FAB SECURITIES أبوظبي الأول للأوراق المالية

First Look Note | 3Q25

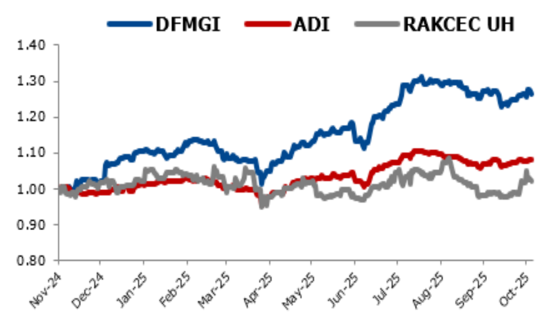
UAE Equity Research | Sector: Industrial | Market: ADX

RAK Ceramics (RAKCEC)

Strong demand from UAE and Middle East contributed top line growth

Current Price	Target Price	Upside/Downside (%)	Rating
AED 2.50	AED 3.45	+38%	BUY

- Revenue in the UAE region surged 6.7% YOY to AED 236.9 Mn in 3Q25, supported by robust real estate sector growth and favorable market conditions.
- Gross margin decreased 73 bps YOY to 40.5% in 3Q25 due to pricing pressure in India and Bangladesh markets and rising competition.
- KSA revenue fell 24.7% YOY to AED 51.9 Mn in 3Q25, impacted by liquidity constraints, intensified competition, and oversupply from local tile manufacturers.
- Capex guidance for 2025 is revised at AED 300 Mn.
- Net debt stood at AED 1.6 Bn in 3Q25 along with working capital of AED 1.5 Bn.



Stock Information	
Market Cap (AED, mn)	2,474.32
Paid Up Capital (mn)	993.70
52 Week High	2.69
52 Week Low	2.30
3M Avg. daily value (AED)	610,993

3Q25 Result Review (AED, Mn)	
Total Assets	5,299
Total Liabilities	3,036
Total Equity	2,263
EBITDA	168
Net Profit	67

Financial Ratios	
Dividend Yield (12m)	8.00
Dividend Pay-out (%)	44.94
Price-Earnings Ratio(x)	10.12
Price-to-Book Ratio (x)	1.14
Book Value (AED)	2.19
Return on Equity (%)	10.93

Stock Performance	
5 Days	-2.35%
1 Months	-1.19%
3 Months	-6.04%
6 Months	2.47%
1 Year	0.40%
Month to Date (MTD%)	-3.11%
Quarter to Date (QTD%)	2.89%
Year to Date (YTD%)	0.00%

3Q25 Net Profit lower than our estimate

RAK Ceramics PJSC (RAKCEC/"The Company") net profit attributable to equity shareholders increased 22.7% YOY to AED 67 Mn in 3Q25, lower than our estimate of AED 71 Mn. The growth in net profit is primarily supported by revenue expansion driven by robust demand in the UAE and increased other income, supported by decline in impairments and finance charges, partially offset by higher direct costs and tax expense.

P&L Highlights

RAKCEC's revenue increased 2.8% YOY to AED 825 Mn in 3Q25, driven as a result of continued strong demand from the UAE and Middle East. Tiles segment revenue grew 2.5% YOY to AED 480 Mn in 3Q25 led by strong performance in the UAE, Bangladesh, India, and German markets. The segment growth is attributed to volume growth of 7.4% YOY and value growth of 2.5% YOY in 3Q25. Sanitaryware revenue segment grew 5.3% YOY to AED 124 Mn in 3Q25, supported by strong demand in the UAE market owing to a favorable product mix shift. Tableware segment revenue declined marginally by 0.6% YOY to AED 85 Mn in 3Q25, impacted by lower demand in the UAE and Middle East market, partially offset by healthy demand in the USA, Europe, and African markets, due to an expansion of distributors. The revenue from the others segment increased 3.9% YOY to AED 137 Mn in 3Q25, 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 8.8% YOY to AED 118 Mn in 3Q25, mainly due to noticeable performance in UAE and Europe. While its trading business declined 19.6% YOY to AED 18 Mn in 3Q25. The Company's direct cost grew 4.1% YOY to AED 491 Mn in 3Q25, thereby gross profit increased marginally by 1.0% YOY to AED 334 Mn in 3Q25, whereas gross profit margin decreased 73 bps to 40.5%

