

## RAK Ceramics

Strong top-line growth weighed by higher input prices

### 4Q22 Net Profit lower than our estimate

RAK Ceramics PJSC (RAKCEC/"The Company") reported 21.6% YOY growth in net profit to AED 68 Mn in 4Q22, lower than our estimate of AED 104 Mn. This increase in net profit is mainly attributable to strong growth in revenue, other operating income and tax reversal partially offset by an increase in operating expenses and higher finance costs.

### P&L highlights

RAK Ceramics' revenue grew 19.7% YOY to AED 901 Mn in 4Q22 driven by a healthy growth in tiles and tableware revenue with faucet revenue of AED 125.6 Mn after Kuldi group acquisition somewhat offset by a decline in revenue from the sanitaryware business and others. The company's tiles revenue rose 8.0% YOY to AED 529.4 Mn in 4Q22 driven by higher selling prices partially offset by a hike in production cost. Sanitaryware revenue declined marginally 2.0% YOY to AED 122.8 Mn in 4Q22 mainly due to lower off-take from the European market and disruption of production in Bangladesh due to a low supply of gas. Moreover, tableware revenue rose 9.0% YOY to AED 98 Mn in 4Q22 due to rolling out differentiated products and post-pandemic recovery. Faucets revenue rose significantly from AED 5.5 Mn in 4Q21 to AED 125.6 Mn in 4Q22 owing to the consolidation of revenue from KLUDI group of AED 114.5 Mn. The Company's direct cost increased 18.8% YOY to AED 593 Mn in 4Q22 due to high input prices and supply chain disruptions. As a result, gross profit rose 21.6% YOY to AED 308 Mn in 4Q22 with a gross margin of 34.2% in 4Q22 as compared to 33.6% in 4Q21. Gross margin improved driven by an increase in tile margin. On the other hand, operating expenses rose significantly 35.2% YOY to AED 255 Mn in 4Q22 mainly due to a hike in staff cost, freight charges, and promotional expenses carried out for better brand presence and visibility. As a result, total operating profit declined 35.0% YOY to AED 52 Mn in 4Q22. Depreciation and amortization charges stood at AED 48 Mn in 4Q22 whereas EBITDA rose 12.6% YOY to AED 137.5 Mn in 4Q22. EBITDA declined 96 bps YOY to 15.3% in 4Q22. Impairments declined from AED 17 Mn in 4Q21 to AED 4 Mn in 4Q22. Other income rose 55.9% YOY to AED 41 Mn in 4Q22 due to gain on sale of land in Australia of AED 12.8 Mn in 4Q22. Finance cost more than doubled from AED 11 Mn in 4Q21 to AED 26 Mn in 4Q22 due to higher benchmark rates. The Company's tax expenses reduced from AED 5 Mn in 4Q21 to a reversal of AED 10 Mn in 4Q22 boosting profitability. Furthermore, share of profit attributable to non-controlling interest holders stood at AED 8 Mn in 4Q22 as compared to AED 18 Mn in 4Q21.

### Balance Sheet highlights

RAK Ceramics' borrowings increased from AED 1,537 Mn in 2021 to AED 1,740 Mn in 2022. While net debt rose from AED 1.0 Bn in 2021 to AED 1.3 Bn in 2022 with a net debt to EBITDA ratio of 2.3x in 4Q22 as compared to 1.9x in 2021. Net debt rose mainly due to dividend payment, increase ownership in RAK Procelain to 92% partially offset by AED 66 Mn proceeds from the sale of land in Australia. Cash and cash equivalents along with bank deposits stood at AED 439 Mn in 2022 as compared to 565 Mn in 2021. Cash flow from operations marginally declined from AED 545 Mn in 2021 to AED 509 Mn in 2022. The Company is expected to incur a capex of

