First Look Note | 2Q26

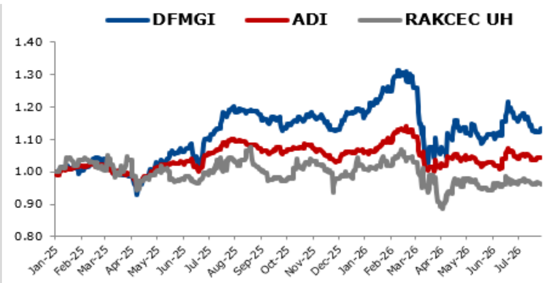
UAE Equity Research | Sector: Industrial | Market: ADX

RAK Ceramics (RAKCEC)

Regional Demand Offsets Export Market Weakness

Current Price	Target Price	Upside/Downside (%)	Rating
AED 2.45	AED 3.45	+41%	BUY

- Incurred CAPEX of AED 100.1 Mn during 1H26, of which c. AED 19.0 Mn was allocated to upgrading its large-format tiles.
- Net debt-to-EBITDA ratio improving to 2.48x in 2Q26 from 2.53x in 1Q26.
- Factory utilisation stood at around 60% of installed capacity, increasing to nearly 80% after adjusting for the production of large-format premium products, reflecting its strategic shift towards higher-value products.
- Construction of the Yanbu greenfield manufacturing facility remains on track for completion in 2Q27, with no material cost escalation.



Stock Information	
Market Cap (AED, mn)	2,434.57
Paid Up Capital (mn)	993.70
52 Week High	2.69
52 Week Low	2.19
3M Avg. daily value (AED)	544,232

2Q26 Result Review (AED, Mn)	
Total Assets	5,404
Total Liabilities	3,051
Total Equity	2,353
EBITDA	158
Net Profit	66

Financial Ratios	
Dividend Yield (12m)	8.16
Dividend Pay-out (%)	81.55
Price-Earnings Ratio(x)	10.26
Price-to-Book Ratio (x)	1.07
Book Value (AED)	2.28
Return on Equity (%)	10.47

Stock Performance	
5 Days	1.66%
1 Months	1.24%
3 Months	2.51%
6 Months	-7.20%
1 Year	-5.77%
Month to Date (MTD%)	0.82%
Quarter to Date (QTD%)	2.51%
Year to Date (YTD%)	-2.39%

2Q26 Net Profit higher than our estimate

RAK Ceramics PJSC (RAKCEC/"The Company")'s net profit attributable to equity shareholders increased marginally by 1.1% YOY to AED 66 Mn in 2Q26, higher than our estimate of AED 24 Mn. The growth in net profit is primarily supported by decrease in cost of sales, selling & overhead expenses coupled with higher other operating income, partially offset by decrease in revenue, higher G&A expenses, impairment loss on financial assets and higher share of NCI.

P&L Highlights

RAKCEC's revenue decreased marginally by 0.5% YOY to AED 823 Mn in 2Q26, primarily due to weaker performance in the Tableware and Sanitaryware segment, partially offset by higher revenue from Tiles and Faucet & Others business segment. Tiles segment revenue increased 1.7% YOY to AED 483 Mn in 2Q26, supported by strong growth in the UAE, KSA, and Bangladesh markets. Sanitaryware revenue segment declined 6.9% YOY to AED 113 Mn in 2Q26, owing to weaker demand across its key markets (India, Europe and other export markets). Tableware segment revenue declined by 13.3% YOY to AED 74 Mn in 2Q26, due to ongoing regional conflicts and weaker hospitality sector demand in regional markets amid lower tourism in the UAE and rest of GCC markets. Revenue from the Faucets & Others segment increased 5.1% YOY to AED 154 Mn in 2Q26, due to rising demand in all markets except Asia and Africa region. The Company's direct cost decreased 1.2% YOY to AED 485 Mn in 2Q26; thereby, gross profit increased marginally by 0.5% YOY to AED 338 Mn in 2Q26. Gross profit margin improved to 41.0% in 2Q26 from 40.6% in 2Q25, supported by improved operating efficiencies and a favourable sales mix despite continued regional conflicts and supply chain disruptions. The Company's operating profit increased by 2.3% YOY to AED 106 Mn in 2Q26, with the operating profit margin improving from 12.5% in 2Q25 to 12.9% in 2Q26. Profit before financing and income tax decreased 2.1% YOY to AED 111 Mn in 2Q26. Finance costs decreased 5.6% YOY to AED 25 Mn in 2Q26. Tax expenses fell by 14.2% YOY to AED 17 Mn in 2Q26. Profit attributable to non-controlling interests increased from AED 1 Mn in 2Q25 to AED 2 Mn in 2Q26.

