

## RAK Ceramics (RAKCEC)

Low revenue and high OPEX dragged profits

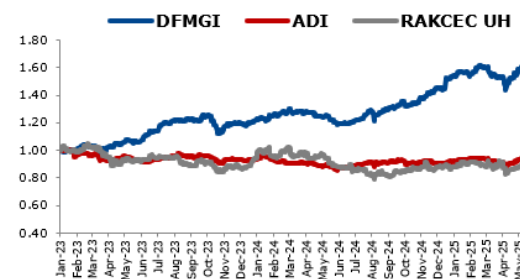
**Current Price**  
AED 2.43

**Target Price**  
AED 3.45

**Upside/Downside (%)**  
+42%

**Rating**  
**BUY**

- Gross margin improved 33 bps YOY to 39.7% in 1Q25 due to margin expansion in the Tiles and Sanitaryware segment, partially offset by a decline in the Faucets margin.
- Incurred AED 8.4 Mn on the transformation of Kludi Group in 1Q25.
- Tiles & Sanitaryware Segment revenue remains marginally lower due to decline in regions outside the GCC.
- RAK Ceramics is closing the Kludi plant in Hungary by July 2025 and shifting its production to the UAE.
- The Company's faucet production capacity expanded from 0.5 Mn to 1.5 Mn pieces annually in the UAE.
- Expects capex expenditure of AED 350 - 400 Mn in 2025.



### 1Q25 Net Profit lower than our estimate

RAK Ceramics PJSC (RAKCEC/"The Company") net profit after minority declined 19.6% YOY to AED 46 Mn in 1Q25, falling short of our estimate of AED 72 Mn. The decline in net profit is primarily due to Kludi Group's transformation, higher UAE corporate tax rate, increase in impairment losses on trade & other receivable and lower finance income, partially offset by lower direct and finance cost.

### P&L Highlights

RAKCEC's revenue declined marginally 0.7% YOY to AED 777 Mn in 1Q25 due to weaker Euro, BDT, and INR against the USD. Tiles segment revenue grew 1.2% YOY to AED 449 Mn in 1Q25 due to strong performance in UAE, India and Rest of GCC, whereas sanitaryware revenue segment declined 6.5% YOY to AED 106 Mn in 1Q25 due to weak demand in countries like Bangladesh and India, coupled with strong USD currency. Furthermore, Tableware segment revenue declined 4.5% YOY to AED 86 Mn in 1Q25, impacted by lower demand in the USA market. The currency weakness further impacted the performance, especially in Egypt, Asia and Africa. Faucets segment declined 4.4% YOY to AED 112 Mn in 1Q25, mainly due to the transformation of Kludi's Europe, the struggling real estate sector of China and sanctions on Russia also contributed to the decline. The Company's direct cost declined 1.2% YOY to AED 468 Mn in 1Q25, thereby gross profit inched up 0.2% YOY to AED 308 Mn in 1Q25, whereas gross profit margin increased from 39.3% in 1Q24 to 39.7% in 1Q25, primarily due to enhanced operational efficiency. Gross profit margins of the Tiles segment increased 160 bps YOY to 41.0% in 1Q25, due to a shift from ceramics tiles to porcelain tiles and gains from operational efficiency. Sanitaryware segment gross profit margin also improved 440 bps YOY to 34.1% in 1Q25 due to improvement in product mix. Tableware margin remained flat at 53.9% in 1Q25. Gross profit margin of the Faucets segment declined 764 bps YOY to 23.4%

### Stock Information

Market Cap (AED, mn)	2,414.70
Paid Up Capital (mn)	993.70
52 Week High	2.63
52 Week Low	2.23
3M Avg. daily value	455,675

### 1Q25 Result Review (AED, mn)

Total Assets	5,326
Total Liabilities	3,078
Total Equity	2,248
EBITDA	136
Net Profit	46

### Financial Ratios

Dividend Yield (12m)	8.26
Dividend Pay-out (%)	44.94
Price-Earnings Ratio(x)	11.52
Price-to-Book Ratio (x)	1.12
Book Value (AED)	2.18
Return on Equity (%)	9.64

