

RAK Ceramics (RAKCEC)

Current Price
AED 2.45

Target Price
AED 3.45

Upside/Downside (%)
+41%

Rating
BUY

1Q25 Net Profit lower than our estimate

- Rak Ceramics revenue declined 0.7% YOY to AED 777 Mn in 1Q25, primarily due to currency depreciation of Euro, Bangladesh Taka (BDT) and Indian Rupee (INR) against USD. The decline in revenue is mainly due to a slowdown in revenue across all segments except the Tiles Segment.
- The Company's Tiles segment revenue grew 1.2% YOY to AED 449 Mn in 1Q25 due to strong performance in UAE, Rest of GCC, India and Asia Pacific, whereas sanitaryware revenue declined 6.5% YOY to AED 106 Mn due to appreciation of USD coupled with weak demand in Bangladesh, India and other markets. Tableware revenue fell 4.5% YoY to AED 86 Mn, impacted by lower demand in the USA lastly, Faucets revenue declined 4.4% YOY to AED 112 Mn, mainly due to challenges in Kludi Europe transformation and slowdown in Chinese real estate market.
- Direct cost declined 1.2% YOY to AED 468 Mn in 1Q25.
- Gross profit rose marginally 0.2% YOY to AED 308 Mn in 1Q25, whereas gross profit margin increased from 39.3% in 1Q24 to 39.7% in 1Q25. The expansion in margin is owing to the higher gross margin of the Tiles and Sanitaryware Segment, partially mitigated by a drop in margin of the Faucets Segment.
- EBITDA declined 10.2% YOY to AED 136 Mn in 1Q25 due to higher selling and distribution expenses owing to higher freight and promotional activity. EBITDA margin declined 185 bps YOY to 17.5% in 1Q25
- Other income rose 31.8% YOY to AED 26 Mn in 1Q25, due to higher provision write-backs and gain on property of investment property.
- Tax expenses increased from AED 11 Mn in 1Q24 to AED 16 Mn in 1Q25, due to the introduction of the UAE Domestic Minimum Top-up Tax, increasing the effective tax rate in the UAE from 9% to 13.5%.
- Net profit declined 19.6% YOY to AED 46 Mn in 1Q25, due to higher impairment losses on trade & other receivable and lower finance income, partially offset by a decline in interest expense. Kludi Group transformation initiative impacted by AED 8.4 Mn in 1Q25. Profitability was impacted mainly due to Kludi Group's ongoing transformation initiatives. Excluding this impact, profit before tax was marginally down by 1.4% YoY to AED 74.4 Mn in 1Q25.

Earnings Call Summary

- RAK Ceramics reported a decline in consumer demand, which is attributed to inflation and economic uncertainties in Europe and the UK. These uncertainties are affecting pricing and competitiveness.
- RAK Ceramics' exports from India decreased, leading to a domestic oversupply and exerting downward pressure on prices.
- The Company's current capacity utilization stood at approximately 70.8%, though this varies due to the shift from ceramic to porcelain production, which alters output efficiency
- Rak is converting ceramics capacity to porcelain.
- RAK Ceramics does not aim to compete with Indian or Chinese low-cost tiles but focuses on brand strength and quality differentiation. However, it will engage in competition on a case-by-case basis.
- Anti-dumping duties on Indian and Chinese tiles remain active in markets like Saudi Arabia, Qatar, and Oman, with varying rates depending on factory and price levels.
- Impairment of AED 4.6 Mn related to receivable from the previously sold Sudan plant, provisioned due to the country's unstable conditions.
- RAK Ceramics is consolidating Kludi's production in the UAE and reducing European capacity, repositioning it as a high-end brand with profitability expected to improve next year.

- RAK Ceramics is closing the Kludi plant in Hungary by July 2025 as part of its consolidation strategy.
- The Company expects capex expenditure of AED 350-400 Mn in 2025.
- The Company's faucet segment production capacity increased from 0.5 Mn to 1.5 Mn pieces annually in the UAE in 1Q25, aiming to enhance scale and margin over the long term.
- The Company's revenue from Bangladesh dropped 25.7% YOY in 1Q25 to AED43.7 Mn, due to gas shortages and political instability, with recovery dependent on improved gas supply and energy solutions.
- RAK received positive indications that gas supply to its Saudi facility will begin by Q4 2026, enabling production rollout thereafter.
- The company is set to open its first showroom in Sheikh Zayed Road in Dubai next month, specifically designed for Kludi, complementing existing design hubs in Milan, Frankfurt, and the UK, and preparing to launch two additional showrooms in Saudi Arabia.

RAK Ceramics - P&L

(AED mn)	1Q24	4Q24	1Q25	1Q25F	Var	YOY Ch	QOQ Ch
Revenue	782	871	777	853	-9.0%	-0.7%	-10.8%
Cost of revenue	-474	-547	-468	-513	-8.7%	-1.2%	-14.3%
Gross profit	307	324	308	340	-9.5%	0.2%	-5.0%
Selling & overhead expenses	-218	-229	-234	-237	-1.2%	7.4%	2.3%
EBITDA	151	158	136	157	-13.5%	-10.2%	-14.2%
Operating profit	89	95	74	103	-28.6%	-17.4%	-22.4%
Profit before tax	74	82	65	90	-28.1%	-12.7%	-21.4%
Income tax expense	-11	-18	-16	-13	16.4%	42.0%	-12.1%
Net profit	58	59	46	72	-35.5%	-19.6%	-21.1%

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%

FAB Securities Contacts:

Research Analyst

Ahmad Banihani +971-2-6161629 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

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