Balance Sheet Highlights

RAKCEC's gross debt declined from AED 1.9 Bn in 1Q26 to AED 1.8 Bn in 2Q26. The Company's working capital increased by AED 29 Mn to AED 1.43 Bn in 2Q26 from 1Q26, primarily due to higher trade receivables on account of stronger sales and lower trade payable days, partially offset by lower inventory days and higher other payable days following an increase in provisions. The Company incurred CAPEX of AED 100.1 Mn during 1H26, of which c. AED 19.0 Mn was allocated to upgrading its large-format tiles. The net debt to EBITDA ratio decreased from 2.53x in 1Q26 to 2.48x in 2Q26.

Target Price and Rating

We maintain our BUY rating on RAK Ceramics PJSC with a target price of AED 3.45. The Company delivered a resilient performance in 2Q26 despite ongoing regional conflicts, export restrictions and supply chain disruptions, supported by robust demand across the UAE, Saudi Arabia and Bangladesh. The UAE remained the strongest-performing market, driven by healthy project execution, resilient retail demand and import disruptions, enabling the Company to gain market share through reliable product availability and uninterrupted customer deliveries. Saudi Arabia also reported healthy growth, supported by the Project and Wholesale channels following its strategic shift towards higher-margin sales, while Bangladesh continued to benefit from improving domestic demand. Conversely, Europe and India remained under pressure due to elevated freight costs, supply chain disruptions, currency headwinds and weaker macroeconomic conditions. The Company's crisis management initiatives, including the use of alternative shipping routes through Jeddah, Oman and Khor Fakkan, locally sourced raw materials, inventory buffers and disciplined cost control, helped ensure business continuity. Despite absorbing part of the higher logistics costs rather than increasing selling prices, the Company expanded gross margins through an improved product mix, higher contribution from direct project sales and operational efficiencies. The Company also continued its strategic focus on value creation by prioritising premium and differentiated products over volume growth, supporting sustainable margin expansion across its key businesses. The Company indicated that factory utilisation stood at around 60% of installed capacity, increasing to nearly 80% after adjusting for the production of large-format premium products, reflecting its strategic shift towards higher-value products. The ongoing upgrade of its large-format Tiles manufacturing facilities and modernisation of the Sanitaryware plants are expected to strengthen the Company's presence in the premium segment while supporting higher average selling prices and profitability. Construction of the Yanbu greenfield manufacturing facility remains on track for completion in 2Q27, with no material cost escalation, while the Company expects to continue gaining market share across the UAE, Saudi Arabia and the wider GCC, as import disruptions continue to create opportunities for regional manufacturers with integrated production capabilities and reliable supply chains, supported by its regional manufacturing footprint, premium product portfolio, strong brand positioning and operational flexibility. The Company incurred capital expenditure of AED 100.1 Mn during 1H26, while maintaining its FY2026 capex guidance of AED 250–300 Mn, including AED 100–125 Mn for the KSA greenfield project. The Company's balance sheet also continued to strengthen, with the net debt-to-EBITDA ratio improving to 2.48x in 2Q26 from 2.53x in 1Q26. The Company also reaffirmed its commitment to its 2025–2027 dividend framework, targeting a minimum annual dividend of 20 fils per share and a minimum cumulative dividend of 60 fils per share over the three-year period. Further, the Board approved the cash dividends distribution of 10 fils per share for 1H26. Thus, we maintain our BUY rating on the stock.