### Stock Performance

5 Days	-3.57%
1 Months	-0.82%
3 Months	-3.57%
6 Months	-0.41%
1 Year	-3.95%
Month to Date (MTD%)	-2.41%
Quarter to Date (QTD%)	-5.81%
Year to Date (YTD%)	-2.41%

in 1Q25 due to lower margins in the European market resulting from transformation activities in Europe. Opex rose 7.4% YOY to AED 234 Mn in 1Q25 owing to higher expenses on freight and promotional activity. The Company's operating profit fell 17.4% YOY to AED 74 Mn in 1Q25. RAK Ceramic's EBITDA fell 10.2% YOY to AED 136 Mn in 1Q25 due to higher selling and distribution expenses. In addition, EBITDA margin declined 185 bps YOY to 17.5% in 1Q25. Impairments increased from AED 5 Mn in 1Q24 to AED 10 Mn in 1Q25 owing to charges recorded on receivable from the previously sold Sudan plant. Other income increased 31.8% YOY to AED 26 Mn in 1Q25 attributed to higher provision write-backs and gain on property of investment property. Financial charges declined 20.6% YOY to AED 28 Mn in 1Q25. Additionally, 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%. Furthermore, the profit attributable to non-controlling interest holders fell from AED 5 Mn in 1Q24 to AED 3 Mn in 1Q25.

### **Balance Sheet Highlights**

RAKCEC's gross debt rose marginally from AED 1.59 Bn in 4Q24 to AED 1.60 Bn in 1Q25. Net debt also inched up from AED 1.39 Bn in 4Q24 to AED 1.43 Bn in 1Q25, due to higher capex. The net debt to EBITDA ratio increased from 2.35x in 4Q24 to 2.49x in 1Q25. Cash and cash equivalents, including bank deposits, declined from AED 203 Mn in 4Q24 to AED 176 Mn in 1Q25. Working capital remained stable at AED 1.43 Bn in 1Q25 compared to 4Q24.

### **Target Price and Rating**

We maintain our BUY rating on RAK Ceramics PJSC with a target price of AED 3.45. The company has demonstrated resilience amid macroeconomic challenges, with stable revenue, improved gross margins, and ongoing strategic investments in high-margin segments like large-format tiles and sanitaryware facilities. This will benefit the Company's topline and margins in the upcoming quarters. In the UAE, robust real estate demand and favorable market dynamics drove topline and margins, further supported by investments in large-format tiles and sanitaryware upgrades. The Company is strengthening its partnership with leading developers for supplying tiles and sanitaryware for large projects amid increased competition. In India, infrastructure development, reduced interest rates, and rising disposable incomes positioned the country as a key growth engine for the Company's portfolio. It is also boosting its retail presence and improving in-store experiences to regain profitability in a price-sensitive market. KSA revenue rose 4.4% YOY, aided by customs duty relief and strong growth in sanitaryware. The booming real estate and construction activity, particularly in the UAE, significantly benefited RAK Ceramics by driving strong demand for tiles and sanitaryware, which are core product segments. RAK Ceramics delivered strong performance in the UAE, India, and Saudi Arabia, while facing weakness in Europe and Bangladesh due to economic slowdown, political instability, and energy shortages. A greenfield production facility in Saudi Arabia is also in progress, expanding regional capacity and supporting long-term growth. Kludi's manufacturing is being shifted from Austria and Hungary to more cost-efficient facilities in the UAE to reduce costs and improve efficiency. The UAE is becoming a central manufacturing hub, with faucet production capacity expanded from 0.5 Mn to 1.5 Mn pieces annually, aiming to enhance scale and margin over the long term. RAK Ceramics is also investing in upgrading its UAE tile production facilities, focusing on high-margin, differentiated and large-format porcelain tiles. Additionally, it is also enhancing its sanitaryware manufacturing to improve operational efficiency and reduce carbon emissions. RAK Ceramics expects Marafiq to supply the gas to its Saudi facility by 4Q26. Furthermore, RAK Ceramics' brand equity and presence in over 150 countries provide revenue diversification, resilience and company strategic partnerships, including new commercial agreements and distributor expansions, which enhance market reach and reinforce its presence in high-margin segments. Furthermore, RAK Ceramics is aiming to distribute an annual dividend of 20 fils per share in FY2025. It is further committed to pay a dividend of 20 fils each year for the next three years from 2025-27. The stock offers a dividend yield of 8.2% in 2024. Thus, we assign a BUY Rating on the stock.

