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RAK Ceramics Q4 & FY 2020 Earnings Call and Webcast

Thursday, 11 February
2021

Mohamad Haidar Hello, everyone, and welcome to the RAK Ceramics fourth quarter and full year 2020 earnings call and webcast. This is Mohamad Haidar, from Arqaam Capital Research. I'm joined today by Mr Abdallah Massaad, Group CEO of RAK Ceramics, and Mr PK Chand, Group CFO of RAK Ceramics. Mr Abdallah, over to you.

Abdallah Massaad Thank you, Mohamad, and good evening, everyone. I'm Abdallah Massaad, the CEO of RAK Ceramics. I would like to welcome you all to the RAK Ceramics fourth quarter and full year 2020 earnings conference call and webcast. I sincerely hope that everyone on the call, along with families, are keeping safe and healthy.

During the fourth quarter of 2020, we continued to place great importance on safeguarding the well-being of all our colleagues, employees and families by implementing measures to reduce the spread of the COVID-19 virus whilst protecting the financial health of the company.

As mentioned in our last call, we have built a strong foundation at RAK Ceramics, and I'm confident this will help us navigate the current challenging environment and enable us to deliver value to our shareholders in the long-term.

The priorities that we identified at the beginning of the year helped the company navigate through the crisis and allowed us to make quick decisions on capacity, costs and liquidity, to ensure that we could mitigate as much of the impact as possible and come out of the pandemic stronger.

Our priorities were to protect market share and margins in our core business unit, turn around where we were losing, and improve and grow market share in Saudi Arabia and the export market in the Middle East.

Along with this, we have continued working on improving our operations and driving the costs out of the business to remain competitive. Our revenue in the UAE end market reduced by 18.5%, mainly due to the slowdown in projects. The project channel was down by 27%. Even with this impact, we have continued to supply to major developers of projects such as Emaar, Sobha, Nshama, Azizi, and many other projects.

The team focused on collections in the face of customers' default and finding new ways to serve customers, such as through the sales hotline. The annual National Day campaign helped to boost sales in the fourth quarter in the retail channel.

In Bangladesh, production restarted in June in phases, after a complete shutdown in April and May. The business was able to quickly recover, and through a combination of focused sales efforts, productivity and efficiency, generated a net profit in the fourth quarter of AED 9.2 million compared to AED 8.8 million in the fourth quarter of 2019.

In India, we have suffered in the last few years from the changes in RERA, GST, demonetisation. We have begun to see the result of the turnaround plan. Our strategy to invest in two factories in Morbi, along with the marketing initiatives to promote our strong brand image, helped the business to grow by 37.7% year-on-year in the fourth quarter.

Revenue in Saudi Arabia grew by 57.9% as a result of the strategy put in place to strengthen commercial activities in Saudi after the acquisition of the two companies we made earlier.

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Our position and brand have been uplifted through sales from our own retail showrooms in Riyadh, as well as dealer showrooms in Makkah, Madinah and the launch of the new differentiated products. Our retail sales increased by 92.5% year-on-year and we expect this to continue in 2021 as we have opened a new showroom in Jeddah, in December.

Our European entity's revenue grew by 2.7% due to the growth in the sanitaryware in the United Kingdom where penetration with the e-commerce retailers led to 7.6% growth vis-à-vis 2019.

In export markets, the focus was on maintaining supplies to customer to ensure our products were available throughout the lockdown period. Across the rest of the Middle East, in the fourth quarter 2020, revenue increased by 97.4% year-on-year to AED 27.3 million. In full year 2020, revenue increased by 12% to reach AED 87 million.

RAK Porcelain, a hospitality-focused company, was severely impacted during the pandemic as we know that the HORECA business, hotels, restaurants, caterings, airlines, was severely affected. Full year revenue was 45.4% lower than 2019. We saw some improvement in the fourth quarter as the revenue improved 37.5% against third quarter.

Our faucets joint venture, Kludi RAK, was able to navigate the crisis and continued to deliver profitable results to the group. Revenue from other units in the fourth quarter 2020 decreased by 6.7% year-on-year to reach AED 42.4 million.

Now, I will go through the operations update. We continued to implement cost-saving initiatives across the group to manage our liquidity, reduce discretionary expenses and place a hold on all non-essential capex plans, which has resulted in a decrease in working capital. Cost savings in the fourth quarter were AED 11 million and AED 60 million in the full year 2020.

Despite the pandemic, our liquidity position remains at a comfortable level and we were able to increase our cashflow from operating activities from AED 466 million in December 2019 to AED 523 million in December 2020.

Therefore, I'm pleased to say that our board of directors has recommended a cash dividend of 7.5% percent. Additionally, the company's net debt level decreased by 10.6% year-on-year to reach AED 1.23 billion, reflecting the strength of the business.

As mentioned in our third quarter earnings call, the COVID-19 pandemic has impacted the real estate sector, therefore the fair value of the waterfront land and certain properties has been reassessed to be lower than the carrying values, which has resulted in an impairment loss of AED 213.2 million.