**Rating : BUY**

## First Look Note – 4Q22

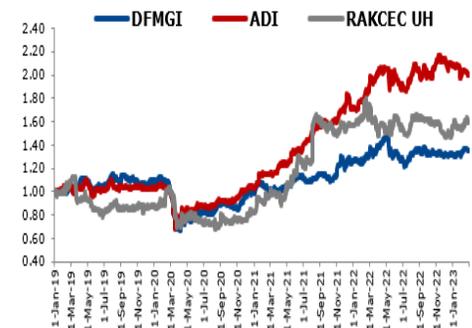
**Sector: Industrial**

### Recommendation

Current Price (2-Mar-23)	2.90
Target Price (AED)	3.80
Upside/Downside (%)	+31%

### Stock Information

Market Cap (mm)	2,881.74
Paid Up Capital (mm)	993.70
52 Week High	3.16
52 Week Low	2.67
3M Avg. daily value (AED)	1,594,163



### Financial Ratios

Dividend Yield (12m)	6.90
Dividend Pay-out (%)	32.82
Price-Earnings Ratio (x)	9.34
Price-to-Book Ratio (x)	1.33
Book Value (AED)	2.18
Return-on Equity (%)	13.78
Earning Per Share (AED)	0.31
Beta	0.38

### Stock Performance

5 Days	-1.69%
1 Months	2.84%
3 Months	7.41%
6 Months	-3.01%
1 Year	-7.05%
Month to Date (MTD)	0.00%
Quarter to Date (QTD)	2.47%
Year to Date (YTD)	2.47%

AED 300-350 Mn in 2023. The company paid a dividend of 10 fils in 1H22 while the board further proposed to pay a cash dividend of 10 fils for the period 2H22.

### Target price and rating

We maintain our BUY rating on RAK Ceramics PJSC, with a Revised target price of AED 3.80. The Company is strengthening its brand positioning and brand visibility across all markets and plans to increase its retail footprint to maximize shareholder returns. RAK Ceramics further increased its stake in RAK Procelain to 92% in 2022 through multiple acquisition. The acquisition of KLUDI group strengthened the Company's faucets business as it contributed AED 115 Mn in revenue during 4Q22. It also launched the turn-around strategy for KLUDI which add to profitability. RAK Ceramics opened a showroom in UAE (Al Ain) and two in India (Cochin & Chandigarh) with attractive promotional schemes. However, production in Bangladesh and India was affected due to high energy costs and low supply in 4Q22 whereas the European market was impacted due to currency devaluation. RAK Ceramics will be strongly positioned to deliver solid returns in the upcoming period driven by a strategic expansion plan. The tiles renovation project will result in the production of 5 Mn sqm of GP tiles while the production is expected to commence from 1Q23. The sanitaryware capacity addition is completed and the production is expected to reach full capacity in 2023 at 260 thousand pieces per year. Machinery for Tableware capacity expansion is scheduled to be delivered by 2Q23 for which, the production is expected to start from 3Q23 with 10 Mn pieces per year. The planned expansion will add to top line going forward. Moreover, the Company plans to incur a capex of AED 300-350 Mn in 2023. RAK Ceramics completed the land acquisition, title ownership, and registration process with NOC and approvals from the local authority for the Greenfield projects in Bangladesh whereas the land mutation certificate is still yet to be received. Furthermore, the company also increased its pricing to offset high energy costs and focuses on diversifying its revenue streams due to currency devaluation. Furthermore, the Company still awaits to receive custom duty exemptions from KSA authorities for imports from the UAE. In addition, the company prioritizes capacity expansion, protecting its market share, and digitization along with transforming KLUDI into a premium faucet brand globally. RAK Ceramics board proposed to pay a dividend of AED 10 fils for the period 2H22 (in addition to AED 10 fils for 1H22). Thus, based on the above-mentioned factors, we assign a BUY rating to the stock.

