

RAK Ceramics (RAKCEC)

Favourable product mix continued to boost margins

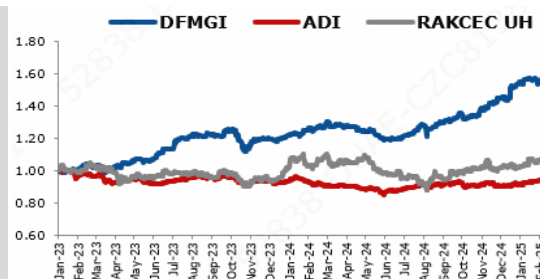
Current Price
AED 2.54

Target Price
AED 3.45

Upside/Downside (%)
+36%

Rating
BUY

- Net debt declined from AED 1.56 Bn in 3Q24 to AED 1.39 Bn in 4Q24, while net debt to EBITDA ratio declined from 2.61x in 3Q24 to 2.35x in 4Q24.
- RAKCEC's working capital declined from AED 1.53 Bn in 3Q24 to AED 1.43 Bn in 4Q24.
- Company's gross margins improved 163 bps YOY to 37.2% in 4Q24 due to a favourable product mix in most of the markets.
- Expect to incur a lower capex of AED 350-400 Mn in 2025.
- RAKCEC board of directors proposed a cash dividend of AED 0.10 per share for 2H24.



4Q24 Net Profit lower than our estimate

RAK Ceramics PJSC (RAKCEC/"The Company") reported a 17.2% YOY decline in net profit to AED 59 Mn in 4Q24, falling short of our estimate of AED 63 Mn. The decline in net profit is primarily due to higher selling and overhead expenses and lower other income coupled with income tax expense partially offset by lower direct cost and decline in impairments and finance cost.

P&L Highlights

RAKCEC's revenue grew marginally 0.5% YOY to AED 871 Mn in 4Q24. Tiles segment revenue grew 4.8% YOY to AED 518 Mn in 4Q24 supported from recovery in Bangladesh, KSA, India and UAE market. Sanitaryware segment revenue declined 4.7% YOY to AED 120 Mn in 4Q24, owing to a decline in revenue in Europe and Bangladesh markets. Furthermore, Tableware revenue fell 7.5% YOY to AED 102 Mn in 4Q24 attributable to slowdown in spending and a decline in new hotel projects owing to geopolitical conflicts. In addition, the supply chain issues along with currency depreciation in Europe and USA impacted the revenues of the segment. The Faucets segment's revenue declined 3.3% YOY to AED 110 Mn in 4Q24, mainly impacted by Asian and European markets owing to the geopolitical tensions. The Company's direct costs fell 2.0% YOY to AED 547 Mn in 4Q24, thereby resulting in 5.1% YOY increase in gross profit to AED 324 Mn. Gross profit margin improved 163 bps YOY to 37.2% in 4Q24. Gross profit margins of the Tiles segment increased 270 bps YOY at 41.6% in 4Q24. Also, the Sanitaryware segment gross profit margin improved 70 bps YOY to 27.9% in 4Q24 due to better cost efficiency and improved product mix. Tableware's margin marginally declined 20 bps YOY to 46.2% in 4Q24 due to product premiumization and change in product mix. Gross profit margin of the Faucets segment grew from 19.8% in 4Q23 to 21.3% in 4Q24. Selling & overhead expenses increased 4.5% YOY to AED 229 Mn in 4Q24.

4Q24 Result Review (AED, mn)

Total Assets	5,252
Total Liabilities	2,921
Total Equity	2,331
EBITDA	158
Net Profit	59

Financial Ratios

Dividend Yield (12m)	7.87
Dividend Pay-out (%)	44.94
Price-Earnings Ratio(x)	11.34
Price-to-Book Ratio (x)	1.13
Book Value (AED)	2.25
Return on Equity (%)	9.89

Stock Performance

5 Days	0.40%
1 Months	0.00%
3 Months	4.96%
6 Months	8.55%
1 Year	-10.56%
Month to Date (MTD%)	-1.55%
Quarter to Date (QTD%)	2.01%
Year to Date (YTD%)	2.01%