Given the performance impact during the year and lower probability of collecting the old dues from the lessee we have taken the provision of AED 23.1 million on the fourth quarter, 2020. The COVID-19 pandemic did not affect the core operation in terms of collectability of receivables and therefore no extraordinary provisions were taken on trade receivables.

Our net profit before impairment loss was AED 65.6 million, compared to AED 49.4 million on a year-on-year basis due to increase of revenue and improved margins. Net profit improved by 190 basis points year-on-year at 9.1%. Net profit after minority, before impairment losses, was AED 59.3 million compared to AED 35.1 million in fourth quarter 2019.

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Reported net loss after minority was minus AED 176.9 million. Our like-for-like net profit was AED 77.5 million compared to AED 55.6 million in the fourth quarter 2019. Margin increased from 8.1% to 10.8% year-on-year.

Total EBITDA increased from AED 134.4 million in the fourth quarter 2019 to AED 137.8 million on the fourth quarter 2020. Margin decreased from 19.6% to 19.1% year-on-year.

Thank you for listening. I will now hand over to Mr PK Chand, our CFO, to brief you on full year financial and segment highlights and provide you with more in-depth analysis on the financials.

PK Chand Thank you Mr Abdallah. Good evening, everyone, and thank you for joining us. Mr Abdallah has already briefed and summarised quarter four performance, financial highlights and regional performance for the fourth quarter of 2020.

I will take you through the full year results and segmental highlights, with details on revenue, profitability and balance sheet. We will start with slide nine. Total revenue for 2020 decreased by 8.7% year-on-year to AED 2.35 billion due to a significant COVID-19 impact in the second quarter of 2020.

Excluding the second quarter, the revenue increased by 1.0% year-on-year at AED 1.94 billion in 2020. Tiles revenue is lower by 3.1% year-on-year at AED 1.61 billion.

Sanitaryware revenue decreased by 8.4% year-on-year to AED 462 million. Tableware business continued to suffer due to COVID-19 restrictions in the hospitality and airline sectors, which resulted in a revenue decrease of 45.4% year-on-year to AED 147 million.

Revenue from other businesses also decreased by 5.8% year-on-year to AED 130.6 million due to lower sales in ceramic raw material trading businesses. Of the total revenue in 2020, tiles revenue contributed 68.5%, sanitaryware 19.7%, tableware 6.3%, and others 5.5%.

Total gross profit margin for the full year 2020 decreased by 120 basis points year-on-year to 32.0% due to lower revenue and lower production, resulting in unabsorbed fixed cost of AED 43 million.

Tiles margin improved by 180 basis points to 31.4% year-on-year, despite lower margins in the second quarter due to plant shutdowns. Sanitaryware margins were lower by 2.1% year-on-year to 34.8% due to lower sales and lower production. Tableware margins decreased by 11.3% year-on-year to 41.1% due to lower revenue and lower production.

Total EBITDA decreased by 21.7% to AED 377.9 million year-on-year with a margin decrease of 2.7% year-on-year to 16.1%. EBITDA is calculated after adding back the impairment losses of AED 236.3 million on revaluation of real estate property and provision on dues in relation to a leased hotel impacted by COVID-19.

The net profit before impairment losses was AED 110.1 million compared to AED 205.2 million in the last year. The next slide will show the profitability bridge for the regions behind lower profits compared to 2019.

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2019 net profit included AED 22.1 million of provision reversal towards contracting assets. Excluding this one-off gain, 2019 profit was AED 183.0 million. Lockdowns in the second quarter have resulted in AED 32.5 million shutdown costs across all our tile and sanitaryware plants.

Cost-saving measures were taken towards reduction in discretionary expenses, by stringent control in overheads and workforce rationalisation across the group. This resulted in savings of AED 42.9 million in fixed SG&A excluding the tableware unit. Hyperinflation accounting impact of AED 9.1 million to net profit in 2020 has been accounted for, which includes depreciation of AED 5.9 million on hyperinflated assets.

Reduction in tableware revenue has had a swing of AED 57 million to net profit versus last year. Variable selling expenses, mainly freight, was higher by AED 46.9 million in 2020, due to higher volumes of sales in Saudi Arabia of 22 million square metres compared to 15 million square meters last year, and higher freight rates owing to switchover of trucks at the border.

High provisions for trade receivables as per IFRS 9 requirements were slightly higher at AED 28.1 million. However, there is an improvement in tiles gross profit, forex gain swing, lower income tax and others, which contributed AED 45.7 million to the net profit. There is an impairment loss of AED 236.3 million on revaluation on real estate profits and provision on dues in relation to a leased hotel impacted by COVID-19.

The reported net loss is AED 126.2 million after considering impairment losses. Like-for-like net profit decreased by AED 47.9 million year-on-year to AED 147.3 million with a margin decrease of 130 basis points year-on-year to 6.3%, mainly due to lower revenues.