**RAK Ceramics - Relative valuation**

(at CMP)	2020	2021	2022	2023	2024	2025F
PE (x)	NA	10.0	8.2	8.5	11.2	10.1
PB (x)	1.2	1.1	1.1	1.1	1.1	1.1
EV/EBITDA	11.0	7.3	6.8	6.2	6.7	6.2
DPS	0.075	0.200	0.200	0.200	0.200	0.200
Dividend yield	3.1%	8.2%	8.2%	8.2%	8.2%	8.2%

FABS Estimates & Co Data

**RAK Ceramics – P&L**

AED Mn	1Q24	4Q24	1Q25	1Q25F	Var	YOY Ch	QOQ Ch	2024	2025F	Change
Revenue	782	871	777	853	-9.0%	-0.7%	-10.8%	3,232	3,282	1.5%
Direct costs	-474	-547	-468	-513	-8.7%	-1.2%	-14.3%	-1,962	-1,985	1.2%
<b>Gross profit</b>	<b>307</b>	<b>324</b>	<b>308</b>	<b>340</b>	<b>-9.5%</b>	<b>0.2%</b>	<b>-5.0%</b>	<b>1,270</b>	<b>1,296</b>	<b>2.1%</b>
Selling & overhead exp.	-218	-229	-234	-237	-1.2%	7.4%	2.3%	-921	-930	1.0%
<b>EBITDA</b>	<b>151</b>	<b>158</b>	<b>136</b>	<b>157</b>	<b>-13.5%</b>	<b>-10.2%</b>	<b>-14.2%</b>	<b>592</b>	<b>640</b>	<b>8.0%</b>
D&A charges	51	54	52	54	-3.2%	2.7%	-4.3%	208	214	3.2%
<b>Operating profit</b>	<b>89</b>	<b>95</b>	<b>74</b>	<b>103</b>	<b>-28.6%</b>	<b>-17.4%</b>	<b>-22.4%</b>	<b>349</b>	<b>366</b>	<b>4.9%</b>
Impairment	-5	-9	-10	-9	8.1%	88.0%	8.5%	-33	-33	0.5%
Other income	19	26	26	26	-1.6%	31.8%	-2.3%	84	92	8.8%
Investment & other inc.	7	-5	4	0	NM	NM	NM	9	10	NM
Financial charges	-36	-23	-28	-30	-6.8%	-20.6%	24.2%	-126	-115	-8.9%
<b>Profit before tax</b>	<b>74</b>	<b>82</b>	<b>65</b>	<b>90</b>	<b>-28.1%</b>	<b>-12.7%</b>	<b>-21.4%</b>	<b>277</b>	<b>320</b>	<b>15.8%</b>
Tax expense	-11	-18	-16	-13	16.4%	42.0%	-12.1%	-43	-64	50.6%
<b>Profit before minorities</b>	<b>63</b>	<b>64</b>	<b>49</b>	<b>76</b>	<b>-35.9%</b>	<b>-22.3%</b>	<b>-23.9%</b>	<b>234</b>	<b>256</b>	<b>9.5%</b>
Minorities	5	6	3	5	-43.0%	-51.4%	-53.4%	13	11	-13.6%
<b>Profit to shareholders</b>	<b>58</b>	<b>59</b>	<b>46</b>	<b>72</b>	<b>-35.5%</b>	<b>-19.6%</b>	<b>-21.1%</b>	<b>221</b>	<b>245</b>	<b>10.9%</b>

FABS estimate & Co Data

**RAK Ceramics - Margins**

	1Q24	4Q24	1Q25	YOY Ch	QOQ Ch	2024	2025F	Change
Gross margin	39.3%	37.2%	39.7%	33	245	39.3%	39.5%	21
Operating margin	11.4%	10.9%	9.5%	-193	-141	10.8%	11.2%	36
EBITDA margin	19.3%	18.1%	17.5%	-185	-68	18.3%	19.5%	117
Net profit margin	7.4%	6.7%	6.0%	-141	-78	6.8%	7.5%	63

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	3.34	70.0%	2.34
Relative Valuation (RV)	3.69	30.0%	1.11
<b>Weighted Average Valuation (AED)</b>			<b>3.45</b>
Current market price (AED)			2.43
Upside/Downside (%)			+42%

