

## RAK Ceramics (RAKCEC)

Earnings growth driven by margin recovery

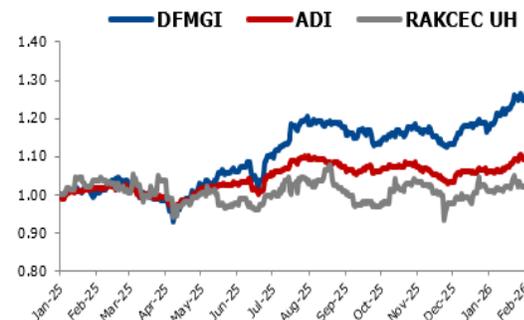
**Current Price**  
AED 2.61

**Target Price**  
AED 3.45

**Upside/Downside (%)**  
+32%

**Rating**  
BUY

- Strong UAE performance supported topline, but weak performance in KSA, Europe and India led to mixed results in 4Q25.
- Tableware segment revenue rose 6.6% YOY to AED 109 Mn in 4Q25, fuelled by growth in the UAE, Europe, and African markets, supported by sales to the airline sector and high-end hospitality projects.
- KSA region, steady progress is being made on the greenfield production facility in Yanbu, with completion expected by 1Q27.
- Capex guidance for 2026 is AED 500 Mn, including AED 150 Mn for the KSA greenfield project, with the total estimated Capex for the KSA project (excluding working capital) at AED 250 Mn.
- Proposed an annual cash dividend of 10 fils per share (AED 99.4 Mn) for 2H25.



### Stock Information

Market Cap (AED, mn)	2,593.57
Paid Up Capital (mn)	993.70
52 Week High	2.69
52 Week Low	2.30
3M Avg. daily value (AED)	1,428,259

### 4Q25 Result Review (AED, Mn)

Total Assets	5,313
Total Liabilities	2,984
Total Equity	2,330
EBITDA	160
Net Profit	65

### Financial Ratios

Dividend Yield (12m)	7.58
Dividend Pay-out (%)	81.55
Price-Earnings Ratio(x)	10.46
Price-to-Book Ratio (x)	1.20
Book Value (AED)	2.19
Return on Equity (%)	10.90

### Stock Performance

5 Days	0.38%
1 Months	2.76%
3 Months	3.98%
6 Months	-1.51%
1 Year	3.16%
Month to Date (MTD%)	2.76%
Quarter to Date (QTD%)	3.98%
Year to Date (YTD%)	3.98%

### 4Q25 Net Profit slightly lower than our estimate

RAK Ceramics PJSC (RAKCEC/"The Company") net profit attributable to equity shareholders increased 10.6% YOY to AED 65 Mn in 4Q25, slightly lower than our estimate of AED 68 Mn. The growth in net profit is primarily supported by a decline in direct costs, impairment charges on trade receivable, financial charges and a lower share of profit attributable to minority shareholders, coupled with higher other income, partially offset by lower revenue, higher selling & overhead exp., D&A, loss in investment & other income and higher tax expense.

### P&L Highlights

RAKCEC's revenue decreased 1.7% YOY to AED 856 Mn in 4Q25, as a result of weak performance from the Tiles and Sanitaryware segment, partially offset by higher revenue from Tableware, Faucet and Others. Tiles segment revenue decreased 4.9% YOY to AED 493 Mn in 4Q25, led by weak performance in the KSA, Middle East, India, and Europe markets. Sanitaryware revenue segment declined 3.9% YOY to AED 116 Mn in 4Q25, due to weak demand across all markets except the UAE and America market. Tableware segment revenue rose 6.6% YOY to AED 109 Mn in 4Q25, fuelled by growth in the UAE, Europe, and African markets, supported by sales to the airline sector and high-end hospitality projects. The revenue from the others segment increased 24.8% YOY to AED 26 Mn in 4Q25, due to a rise in revenue from the Ceramic Trading Business. Faucet's segment increased 3.1% YOY to AED 113 Mn in 4Q25, mainly due to improved performance in KSA, Europe, Asia, and Africa. The Company's direct cost decreased 4.6% YOY to AED 522 Mn in 4Q25, thereby gross profit increased 3.3% YOY to AED 335 Mn in 4Q25, whereas gross profit margin expanded 187 bps to 39.1% in 4Q25, primarily due to favorable geographical sales mix, significant improvement in Tableware margins, coupled with operational efficiency in the Sanitaryware and Faucet Segment. Gross

