

## RAK Ceramics

Strong top line growth weighed by higher input prices

### 3Q22 Net Profit in line with our estimate

Rak Ceramics PJSC (RAKCEC/"The Company") reported a 61.2% YOY growth in net profit to AED 85 Mn in 3Q22, up from AED 53 Mn in 3Q21, in line with our estimate of AED 88 Mn. This increase in net profit was mainly attributable to strong growth in revenue and a one-time gain on land sales partially offset by an increase in input prices and additional tax expenses.

### P&L highlights

RAK Ceramics' net revenue rose 32.4% YOY to AED 906 Mn in 3Q22 driven by growth across all segments including consolidation of the Kuldi Group faucet business somewhat offset by currency devaluation and challenging macroeconomic conditions in Europe and India. Adjusted revenue excluding faucet business grew 15.2% YOY to AED 788.6 Mn in 3Q22. Revenue from tiles rose 12.2% YOY to AED 527 Mn in 3Q22 owing to an increase in volume and price. Sanitaryware revenue marginally declined 2.7% YOY in 3Q22 due to unfavourable economic conditions in European markets. Tableware revenue rose 33.5% YOY to AED 90.3 Mn in 3Q22 due to rebound in activity post-pandemic and the launch of differentiated products. Faucets segment recorded a revenue of AED 117.8 Mn in 3Q22 including AED 111.6 Mn from the consolidation of KLUDI Group. Direct cost rose 39.3% YOY to AED 589 Mn in 3Q22 higher than revenue growth mainly due to an increase in input price, supply chain challenges, consolidation of Kuldi Group, and disruption in Bangladesh operations. Thus, gross profit rose 21.2% YOY to AED 317 Mn in 3Q22 with a gross margin of 35.0% in 3Q22 lowest since 1Q22. On the other hand, operating expenses rose 21.4% YOY to AED 230 Mn in 3Q22 mainly due to a hike in staff cost, transport cost, promotional expenses, and courier & other expenses. As a result, Operating profit rose 6.2% YOY to AED 87 Mn in 3Q22. Depreciation and amortization expenses stood at AED 47 Mn in 3Q22 leading to an 18.3% YOY growth in EBITDA to AED 146 Mn in 3Q22. EBITDA margin declined 191 bps YOY to 16.1% in 3Q22. Impairment expenses amounted to AED 6.6 Mn in 3Q22 compared to AED 5.1 Mn in 3Q21. Other income rose from AED 14 Mn in 3Q21 to AED 65 Mn in 3Q22 mainly due to a one-time gain on land sale of AED 42.2 Mn and an increase in discount earned on purchases and freight. Finance expenses rose 36.3% YOY to AED 26.5 Mn in 3Q22 primarily due to an increase in interest on bank financing and profit expense on Islamic bank financing. Thus, profit before tax grew from AED 67.1 Mn in 3Q21 to AED 120.5 Mn in 3Q22. Tax expenses rose from AED 4 Mn in 3Q21 to AED 30 Mn in 3Q22 due to growth in profitability. Share of profit attributable to non-controlling interest holders declined from AED 11 Mn in 3Q21 to AED 5 Mn in 3Q22.

### Balance Sheet highlights

RAK Ceramics' total debt declined marginally from AED 1,877 Mn in 2Q22 to AED 1,872 Mn in 3Q22. While net debt rose from AED 1.3 Bn in 2Q22 to AED 1.4 Bn in 3Q22 with a net/debt ratio of 2.7x compared to 2.6x in 2Q22. Net debt rose mainly due to dividend payment of AED 99 Mn and the acquisition by RAK Porcelain for AED 22 Mn. Cash and cash equivalents along with bank deposits stood at AED 551 Mn in 3Q22. Cash flow from operations marginally declined from AED 389 Mn in 9M21 to AED 360 Mn in 9M22.

**Rating : BUY**

## First Look Note – 3Q22

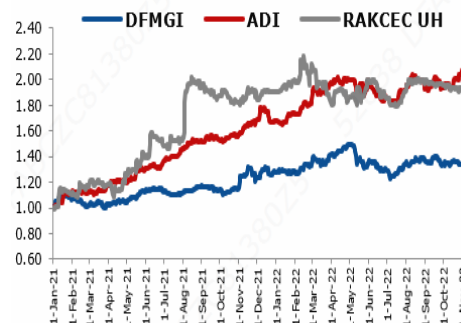
**Sector: Industrial**

### Recommendation

Current Price (11-Nov-22)	2.88
Target Price (AED)	3.50
Upside/Downside (%)	+21.5%

### Stock Information

Market Cap (mm)	2,861.87
Paid Up Capital (mm)	993.70
52 Week High	3.38
52 Week Low	2.68
3M Avg. daily value (AED)	2,792,442



### Financial Ratios

Dividend Yield (12m)	6.94
Dividend Pay-out (%)	80.63
Price-Earnings Ratio (x)	10.09
Price-to-Book Ratio (x)	1.36
Book Value (AED)	2.12
Return-on Equity (%)	12.66
Earning Per Share (AED)	0.29
Beta	0.37

### Stock Performance

5 Days	-0.35%
1 Months	-1.37%
3 Months	-2.37%
6 Months	4.73%
1 Year	3.60%
Month to Date (MTD)	0.00%
Quarter to Date (QTD)	-2.04%
Year to Date (YTD)	1.05%