### 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 8.2%. It's arrived after using a cost of equity of 9.6% and after-tax cost of debt of 4.8% with a debt-to-equity ratio of 66.6%. Cost of equity is calculated by using a 10-year government bond yield of 5.3%, a beta of 0.95 and an equity risk premium of 4.5%. 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)	1,163
Terminal value (AED, Mn)	3,802
<b>FV to Common shareholders (AED, Mn)</b>	<b>3,324</b>
No. of share (Mn)	994
Current Market Price (AED)	2.43
<b>Fair Value per share (AED)</b>	<b>3.34</b>

### DCF Method

(All Figures in AED Mn)	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E
NOPAT	340	346	349	361	373
D&A	214	229	240	243	261
Change in working capital	-47	-39	-32	-61	-95
(-) Capex	-377	-207	-214	-222	-212
<b>Free Cash Flow to Firm (FCFF)</b>	<b>131</b>	<b>329</b>	<b>343</b>	<b>320</b>	<b>328</b>
Discounting Factor	0.95	0.88	0.81	0.75	0.70
<b>Discounted FCFF</b>	<b>124</b>	<b>290</b>	<b>279</b>	<b>241</b>	<b>228</b>

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 8.3x compared to a peer median valuation of 15.1x.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2025F	2026F	2025F	2026F
Somany Ceramics Limited	225	8.7	7.4	21.7	16.0
Kajaria Ceramic Tiles	1,739	20.6	17.4	35.8	29.1
Dynasty Ceramic	440	7.8	7.4	12.5	11.2
Cera Sanitaryware Limited	980	23.6	20.3	33.1	28.4
Bawan Company	837	13.6	NA	21.9	NA
Brickworks Limited	2,717	16.5	12.5	25.2	19.3
<b>Average</b>		<b>15.1x</b>	<b>13.0x</b>	<b>25.0x</b>	<b>20.8x</b>
<b>Median</b>		<b>15.1x</b>	<b>12.5x</b>	<b>23.5x</b>	<b>19.3x</b>
<b>Max</b>		<b>19.5x</b>	<b>17.4x</b>	<b>31.1x</b>	<b>28.4x</b>
<b>Min</b>		<b>9.9x</b>	<b>7.4x</b>	<b>21.8x</b>	<b>16.0x</b>

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](mailto: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

## DISCLAIMER

This report has been prepared by FAB Securities (FABS), which is authorised by the UAE Securities and Commodities Authority, licensing registration number 604002, and is a member of the Abu Dhabi Securities Exchange and Dubai Financial Market. The information, opinions and materials contained in this report are provided for information purposes only and are not to be used, construed, or considered as an offer or the solicitation of an offer or recommendation to sell or to buy or to subscribe for any investment security or other financial instrument. The information, opinions and material in this report have been obtained and derived from publicly available information and other sources considered reliable without being independently verified for their accuracy or completeness. FABS gives no representation or warranty, express or implied, as to the accuracy and completeness of information and opinions expressed in this report. Opinions expressed are current as of the original publication date appearing on the report only and the information, including the opinions contained herein, are subject to change without notice. FABS is under no obligation to update this report. The investments referred to in this report might not be suitable for all recipients. Recipients should not base their investment decisions on this report and should make their own investigations, and obtain independent advice, as appropriate. Any loss or other consequences arising from the uses of material contained in this report shall be the sole and exclusive responsibility of the recipient and FABS accepts no liability for any such loss or consequence. The value of any investment could fall as well as rise and the investor may receive less than the original amount invested. Some investments mentioned in this report might not be liquid investments, which could be difficult to realise in cash. Some investments discussed in this report could be characterised by high level of volatility, which might result in loss. FABS owns the intellectual property rights and any other material contained in this report. No part of this report may be reproduced, utilised or modified in any form either in whole or in part or by any electronic, mechanical or other means, now known or hereafter invented, including photocopying and recording, or stored in any retrieval system without the prior consent of FABS in writing. While utmost care has been taken to ensure that the information provided is accurate and correct, neither FABS, nor its employees shall, in any way, be responsible for the contents. By accepting this document, the recipient agrees he/she has read the above disclaimer and to be bound by the foregoing limitations/restrictions.