profit margin of the Tiles Segment contracted 180 bps YOY to 39.8% in 4Q25, impacted by pricing pressure in the India and Bangladesh markets amid intensifying competition. Sanitaryware segment gross profit margin improved 320 bps YOY to 31.1% in 4Q25, primarily due to operational efficiencies, favourable geographical sales mix. Tableware gross profit margin expanded 820 bps YOY to 54.4% in 4Q25, supported by higher sales to the airline industry and premium hospitality projects. Additionally, Faucet's gross margin expanded 270 bps YOY to 24.1% in 4Q25, attributed to enhanced operational efficiencies at the UAE plant. Opex increased 10.3% YOY to AED 253 Mn in 4Q25 due to higher staff cost, partially offset by lower cost incurred on freight & transportation. RAKCEC's EBITDA rose marginally 1.0% YOY to AED 160 Mn in 4Q25, with an EBITDA margin of 18.6% in 4Q25 compared to 18.1% in 4Q24. D&A expenses increased 2.9% YOY to AED 56 Mn in 4Q25. The Company's operating profit decreased 13.6% YOY to AED 82 Mn in 4Q25, with a decline in operating profit margin by 133 bps YOY to 9.6% in 4Q25. Impairment charges fell from AED 9 Mn in 4Q24 to AED 5 Mn in 4Q25. Other income rose substantially from AED 26 Mn in 4Q24 to AED 44 Mn in 4Q25, due to provision write-back, reversal of impairment on land and higher gain on disposal of investment properties & PP&E, partially offset by lower discount earned on purchases & freight, lower rental income from investment properties and other miscellaneous income. Loss from investment & other income increased 2.8% YOY to AED 6 Mn in 4Q25. Financial charges declined 12.8% YOY to AED 20 Mn in 4Q25. Additionally, tax expenses increased significantly from AED 18 Mn in 4Q24 to AED 28 Mn in 4Q25 due to higher corporate taxes paid in UAE. Furthermore, the profit attributable to non-controlling interest holders decreased from AED 6 Mn in 4Q24 to AED 1 Mn in 4Q25.

### Balance Sheet Highlights

RAKCEC's gross debt declined from AED 1.8 Bn in 3Q25 to AED 1.7 Bn in 4Q25, due to a decline in working capital. The Company's working capital decreased from AED 1.49 Bn in 3Q25 to AED 1.40 Bn in 4Q25, primarily due to higher trade payables days and other payable days due to increase in provisions, partially offset by slightly higher receivable and inventory days. The Company incurred CAPEX of AED 274 Mn during 2025, of which c. AED 134 Mn was allocated to upgrading its large-format tile manufacturing plants. The net debt to EBITDA ratio decreased from 2.63x in 3Q25 to 2.40x in 4Q25.

### Target Price and Rating

We maintain our BUY rating on RAK Ceramics PJSC with a target price of AED 3.45. The Company reported strong net profit growth in 4Q25, which was primarily driven by the UAE markets, mainly attributed to robust real estate and construction activity, while Bangladesh remained stable with expected improvement in 2026, along with positive contributions from Africa and the Americas. Conversely, several markets faced pressure, with Saudi Arabia declining due to oversupply and intense competition, Europe amid economic weakness in the UK, Italy, and Germany, and India facing pressure due to a cyclical slowdown. The UAE business recorded a strong 17.0% YOY revenue growth in 4Q25 in the Tiles and Sanitaryware segment. The Tiles Division is being upgraded with advanced technology to produce differentiated large-format tiles for high-end markets, while the Sanitaryware facility is being modernized with energy-efficient systems to reduce carbon emissions. A full-scale program is also underway to optimize supply flows, enhance on-time delivery, and improve inventory turnover. In the KSA region, steady progress is being made on the greenfield production facility in Yanbu, with completion expected by 1Q27. The company is also focusing on premium and differentiated products to strengthen its retail and project channels, supporting margin enhancement. In Europe, the company is prioritizing operational cost optimization to strengthen margins and efficiency. This includes enhancing Kludi's performance and moving key EU production, specifically metal manufacturing, to the UAE, while keeping R&D, engineering, and plastic production in Germany. In India, the company is expanding retail coverage, enhancing in-store experiences, adding new dealers, and implementing initiatives to recover market share and improve operational efficiency for sustainable profitability. Current capacity utilization stands at 65–70% for Tiles, c. 60% for Sanitaryware, and c. 80% for Tableware, with ceramic capacity being upgraded to produce large format tiles to enhance margins. The Company is taking steps to reduce the 183-day cash conversion cycle by appointing a dedicated working capital specialist, automating production planning (produce-to-order vs. produce-to-stock), reviewing product lifecycles, and aiming for noticeable improvements by the end of 2026. Regarding a potential Europe–India trade agreement, the Company sees no significant risk, emphasizing RAK Ceramics product differentiation, premium positioning, and minimal direct competition with Indian or Chinese manufacturers. UAE real estate growth is expected to boost demand for tiles and sanitaryware across residential, hospitality, and commercial projects, supporting order inflows and capacity utilization. Additionally,