FAB SECURITIES أبوظبي الأول للأوراق المالية

RAK Ceramics - Relative valuation

(at CMP)	2021	2022	2023	2024	2025	2026F
PE (x)	10.56	9.36	9.15	11.58	11.15	14.49
PB (x)	1.09	1.12	1.09	1.08	1.08	1.10
EV/EBITDA	7.23	6.68	6.14	6.60	6.42	7.81
BVPS	2.246	2.178	2.248	2.250	2.259	2.227
EPS	0.231	0.261	0.267	0.211	0.219	0.168
DPS	0.200	0.200	0.200	0.200	0.200	0.200
Dividend yield	8.2%	8.2%	8.2%	8.2%	8.2%	8.2%

FABS Estimates & Co Data

RAK Ceramics – P&L

AED Mn	2Q25	1Q26	2Q26	2Q26F	Var	YOY Ch	QOQ Ch	2025	2026F	Change
Revenue	827	761	823	756	8.9%	-0.5%	8.2%	3,285	3,141	-4.4%
Cost of Sales	-491	-461	-485	-465	4.3%	-1.2%	5.2%	-1,972	-1,875	-4.9%
Gross profit	**336**	**299**	**338**	**291**	16.1%	**0.5%**	**12.8%**	**1,313**	**1,266**	**-3.6%**
Adm. & general expenses	-58	-61	-66	-60	9.2%	13.4%	7.6%	-262	-283	8.0%
Selling & overhead exp.	-183	-169	-175	-163	7.9%	-4.1%	3.7%	-714	-680	-4.8%
Impairt. loss on fin. assets	-5	-4	-7	-8	-11.4%	31.9%	68.0%	-25	-22	-12.5%
Loss on net monetary position	0	-1	0	0	NM	NM	-88.0%	0	-1	NM
Net foreign exchange gain	2	0	1	0	NM	NM	NM	0	1	NM
Net foreign exchange loss	0	-5	0	0	NM	NM	NM	0	-5	NM
Net chg. in FV of derivatives	-3	4	-2	0	NM	NM	NM	0	3	NM
Other operating income	14	4	17	9	90.8%	20.3%	NM	57	31	-45.1%
Depr. and amortisation	54	54	54	44	22.8%	0.0%	-0.6%	181	209	15.6%
Operating profit	**104**	**68**	**106**	**69**	**53.0%**	**2.3%**	**56.3%**	**369**	**311**	**-15.8%**
EBITDA	**161**	**127**	**158**	**113**	**39.2%**	**-2.1%**	**23.7%**	**624**	**520**	**-16.7%**
Share of profit/(loss) in equity accounted investees	0	0	0	0	NM	-52.5%	-77.3%	1	0	-36.3%
Inc. from invt. properties	11	11	10	12	-13.0%	-7.1%	-5.9%	45	45	1.4%
Finance Income	2	1	1	0	97.4%	NM	33.1%	3	3	-6.1%
Op. and maintenance exps. of invest. Properties	-2	-1	-3	0	NM	NM	NM	0	-7	NM
Depr. on investment properties	-3	-3	-3	-15	-81.5%	-9.7%	0.6%	-12	-15	26.1%
Gain on sale of invt. properties	1	1	0	0	NM	NM	NM	6	1	-79.1%
Profit before financing and income tax	**114**	**77**	**111**	**66**	**68.3%**	**-2.1%**	**44.4%**	**412**	**339**	**-17.8%**
Finance Cost	-27	-24	-25	-27	-7.5%	-5.6%	5.9%	-106	-103	-3.0%
Profit before income tax	**87**	**53**	**86**	**39**	**NM**	**-1.1%**	**61.8%**	**306**	**236**	**-22.9%**
Tax expense	-20	-15	-17	-13	34.4%	-14.2%	18.1%	-83	-61	-26.5%
Profit before minorities	**66**	**38**	**68**	**26**	**NM**	**2.9%**	**78.8%**	**222**	**174**	**-21.6%**
Minorities	1	2	2	1	54.8%	NM	-13.7%	5	7	47.0%
Profit to Shareholders	**66**	**36**	**66**	**24**	**NM**	**1.1%**	**84.7%**	**217**	**167**	**-23.1%**