### RAK Ceramics - Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
PE(X)	15.78	17.53	-22.22	11.69	9.52	9.77
PB(X)	1.15	1.19	1.34	1.29	1.33	1.30
EV/EBITDA	10.21	9.31	12.17	8.14	7.48	7.39
Dividend yield	4.7%	4.9%	2.6%	6.9%	6.9%	6.9%

FABS Estimates & Co Data

**RAK Ceramics - P&L**

	4Q21	3Q22	4Q22	4Q22F	Var.	YOY Ch	QOQ Ch	2021	2022	Change
AED mm										
Revenue	752	906	901	979	-8.0%	19.7%	-0.6%	2,861	3,517	22.9%
Direct costs	-499	-589	-593	-594	-0.1%	18.8%	0.6%	-1,826	-2,247	23.0%
<b>Gross profit</b>	<b>253</b>	<b>317</b>	<b>308</b>	<b>386</b>	<b>-20.3%</b>	<b>21.6%</b>	<b>-2.9%</b>	<b>1,035</b>	<b>1,270</b>	<b>22.8%</b>
Selling & overhead exp.	-189	-230	-255	-249	2.6%	35.2%	11.1%	-743	-942	26.8%
<b>EBITDA</b>	<b>122</b>	<b>146</b>	<b>138</b>	<b>186</b>	<b>-26.0%</b>	<b>12.6%</b>	<b>-5.7%</b>	<b>501</b>	<b>577</b>	<b>15.1%</b>
Dep.& amortization	41	47	48	49	-2.1%	14.9%	1.4%	167	328	96.5%
<b>Operating profit</b>	<b>81</b>	<b>87</b>	<b>52</b>	<b>137</b>	<b>-61.7%</b>	<b>-35.0%</b>	<b>-39.9%</b>	<b>292</b>	<b>328</b>	<b>12.5%</b>
Impairment	-17	-7	-4	0	NM	-75.5%	-38.1%	-33	-53	62.4%
Other income	27	65	41	8	NM	55.9%	-36.6%	89	149	68.0%
Share of associates	4	0	0	0	NM	NM	58.2%	17	6	-62.1%
Loss on monetary position	-1	-1	-1	0	NM	-19.0%	-41.8%	-3	-4	44.9%
Investment & other inc.	-3	2	2	2	-6.3%	NM	-9.3%	11	7	-36.1%
Financial charges	-11	-27	-26	-11	133.2%	133.9%	-3.3%	-78	-93	18.7%
<b>Profit before tax</b>	<b>79</b>	<b>120</b>	<b>66</b>	<b>136</b>	<b>-51.6%</b>	<b>-17.1%</b>	<b>-45.6%</b>	<b>301</b>	<b>372</b>	<b>23.7%</b>
Tax expense	-5	-30	10	-7	NM	NM	NM	-17	-32	89.6%
<b>Profit before minorities</b>	<b>74</b>	<b>90</b>	<b>76</b>	<b>129</b>	<b>-40.9%</b>	<b>3.3%</b>	<b>-15.6%</b>	<b>284</b>	<b>340</b>	<b>19.8%</b>
Minorities	-18	-5	-8	-25	-67.6%	-54.3%	60.9%	-37	-37	-0.4%
<b>Profit to shareholders</b>	<b>56</b>	<b>85</b>	<b>68</b>	<b>104</b>	<b>-34.5%</b>	<b>21.6%</b>	<b>-20.1%</b>	<b>246</b>	<b>303</b>	<b>22.9%</b>

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**RAK Ceramics - Margins**

	4Q21	3Q22	4Q22	YOY Ch	QOQ Ch	2021	2022	Change
Gross profit margin	33.6%	35.0%	34.2%	53	-81	36.2%	36.1%	-5
EBITDA margin	10.7%	9.6%	5.8%	-489	-380	10.2%	9.3%	-87
Operating profit margin	16.2%	16.1%	15.3%	-96	-82	17.5%	16.4%	-111
Net Margin	7.4%	9.4%	7.5%	11	-184	8.6%	8.6%	-1

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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%

**FAB Securities Contacts:**

**Research Analysts**

Ahmad Banihani +971-2-6161629 [ahmad.banihani@Bankfab.com](mailto:ahmad.banihani@Bankfab.com)

**Sales & Execution**

Abu Dhabi Head Office

Trading Desk +971-2-6161700/1 [Online Trading Link](#)  
+971-2-6161777

Institutional Desk +971-4-4245765

Sales and Marketing +971-2-6161703

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