the expansion of the White Land Tax in Saudi Arabia is expected to accelerate real estate development by discouraging land hoarding, supporting construction activity and boosting building materials demand, thereby benefiting RAK Ceramics KSA's business. The Capex guidance for 2026 is AED 500 Mn, including AED 150 Mn for the KSA greenfield project, with the total estimated Capex for the KSA project (excluding working capital) at AED 250 Mn. In line with RAK Ceramics dividend policy, it proposed a cash dividend of 10 fils per share (AED 99.4 Mn) for 2H25. The Company approved a dividend framework for 2025–2027, under which RAK Ceramics aims to return capital to shareholders through a sustainable policy, targeting a minimum payout of 20 fils per share paid on a semi-annual basis for 2025, considering factors such as business outlook, growth capital needs, expansion plans, leverage, cash reserves, and regulatory approvals. The company further commits to a minimum total dividend of 60 fils per share over 2025–2027. Thus, we maintain a BUY rating on the stock.

#### RAK Ceramics - Relative valuation

(at CMP)	2021	2022	2023	2024	2025	2026F
PE (x)	10.6	8.7	9.0	11.9	10.8	12.4
PB (x)	1.2	1.2	1.2	1.2	1.2	1.2
EV/EBITDA	7.6	7.0	6.5	6.9	6.7	7.0
BVPS	2.246	2.178	2.248	2.250	2.259	2.271
EPS	0.248	0.305	0.293	0.222	0.245	0.213
DPS	0.200	0.200	0.200	0.200	0.200	0.200
Dividend yield	7.6%	7.6%	7.6%	7.6%	7.6%	7.6%

FABS Estimates & Co Data

#### RAK Ceramics – P&L

AED mn	4Q24	3Q25	4Q25	4Q25F	Var.	YOY Ch	QOQ Ch	2024	2025	Change
Revenue	871	825	856	892	-4.0%	-1.7%	3.8%	3,232	3,285	1.6%
Direct costs	-547	-491	-522	-531	-1.8%	-4.6%	6.3%	-1,962	-1,972	0.5%
<b>Gross profit</b>	<b>324</b>	<b>334</b>	<b>335</b>	<b>361</b>	<b>-7.2%</b>	<b>3.3%</b>	<b>0.2%</b>	<b>1,270</b>	<b>1,313</b>	<b>3.4%</b>
Selling & overhead exp.	-229	-242	-253	-250	1.1%	10.3%	4.3%	-921	-976	6.0%
<b>EBITDA</b>	<b>158</b>	<b>168</b>	<b>160</b>	<b>189</b>	<b>-15.4%</b>	<b>1.0%</b>	<b>-4.8%</b>	<b>592</b>	<b>624</b>	<b>5.3%</b>
D&A charges	54	58	56	50	11.9%	2.9%	-4.1%	208	220	5.7%
<b>Operating profit</b>	<b>95</b>	<b>92</b>	<b>82</b>	<b>111</b>	<b>-26.0%</b>	<b>-13.6%</b>	<b>-10.5%</b>	<b>349</b>	<b>337</b>	<b>-3.4%</b>
Impairment	-9	-5	-5	-7	-21.1%	-40.0%	10.0%	-33	-25	-23.0%
Other income	26	24	44	23	89.0%	69.2%	84.7%	84	120	42.6%
Investment & other inc.	-5	6	-6	-1	NM	2.8%	-196.6%	9	8	-9.4%
Financial charges	-23	-29	-20	-29	-30.8%	-12.8%	-30.4%	-126	-106	-15.9%
<b>Profit before tax</b>	<b>82</b>	<b>87</b>	<b>94</b>	<b>98</b>	<b>-3.9%</b>	<b>14.5%</b>	<b>8.5%</b>	<b>277</b>	<b>332</b>	<b>19.9%</b>
Tax expense	-18	-19	-28	-22	27.6%	58.1%	47.5%	-43	-83	95.7%
<b>Profit before minorities</b>	<b>64</b>	<b>68</b>	<b>66</b>	<b>76</b>	<b>-13.1%</b>	<b>2.4%</b>	<b>-2.5%</b>	<b>234</b>	<b>249</b>	<b>6.2%</b>
Minorities	6	1	1	8	-89.4%	-85.0%	33.8%	13	5	-63.0%
<b>Profit to shareholders</b>	<b>59</b>	<b>67</b>	<b>65</b>	<b>68</b>	<b>-4.4%</b>	<b>10.6%</b>	<b>-2.9%</b>	<b>221</b>	<b>244</b>	<b>10.2%</b>