in 3Q25, primarily due to pricing pressure in the Indian and Bangladesh markets amid rising competition. Gross profit margins of the Tiles Segment contracted 100 bps YOY to 41.6% in 3Q25 due to pricing pressure and competition. Sanitaryware segment gross profit margin improved 280 bps YOY to 36.6% in 3Q25, primarily due to operational efficiencies, favourable product mix and improved sales in the UAE market. Tableware gross profit margin expanded 120 bps YOY to 54.0% in 3Q25, supported by higher sales to the airline industry. Whereas, Faucet's gross margin fell from 28.9% in 3Q24 to 22.3% in 3Q25, attributed to lower margin in the European market due to ongoing transformation activities. Opex decreased marginally 1.3% YOY to AED 242 Mn in 3Q25. RAKCEC's EBITDA expanded 14.7% YOY to AED 168 Mn in 3Q25. Whereas EBITDA margin stood at 20.3% in 3Q25. D&A expenses surged 9.4% YOY to AED 58 Mn in 3Q25. The Company's operating profit increased 7.4% YOY to AED 92 Mn in 3Q25. While operating profit margin increased 47 bps YOY to 11.1% in 3Q25. Impairment charges fell from AED 11 Mn in 3Q24 to AED 5 Mn in 3Q25. Other income increased 10.9% YOY to AED 24 Mn in 3Q25 due to provision write-back and higher gain on disposal of PP&E partially offset by lower discount earned on purchases & freight, lower rental income from investment properties. Investment from associates increased 5.5% YOY to AED 6 Mn in 3Q25. Financial charges declined from AED 37 Mn in 3Q24 to AED 29 Mn in 3Q25. Additionally, tax expenses increased significantly from AED 5 Mn in 3Q24 to AED 19 Mn in 3Q25 due to higher corporate taxes paid in UAE. Furthermore, the profit attributable to non-controlling interest holders decreased 57.3% YOY to AED 1 Mn in 3Q25.

Balance Sheet Highlights

RAKCEC's gross debt increased from AED 1.7 Bn in 2Q25 to AED 1.8 Bn in 3Q25, due to a rise in UAE corporate tax payment, higher capex and increased working capital requirements. The Company's working capital increased marginally from AED 1.47 Bn in 2Q25 to AED 1.49 in 3Q25, primarily due to lower receivable days, impacted by strict credit control 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 216 Mn in 9M25, of which AED 134 Mn was allocated to upgrading its large-format tile manufacturing plants. The net debt to EBITDA ratio increased from 2.59x in 2Q25 to 2.63x in 3Q25.

Target Price and Rating

We maintain our BUY rating for RAK Ceramics PJSC with a target price of AED 3.45. The Company reported strong net profit growth in 3Q25, driven by robust revenue expansion due to high demand in key regions, particularly the UAE and the Middle East, which was partially offset by increased tax expenses in the UAE. Revenue growth was notably attributed to the demand in several markets, including the UAE, India, Bangladesh, Germany, and African markets. The UAE business experienced a significant revenue increase of 6.7% YOY in 3Q25, supported by strong momentum in the real estate sector and favorable market conditions, which boosted the Company's tiles and sanitaryware segments. To tackle regional challenges, the Company is implementing various strategies, such as focusing on premium product differentiation, introducing high-tech innovations, and developing new products with competitive pricing. Additionally, the Company is continuing its KLUDI turnaround plan, which includes shifting production capabilities from the EU to the UAE to enhance performance and implementing pricing strategies that cater to local purchasing power and market dynamics. The Company is also executing key strategic initiatives in its core markets. In the UAE, RAK Ceramics is upgrading its existing tile and sanitaryware facilities to improve efficiency, sustainability, and profit margins. In India and Bangladesh, the emphasis is on strengthening retail presence, introducing UAE product lines, establishing a robust distribution network, and implementing competitive pricing strategies, all aimed at driving revenue growth and ensuring operational resilience. In Saudi Arabia, the Company continued to face challenges due to liquidity crunch, intensified competition and oversupply from local manufacturers. To mitigate this, the Company is setting up local manufacturing in Yanbu, expected to be completed by 1Q27 along with focusing on competitive product development and premium offerings to enhance margins and capture demand in both housing and commercial sectors. To improve performance in 2025, the Company is prioritizing market share growth, the KLUDI transformation, retail expansion, operational efficiency, digital acceleration, capacity enhancement, diversification, and sustainability initiatives. In October 2025, RAK Porcelain Group announced the strategic acquisition of Bankook Design Chambre S.L, which expands its premium tableware portfolio and strengthens its position in the European market. These efforts are designed to enhance competitiveness, improve profitability, and build long-term resilience across all core markets. RAK Ceramics operates with an extensive annual production capacity of 180 Mn sqm of tiles, 5 Mn pieces of sanitaryware, 36 Mn pieces of tableware, and 2.6 Mn pieces of faucets and taps, underscoring scale and integrated manufacturing strength. Thus, we maintain a BUY rating on the stock.

RAK Ceramics - Relative valuation

(at CMP)	2020	2021	2022	2023	2024	2025F
PE (x)	NA	10.2	8.3	8.6	11.3	10.2
PB (x)	1.2	1.1	1.2	1.1	1.1	1.1
EV/EBITDA	11.1	7.4	6.8	6.3	6.7	6.3
BVPS	2.157	2.246	2.178	2.248	2.250	2.298
EPS	NA	0.248	0.305	0.293	0.222	0.248
DPS	0.075	0.200	0.200	0.200	0.200	0.200
Dividend yield	3.0%	8.0%	8.0%	8.0%	8.0%	8.0%