### Target price and rating

We maintain our BUY rating on Rak Ceramics PJSC, with a target price of AED 3.50. The Company further strengthen its foundation through brand positioning and by improving productivity and efficiency to solidify growth and boost shareholder return. It completed acquisition of Kuldi Group integrating in its portfolio and positioning its Tableware subsidiary, RAK Porcelain for strong growth. RAKCEC expects to benefit from this expansion in the upcoming period. RAK Ceramics reported robust 28.2% YOY revenue growth in UAE supported by promising growth in the real estate sector along with a strong brand positioning and store refurbishments in 9M22. Enhancement in online offerings from the company fuelled up the E-commerce sales in 3Q22 in UAE. It further plans to add capacity in UAE market for Tiles, Sanitaryware and Tableware division and expected to commence production from 2023. The company also plans to add capacity in Bangladesh and KSA. The company recorded 15.1% YOY revenue growth in KSA in 9M22 amid promising real estate outlook and remained focussed to secure projects and expand its retail footprint. Revenues from Europe were impacted due to currency devaluation and leading to a 1.3% YOY decline in 9M22 primarily due to high inflation while revenue from Bangladesh rose 4.4% YOY despite currency devaluation, rising prices, and a shift in product mix. However, India revenue declined 14.4% YOY in 9M22 due to difficult macroeconomic conditions. Post approval, the company acquired land in August 2022 for setting up a green-field project in Bangladesh which will increase the annual tile capacity to 4.8 Mn sqm by 1Q25 with 400 thousand pieces of faucet capacity annually starting from 2Q24. Rak Ceramics further acquired 4.0% stake in Rak Porcelain increasing its total share to 91.0%. Rak Ceramics plans to pay a dividend of 60 fils during the next three year and 25 fils in FY2022. The company share price offer an attractive dividend yield of 8.6% based FY2022 dividend. Thus, based on our analysis, we assign a buy rating on the stock.

### RAK Ceramics - Relative valuation

(at CMP)	2018	2019	2020	2021	2022
PE(X)	15.78	17.53	-21.88	11.69	9.21
PB(X)	1.15	1.19	1.34	1.29	1.36
EV/EBITDA	19.06	10.94	12.17	11.50	8.12
Dividend yield	4.7%	4.9%	2.6%	6.9%	8.6%

FABS Estimates & Co Data

### RAK Ceramics - P&L

AED mm	3Q21	2Q22	3Q22	3Q22F	Var.	YOY Ch	QOQ Ch	2021	2022F	Change
Revenue	685	927	906	933	-2.9%	32.4%	-2.2%	2,861	3,542	23.8%
Direct costs	-423	-571	-589	-603	-2.3%	39.3%	3.3%	-1,826	-2,237	22.5%
<b>Gross profit</b>	<b>262</b>	<b>356</b>	<b>317</b>	<b>330</b>	<b>-3.9%</b>	<b>21.2%</b>	<b>-11.0%</b>	<b>1,035</b>	<b>1,305</b>	<b>26.2%</b>
Selling & overhead exp.	-189	-245	-230	-242	-5.0%	21.4%	-6.4%	-743	-925	24.5%
<b>EBITDA</b>	<b>123</b>	<b>137</b>	<b>146</b>	<b>133</b>	<b>9.6%</b>	<b>18.3%</b>	<b>6.6%</b>	<b>501</b>	<b>558</b>	<b>11.2%</b>
Depreciation and amortisation	-41	-43	-47	-45	4.9%	14.9%	9.6%	-167	-177	6.0%
<b>Operating profit</b>	<b>82</b>	<b>94</b>	<b>87</b>	<b>88</b>	<b>-0.9%</b>	<b>6.2%</b>	<b>-6.9%</b>	<b>292</b>	<b>380</b>	<b>30.4%</b>
Impairment	-5	-35	-7	0	#DIV/0!	29.7%	-81.1%	-32	-49	NM
Other income	14	22	65	20	227.0%	370.3%	196.9%	89	123	38.2%
Share of associates	5	2	0	2	-85.1%	-94.2%	-87.7%	17	6	NM
Loss on net monetary position	-1	-2	-1	-2	-50.7%	5.0%	-41.2%	-3	-3	NM
Investment & other inc.	1	2	2	3	-42.4%	36.0%	-18.4%	17	37	121.0%
Financial charges	-19	-23	-27	-25	6.1%	36.3%	17.6%	-78	-95	NM
<b>Profit before tax</b>	<b>77</b>	<b>90</b>	<b>120</b>	<b>101</b>	<b>19.3%</b>	<b>56.7%</b>	<b>33.3%</b>	<b>301</b>	<b>398</b>	<b>32.4%</b>
Tax expense	-4	-5	-30	-5	505.7%	730.4%	460.8%	-17	-47	178.9%
<b>Profit before minorities</b>	<b>73</b>	<b>85</b>	<b>90</b>	<b>96</b>	<b>-6.1%</b>	<b>23.1%</b>	<b>6.1%</b>	<b>284</b>	<b>351</b>	<b>23.6%</b>
Minorities	-11	-11	-5	-8	-37.1%	-52.9%	-54.4%	-37	-38	NM
<b>Profit to shareholders</b>	<b>63</b>	<b>74</b>	<b>85</b>	<b>88</b>	<b>-3.3%</b>	<b>36.1%</b>	<b>15.1%</b>	<b>246</b>	<b>313</b>	<b>26.9%</b>

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**RAK Ceramics - Margins**

	<b>3Q21</b>	<b>2Q22</b>	<b>3Q22</b>	<b>YOY Ch</b>	<b>QOQ Ch</b>	<b>2021</b>	<b>2022F</b>	<b>Change</b>
Gross profit margin	38.2%	38.4%	35.0%	-323	-347	36.2%	36.8%	68
EBITDA margin	12.0%	10.1%	9.6%	-237	-48	10.2%	10.7%	54
Operating profit margin	18.0%	14.7%	16.1%	-191	133	17.5%	15.7%	-178
Net Margin	9.1%	8.0%	9.4%	26	141	8.6%	8.8%	22

*FABS estimate & Co Data*

**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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