FABS estimate & Co Data

#### RAK Ceramics - Margins

	4Q24	3Q25	4Q25	YOY Ch	QOQ Ch	2024	2025	Change
Gross margin	37.2%	40.5%	39.1%	187	-140	39.3%	40.0%	68
Operating margin	10.9%	11.1%	9.6%	-133	-153	10.8%	10.3%	-54
EBITDA margin	18.1%	20.3%	18.6%	49	-169	18.3%	19.0%	66
Net profit margin	6.7%	8.1%	7.6%	84	-52	6.8%	7.4%	58

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	3.54	70.0%	2.47
Relative Valuation (RV)	3.26	30.0%	0.98
<b>Weighted Average Valuation (AED)</b>			<b>3.45</b>
Current market price (AED)			2.61
Upside/Downside (%)			+32%

### 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 8.0%. It's arrived after using a cost of equity of 9.3% and after-tax cost of debt of 4.8% with a debt-to-equity ratio of 64.3%. Cost of equity is calculated by using a 10-year government bond yield of 4.9%, a beta of 0.95 and an equity risk premium of 4.6%. 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)	1,077
Terminal value (AED, Mn)	4,131
Net debt & NCI (as of Dec 2025) (AED, Mn)	-1,694
<b>FV to Common shareholders (AED, Mn)</b>	<b>3,513</b>
No. of shares (Mn)	994
Current Market Price (AED)	2.61
<b>Fair Value per share (AED)</b>	<b>3.54</b>

### DCF Method

(All Figures in AED Mn)	FY 2026E	FY 2027E	FY 2028E	FY 2029E	FY 2030E
NOPAT	303	316	328	338	349
D&A	222	243	255	258	274
Change in working capital	57	-59	-60	-61	-62
(-) Capex	-500	-204	-205	-205	-205
<b>Free Cash Flow to Firm (FCFF)</b>	<b>82</b>	<b>295</b>	<b>318</b>	<b>331</b>	<b>356</b>
Discounting Factor	0.93	0.87	0.80	0.74	0.69
<b>Discounted FCFF</b>	<b>77</b>	<b>256</b>	<b>255</b>	<b>245</b>	<b>245</b>

Source: FAB Securities

## 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 (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2026F	2027F	2026F	2027F
Somany Ceramics Limited	187	8.4	7.2	22.9	16.6
Kajaria Ceramic Tiles	1,678	18.3	17.0	30.5	27.2
Dynasty Ceramic	362	7.4	7.0	12.4	11.3
Cera Sanitaryware Limited	744	22.9	18.7	30.9	26.3
Bawan Company	748	NA	NA	NA	NA
Brickworks Limited	3,358	14.9	13.7	21.9	19.9
<b>Average</b>		<b>14.4x</b>	<b>12.7x</b>	<b>23.7x</b>	<b>20.3x</b>
<b>Median</b>		<b>14.9x</b>	<b>13.7x</b>	<b>22.9x</b>	<b>19.9x</b>
<b>Max</b>		<b>18.3x</b>	<b>17.0x</b>	<b>30.5x</b>	<b>26.3x</b>
<b>Min</b>		<b>8.4x</b>	<b>7.2x</b>	<b>21.9x</b>	<b>16.6x</b>

Source: FAB Securities

