitaryware segments. The Company is undertaking multiple measures to address regional challenges, including the use of a different brand for entry-level tiles, customs duty relief, premium product focus, and the KLUDI turnaround plan. These initiatives, alongside competitive pricing, stronger retail presence, and expanded distribution, reinforce the Company's resilience and long-term growth prospects. Furthermore, the Company is executing key strategic initiatives across core markets. In the UAE, the Company is upgrading its existing tiles and sanitaryware facilities, thereby enhancing efficiency, sustainability, and margins. In India and Bangladesh, focus remains on strengthening retail presence, introducing UAE product lines, ensuring production continuity, and building robust distribution, which ultimately drives revenue growth and ensures operational resilience. Meanwhile, in KSA, the Company is establishing local manufacturing, competitive product development, and premium offerings to enhance margins and capture housing and commercial demand. To enhance performance in 2025, the Company is prioritizing market share growth, KLUDI transformation, retail expansion, operational efficiency, digital acceleration, capacity enhancement, diversification, and sustainability initiatives. These measures aim to strengthen competitiveness, improve profitability, and build long-term resilience across all core markets. The Company proposed an interim dividend of 10 fils per share for 1H25, totaling AED 99.4 Mn and approved a sustainable dividend policy for 2025–2027, targeting a minimum annual payout of 20 fils per share. Additionally, RAK Ceramics committed to a total minimum dividend of 60 fils per share for 2025–2027. Thus, we assign a BUY Rating on the stock.

RAK Ceramics - Relative valuation

(at CMP)	2020	2021	2022	2023	2024	2025F
PE (x)	NA	10.7	8.7	9.1	11.9	11.5
PB (x)	1.2	1.2	1.2	1.2	1.2	1.2
EV/EBITDA	11.5	7.6	7.0	6.5	7.0	6.8
EPS	-0.13	0.25	0.30	0.29	0.22	0.23
DPS	0.08	0.20	0.20	0.20	0.20	0.20
Dividend yield	2.8%	7.5%	7.5%	7.5%	7.5%	7.5%

FABS Estimates & Co Data

RAK Ceramics – P&L

AED mn	2Q24	1Q25	2Q25	2Q25F	Var.	YOY Ch	QOQ Ch	2024	2025F	Change
Revenue	777	777	827	751	10.1%	6.4%	6.5%	3,232	3,296	2.0%
Direct costs	-470	-468	-491	-454	8.2%	4.5%	4.8%	-1,962	-1,989	1.4%
Gross profit	307	308	336	297	13.1%	9.3%	9.0%	1,270	1,307	2.9%
Selling & overhead exp.	-227	-234	-246	-240	2.3%	8.1%	4.8%	-921	-972	5.6%
EBITDA	137	136	161	136	18.6%	17.4%	18.6%	592	628	6.1%
D&A charges	50	52	54	54	0.3%	7.9%	3.7%	208	214	3.2%
Operating profit	80	74	90	57	58.8%	12.8%	22.4%	349	335	-4.2%
Impairment	-7	-10	-5	-9	-46.1%	-29.2%	-47.9%	-33	-26	-19.2%
Other income	17	26	27	23	19.0%	54.0%	5.0%	84	105	24.9%
Investment & other inc.	2	4	4	3	64.5%	107.8%	4.3%	9	13	NM
Financial charges	-31	-28	-29	-29	2.6%	-5.6%	4.2%	-126	-115	-8.9%
Profit before tax	60	65	87	44	98.6%	45.0%	34.3%	277	312	12.7%
Tax expense	-9	-16	-20	-7	210.3%	131.4%	29.6%	-43	-72	68.4%
Profit before minorities	51	49	66	37	78.9%	30.1%	35.8%	234	240	2.5%
Minorities	1	3	1	1	-38.6%	7.1%	-69.0%	13	11	-16.0%
Profit to shareholders	50	46	66	36	83.2%	30.4%	41.6%	221	229	3.6%

FABS estimate & Co Data

RAK Ceramics - Margins

	2Q24	1Q25	2Q25	YOY Ch	QOQ Ch	2024	2025F	Change
Gross margin	39.6%	39.7%	40.6%	108	96	39.3%	39.6%	36
Operating margin	10.3%	9.5%	10.9%	62	142	10.8%	10.1%	-66
EBITDA margin	17.6%	17.5%	19.4%	182	199	18.3%	19.1%	73
Net profit margin	6.5%	6.0%	7.9%	146	197	6.8%	6.9%	11

FABS estimate & Co Data

Valuation:

We use Discounted Free Cash Flow (DCF) and Relative Valuation (RV) to value RAK Ceramics. We have assigned 70% weight to DCF and 30% to RV.

Valuation Method	Target	Weight	Weighted Value
DCF Method	3.30	70.0%	2.31
Relative Valuation (RV)	3.81	30.0%	1.14
Weighted Average Valuation (AED)			3.45
Current market price (AED)			2.65
Upside/Downside (%)			+30%

1) DCF Method:

Rak Ceramics is valued using free cash flow to the firm. We have discounted the cash flow using the weighted average cost of capital of 8.2%. It's arrived after using a cost of equity of 9.6% and after-tax cost of debt of 4.8% with a debt-to-equity ratio of 65.2%. Cost of equity is calculated by using a 10-year government bond yield of 5.3%, a beta of 0.95 and an equity risk premium of 4.5%. Government bond yield is calculated after adding Abu Dhabi 10-year spread over the 10-year US risk-free rate. The cost of debt of 4.8% is calculated after adjusting for a tax rate of 20.0%. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	1,102
Terminal value (AED, Mn)	3,950
FV to Common shareholders (AED, Mn)	3,274
No. of share (Mn)	994
Current Market Price (AED)	2.65
Fair Value per share (AED)	3.30

DCF Method

(All Figures in AED Mn)	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E
NOPAT	318	327	338	351	368
D&A	214	229	240	242	260
Change in working capital	-53	-41	-32	-61	-95
(-) Capex	-379	-208	-205	-197	-198
Free Cash Flow to Firm (FCFF)	101	307	341	334	335
Discounting Factor	0.97	0.90	0.83	0.77	0.71
Discounted FCFF	49	276	283	256	238

Source: FAB Securities

2) Relative Valuation:

We have used local and global peers to value Rak Ceramics, which is valued using the 2025 EV/EBITDA multiple. It is valued at an EV/EBITDA of 8.9x compared to a peer median valuation of 16.1x.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2025F	2026F	2025F	2026F
Somany Ceramics Limited	240	9.3	9.4	24.1	23.9
Kajaria Ceramic Tiles	2,307	19.7	24.9	35.5	41.7
Dynasty Ceramic	402	8.3	7.8	14.3	13.0
Cera Sanitaryware Limited	942	23.8	23.9	32.1	32.8
Bawan Company	942	13.6	NA	21.9	NA
Brickworks Limited	3,492	18.6	15.0	31.4	24.1
Average		15.5x	16.2x	26.5x	27.1x
Median		16.1x	15.0x	27.7x	24.1x
Max		19.4x	23.9x	31.9x	32.8x
Min		10.4x	9.4x	22.4x	23.9x

Source: FAB Securities

Research Rating Methodology:

Rating	Upside/Downside potential
BUY	Higher than +15%
ACCUMULATE	Between +10% to +15%
HOLD	Lower than +10% to -5%
REDUCE	Between -5% to -15%
SELL	Lower than -15%

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