FABS Estimates & Co Data

RAK Ceramics – P&L

AED mn	3Q24	2Q25	3Q25	3Q25F	Var.	YOY Ch	QOQ Ch	2024	2025F	Change
Revenue	803	827	825	838	-1.5%	2.8%	-0.2%	3,232	3,320	2.7%
Direct costs	-472	-491	-491	-493	-0.4%	4.1%	0.0%	-1,962	-1,981	1.0%
Gross profit	**331**	**336**	**334**	**345**	**-3.2%**	**1.0%**	**-0.6%**	**1,270**	**1,339**	**5.4%**
Selling & overhead exp.	-246	-246	-242	-250	-2.9%	-1.3%	-1.3%	-921	-973	5.7%
EBITDA	**146**	**161**	**168**	**176**	**-4.6%**	**14.7%**	**4.3%**	**592**	**653**	**10.2%**
D&A charges	53	54	58	54	7.7%	9.4%	8.2%	208	214	2.9%
Operating profit	**85**	**90**	**92**	**95**	**-4.0%**	**7.4%**	**1.5%**	**349**	**366**	**4.8%**
Impairment	-11	-5	-5	-5	-4.9%	-56.6%	-3.6%	-33	-27	-18.6%
Other income	22	27	24	32	-24.9%	10.9%	-10.7%	84	100	18.0%
Investment & other inc.	5	4	6	2	NM	5.5%	40.4%	9	13	42.7%
Financial charges	-37	-29	-29	-29	-0.3%	-22.1%	-3.3%	-126	-115	-8.9%
Profit before tax	**61**	**87**	**87**	**96**	**-9.7%**	**42.4%**	**-0.1%**	**277**	**336**	**21.3%**
Tax expense	-5	-20	-19	-22	-13.3%	NM	-5.9%	-43	-77	81.4%
Profit before minorities	**56**	**66**	**68**	**74**	**-8.6%**	**20.7%**	**1.7%**	**234**	**258**	**10.4%**
Minorities	1	1	1	3	-76.2%	-57.3%	-22.7%	13	12	-9.6%
Profit to shareholders	**54**	**66**	**67**	**71**	**-6.2%**	**22.7%**	**2.0%**	**221**	**247**	**11.6%**

FABS estimate & Co Data

RAK Ceramics - Margins

	3Q24	2Q25	3Q25	YOY Ch	QOQ Ch	2024	2025F	Change
Gross margin	41.2%	40.6%	40.5%	-73	-14	39.3%	40.3%	104
Operating margin	10.6%	10.9%	11.1%	47	19	10.8%	11.0%	22
EBITDA margin	18.2%	19.4%	20.3%	211	88	18.3%	19.7%	134
Net profit margin	6.8%	7.9%	8.1%	132	18	6.8%	7.4%	59

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	3.45	70.0%	2.42
Relative Valuation (RV)	3.44	30.0%	1.03
Weighted Average Valuation (AED)			**3.45**
Current market price (AED)			2.50
Upside/Downside (%)			+38%

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 7.9%. It’s arrived after using a cost of equity of 9.2% and after-tax cost of debt of 4.8% with a debt-to-equity ratio of 71.5%. Cost of equity is calculated by using a 10-year government bond yield of 4.8%, a beta of 0.95 and an equity risk premium of 4.7%. 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)	1,291
Terminal value (AED, Mn)	3,989
Net debt & NCI (as of Sept 2025) (AED, Mn)	-1,849
FV to Common shareholders (AED, Mn)	**3,431**
No. of share (Mn)	994
Current Market Price (AED)	2.50
Fair Value per share (AED)	**3.45**

DCF Method

(All Figures in AED Mn)	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E	FY 2030E
NOPAT	338	332	341	351	366	382
D&A	214	228	239	241	260	280
Change in working capital	-59	-41	-35	-94	-97	-99
(-) Capex	-339	-208	-211	-214	-217	-220
Free Cash Flow to Firm (FCFF)	**154**	**310**	**333**	**284**	**313**	**343**
Discounting Factor	0.99	0.90	0.82	0.75	0.69	0.63
Discounted FCFF	**38**[1]	**285**	**283**	**224**	**228**	**232**

Source: FAB Securities, [1]Adjusted for partial year

2) Relative Valuation:

We have used local and global peers to value RAK Ceramics, which is valued using the 2026 EV/EBITDA multiple. It is valued at an EV/EBITDA of 8.2x compared to a peer median valuation of 14.9x.

Company	Market	EV/EBITDA (x)		P/E (x)	
	(USD Mn)	2025F	2026F	2025F	2026F
Somany Ceramics Limited	211	8.9	7.5	23.4	16.8
Kajaria Ceramic Tiles	1,985	20.7	18.6	33.9	29.7
Dynasty Ceramic	367	7.8	7.4	13.1	11.9
Cera Sanitaryware Limited	841	22.7	19.0	31.3	26.8
Bawan Company	836	13.6	NA	21.9	NA
Brickworks Limited	3,358	18.5	14.9	30.0	21.9
Average		**15.4x**	**13.5x**	**25.6x**	**21.4x**
Median		**16.1x**	**14.9x**	**26.7x**	**21.9x**
Max		**20.1x**	**18.6x**	**31.0x**	**26.8x**
Min		**10.1x**	**7.5x**	**22.3x**	**16.8x**

Source: FAB Securities

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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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