FABS estimate & Co Data

RAK Ceramics - Margins

	2Q25	1Q26	2Q26	YOY Ch	QOQ Ch	2025	2026F	Change
Gross margin	40.6%	39.4%	41.0%	41	169	40.0%	40.3%	34
Operating margin	12.5%	8.9%	12.9%	35	397	11.2%	9.9%	-134
EBITDA margin	19.4%	16.7%	19.1%	-31	241	19.0%	16.5%	-244
Net profit margin	7.9%	4.7%	8.1%	13	334	6.6%	5.3%	-130

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	3.35	70.0%	2.35
Relative Valuation (RV)	3.67	30.0%	1.10
Weighted Average Valuation (AED)			**3.45**
Current market price (AED)			2.45
Upside/Downside (%)			+41%

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 7.7%. It's arrived after using a cost of equity of 9.3% and after-tax cost of debt of 4.4% with a debt-to-equity ratio of 42.0%. Cost of equity is calculated by using a 10-year government bond yield of 5.2%, a beta of 0.95 and an equity risk premium of 4.4%. 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 4.4% 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)	965
Terminal value (AED, Mn)	3,911
Firm Value (AED, Mn)	**3,947**
Net debt (as of Jun 2026) (AED, Mn)	-1,659
Fair Value of Invt. Property (as of Jun 2026) (AED, Mn)	1,127
NCI (as of Jun 2026) (AED, Mn)	-84
FV to Common shareholders (AED, Mn)	**3,330**
No. of share (Mn)	994
Current Market Price (AED)	2.45
Fair Value per share (AED)	**3.35**

DCF Method

(All Figures in AED Mn)	FY 2026E	FY 2027E	FY 2028E	FY 2029E	FY 2030E
NOPAT	230	270	280	288	294
D&A	209	208	214	219	223
Change in working capital	56	-108	-93	-80	-66
(-) Capex	-276	-201	-200	-201	-203
Free Cash Flow to Firm (FCFF)	**218**	**169**	**201**	**226**	**248**
Discounting Factor	*0.97*	*0.90*	*0.84*	*0.78*	*0.72*
Discounted FCFF	**106[1]**	**153**	**169**	**176**	**179**

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 (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2026F	2027F	2026F	2027F
Somany Ceramics Limited	216	9.0	7.7	25.0	17.9
Kajaria Ceramic Tiles	1,984	23.5	18.1	39.1	29.7
Dynasty Ceramic	410	7.8	7.4	12.4	11.5
Cera Sanitaryware Limited	818	24.8	22.4	33.4	31.3
Brickworks Limited	3,358	14.9	13.7	21.9	19.9
Average		**16.0x**	**13.9x**	**26.4x**	**22.0x**
Median		**14.9x**	**13.7x**	**25.0x**	**19.9x**
Max		**23.5x**	**18.1x**	**33.4x**	**29.7x**
Min		**9.0x**	**7.7x**	**21.9x**	**17.9x**

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%

FAB Securities Contacts:

Research Analyst

Ahmad Banihani	+971-2-6161629	Ahmad.Banihani@Bankfab.com
Shahrukh Nawaz	+971-2 -6161612	Shahrukh.Nawaz@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	