The Company's operating profit grew 6.8% YOY to AED 95 Mn in 4Q24. RAK Ceramic's EBITDA fell 4.7% YOY to AED 158 Mn in 4Q24, with a 99 bps YOY decline in EBITDA margin to 18.1%. Impairments declined from AED 15 Mn in 4Q23 to AED 9 Mn in 4Q24. Other income decreased 44.4% YOY to AED 26 Mn in 4Q24. RAKCEC's loss from investments and other sources grew from AED 4 Mn in 4Q23 to AED 5 Mn in 4Q24. Additionally, finance costs grew 13.5% YOY to AED 23 Mn in 4Q24. Tax expenses increased from AED 7 Mn in 4Q23 to AED 18 Mn in 4Q24. Furthermore, the profit attributable to non-controlling interest holders fell from AED 11 Mn in 4Q23 to AED 6 Mn in 4Q24.

Balance Sheet Highlights

RAKCEC's gross debt declined from AED 1.75 Bn in 3Q24 to AED 1.59 Bn in 4Q24. Net debt also declined from AED 1.56 Bn in 3Q24 to AED 1.39 Bn in 4Q24. The net debt to EBITDA ratio declined from 2.61x in 3Q24 to 2.35x in 4Q24. Cash and cash equivalents including bank deposits grew to AED 201 Mn in 4Q24 from AED 181 Mn in 3Q24. The Company's capex grew from AED 35 Mn in 3Q24 to AED 89 Mn in 4Q24 and the Company has guided Capex of AED 350-400 Mn for 2025. RAK Ceramic's net cash flow from operations grew from AED 143 Mn in 3Q24 to AED 249 Mn in 4Q24. RAKCEC's working capital declined from AED 1.53 Bn in 3Q24 to AED 1.43 Bn in 4Q24.

Target Price and Rating

We maintain our BUY rating on RAK Ceramics PJSC with a revised target price of AED 3.45. The Company faced challenges including geopolitical uncertainties, inflationary pressures, and evolving consumer preferences which impacted its performance in 4Q24. However, the Company's gross margins improved 163 bps YOY to 37.2% in 4Q24 due to a favourable product mix in most of the markets. The Company direct cost continued to decline owing to the favourable product mix which further boosted the margins. RAKCEC remains dedicated to enhancing its brand, expanding its retail footprint, and increasing brand visibility through strategic events and market engagements. In the UAE, the Company is undergoing partnerships with leading real estate developers to supply tiles, sanitaryware, and faucets for key projects. In Europe, it continues executing the KLUDI turnaround strategy, including relocating production from the EU to UAE to enhance efficiency. In India, the focus is on expanding its retail footprint to drive revenue growth and improve margins. In Bangladesh, the Company is developing a robust distribution network with an emphasis on high-quality offerings. The Company also plans to undertake similar initiatives in KSA by strengthening its sales team. RAKCEC plans to introduce premium products to support retail and project channels allowing it to maintain its margins. Furthermore, the Company is also working towards establishing a greenfield production facility in KSA. The Company's strategic initiatives are expected to positively impact its top-line growth. In addition, RAKCEC expect Faucets margin to improve in the next year owing to the relocation of the manufacturing footprint. The Company has outlined a capex plan of AED 350-400 Mn for 2025, aimed at supporting its growth initiatives. Furthermore, in line with the dividend policy, RAKCEC board of directors proposed a cash dividend of AED 0.10 per share for 2H24, generating a dividend yield of 7.9% in 2024. Thus, based on the above-mentioned reasons, we maintain our 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	10.4
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	7.4
Dividend yield	3.0%	7.9%	7.9%	7.9%	7.9%	7.9%

FABS Estimates & Co Data

RAK Ceramics – P&L

AED mn	4Q23	3Q24	4Q24	4Q24F	VAR	YOY Ch	QOQ Ch	2023	2024	Change
Revenue	866	803	871	816	6.7%	0.5%	8.5%	3,458	3,232	-6.5%
Direct costs	-558	-472	-547	-487	12.3%	-2.0%	15.9%	-2,149	-1,962	-8.7%
Gross profit	308	331	324	330	-1.7%	5.1%	-2.0%	1,309	1,270	-3.0%
Selling & overhead exp.	-219	-246	-229	-248	-7.5%	4.5%	-6.6%	-930	-921	-1.0%
EBITDA	166	146	158	142	11.5%	-4.7%	8.1%	647	592	-8.5%
D&A charges	50	53	54	48	13.8%	9.4%	1.9%	195	208	6.5%
Operating profit	89	85	95	82	15.5%	6.8%	11.3%	379	349	-7.8%
Impairment	-15	-11	-9	0	NM	-41.6%	-20.4%	-37	-33	-11.1%
Other income	47	22	26	18	45.5%	-44.4%	21.1%	119	84	-28.9%
Investment & other inc.	-4	5	-5	4	NM	44.6%	NM	7	9	NM
Financial charges	-26	-37	-23	-31	-26.6%	-13.5%	-37.8%	-119	-126	5.9%
Profit before tax	88	61	82	72	14.2%	-7.1%	34.9%	345	277	-19.9%
Tax expense	-7	-5	-18	-7	NM	NM	MN	-25	-43	72.9%
Profit before minorities	82	56	64	65	-0.6%	-21.5%	14.8%	321	234	-27.0%
Minorities	11	1	6	2	NM	-49.1%	NM	30	13	-56.6%
Profit to shareholders	71	54	59	63	-6.4%	-17.2%	7.8%	291	221	-24.0%

FABS estimate & Co Data

RAK Ceramics - Margins

	4Q23	3Q24	4Q24	YOY Ch	QOQ Ch	2023	2024	Change
Gross margin	35.6%	41.2%	37.2%	163	-400	37.9%	39.3%	143
Operating margin	10.3%	10.6%	10.9%	64	27	11.0%	10.8%	-15
EBITDA margin	19.1%	18.2%	18.1%	-99	-7	18.7%	18.3%	-40
Net profit margin	8.2%	6.8%	6.7%	-145	-5	8.4%	6.8%	-157

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	3.44	70.0%	2.41
Relative Valuation (RV)	3.48	30.0%	1.04
Weighted Average Valuation (AED)			3.45
Current market price (AED)			2.54
Upside/Downside (%)			+36%

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 7.4%. It is arrived after using cost of equity of 8.8% and after-tax cost of debt of 4.4% with a debt-to-equity ratio of 63.6%. Cost of equity is calculated by using 10-year government bond yield of 5.3%, beta of 0.95 and equity risk premium of 3.7%. Government bond yield is calculated after adding Abu Dhabi 10-year spread over 10-year US risk-free rate. Cost of debt of 4.4% is calculated after adjusting a tax rate of 15.4%. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	983
Terminal value (AED, Mn)	4,051
FV to Common shareholders (AED, Mn)	3,422
No. of share (Mn)	994
Current Market Price (AED)	2.54
Fair Value per share (AED)	3.44

DCF Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
NOPAT	303	308	328	357	396
D&A	214	230	244	249	269
Change in working capital	47	-37	-50	-18	-140
(-) Capex	-369	-282	-295	-310	-223
Free Cash Flow to Firm (FCFF)	195	219	226	278	302
Discounting Factor	0.94	0.88	0.81	0.76	0.71
Discounted FCFF	183	192	184	211	213

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 13.7x.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2025F	2026F	2025F	2026F
Somany Ceramics Limited	210	9.8	7.9	25.4	15.2
Kajaria Ceramic Tiles	1,607	21.0	17.2	37.6	28.4
Dynasty Ceramic	401	7.4	7.0	11.4	10.2
Cera Sanitaryware Limited	887	25.7	21.3	34.5	29.5
Bawan Company	881	14.7	13.9	26.2	22.9
Brickworks Limited	2,493	12.6	11.6	19.8	15.5
Average		15.2x	13.1x	25.8x	20.3x
Median		13.7x	12.7x	25.8x	19.2x
Max		19.4x	16.4x	32.4x	27.0x
Min		10.5x	8.8x	21.2x	15.3x

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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