Net profit after minority, before impairment losses, decreased to AED 206.5 million with a margin of 4.5% compared to AED 164.4 million in 2019. Reported net loss after minority is AED 129.7 million. The board has recommended a dividend of 7.5 fils per share as cash dividend.

Net debt decreased from AED 1.37 billion in December 2019 to AED 1.23 billion in December 2020. Net debt-to-EBITDA increased from 2.85x in December '19 to 3.25x in December 2020 due to lower EBITDA of AED 378 million compared to AED 483 million last year.

On the cash front, capital expenditure for 2020 was AED 110.5 million compared to AED 178 million incurred in 2019. Capex for 2020 is expected to be in the range of AED 175 million as we have paused non-essential capex plans during 2020 to manage our liquidity on account of the pandemic.

Now we turn to the working capital cycle. In absolute terms, overall working capital is lower by AED 118 million to AED 1.37 billion quarter-on-quarter. Inventory days decreased from 266 days to 246 days quarter-on-quarter due to decreased inventories.

Trade receivable days have also decreased from 130 days to 125 days quarter-on-quarter. Overall working capital days also decreased quarter-on-quarter from 256 days to 228 days.

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Despite the pandemic, we were able to increase our cashflow from operating activities from AED 466 million in December 2019 to AED 523 million in December 2020. Now, I will turn back to Mr Abdallah for his final comments on 2021 priorities before we answer your questions.

Abdallah Massaad Thank you, PK. As far as RAK Ceramics is concerned, it would be an understatement that 2020 was a challenging environment. The nature of our business is closely linked to the construction and hospitality sector which has been and continues to be negatively affected by the pandemic.

Despite the challenges, we were able to implement measures to manage the impact of COVID-19, which allowed us to witness early signs of recovery, starting from the third quarter 2020 and deliver healthy revenue for the year.

We were able to capitalise on the opportunity in Saudi Arabia and enhance our position in that market whilst managing costs and delivering stable revenue in other markets. Our operations in Europe and India have improved, reflected in our margin.

I'm proud to say that this performance has been a result of our ability to act decisively during times of crisis and from our appetite as an organisation to adapt and innovate.

Looking ahead to 2021, our priority is to protect our market share in the UAE, Saudi Arabia, Bangladesh, cement the turnaround in India and Europe, while diversifying and improving profitability in export markets.

We are also committed to strengthening our supply chain from raw materials to delivery of products to our customers to ensure our products are available across our global network.

We know the recovery in RAK Porcelain will take time as the hospitality industry will remain impacted in 2021. In the meantime, we will work hard on improving efficiencies and growing market share.

We will also continue to invest in branding by opening new showrooms in core markets while implementing measures to continue to manage the impact of COVID-19. Also, we are investing in our e-commerce platform which we will launch during this year. Thank you for your time. Now, I would like to hand over the call to the operator and open the line to questions.

Operator Of course. Ladies and gentlemen, if you would like to ask a question, please press * followed by 1 on your telephone keypad now. If you change your mind, please press * followed by 2.

For those who have joined online, please press the flag icon on your web browser, and when preparing to ask your question, please ensure your phone is unmuted locally. Our first question comes from Divye Arora, from Daman Investments. Divye, please go ahead.

Divye Arora Hi, everyone. Good evening to all of you. First of all, gentlemen, congratulations for a very strong set of results. I have a few questions. The first question is linked to the revenues that we have seen in the fourth quarter. If you look at the overall numbers you have hit around AED 720 million in the fourth quarter in revenues, so this has been, I think, amongst your best quarters since 2017.

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You have actually done very well in Saudi Arabia quarter-on-quarter, year-on-year. Even in India, we are seeing that there is a strong recovery on a quarter-on-quarter basis. Europe has recovered very strongly. Obviously, UAE we understand, it's still a tough environment over here, given the oil supply and the real estate sector but what do you expect for 2021 now, for the full year?

Can we expect you will maintain the AED 720 million per quarter revenue, assuming that even if the UAE sticks to the current level? Is there further scope for you to improve the revenues in Saudi Arabia, India, Europe from here, or do you think this is a sweet spot, AED 720 million per quarter for 2021? That's the first question on the revenue side.

On Saudi Arabia revenues, if you could give us some colour on how much was the volume increase in Q4 year-on-year and how much was the price increase. That would also help.

On the margin side, we have seen that EBITDA margins have been almost 19% in the fourth quarter and this is the best margin that you have achieved historically. Is this number sustainable because, obviously, you did a lot of cost optimisation initiative? Do you think those optimisations can be sustained once the economy goes back to normal in 2021, let's say by the second half. That's number two. Thank you.

Abdallah Massaad Thank you for your questions. On the first, on the revenue, you are right that the fourth quarter was one of the best quarters of the last three years. I can tell you that the momentum will continue and, no doubt, December of this quarter also we had a lot of push and because of the supply chain issues and logistics, you're aware about the container availability, and also the worrying from another wave, also some customers took more.

I can tell you that we are on track and we mentioned it since day one that we will come out of the crisis stronger than before the crisis, and we can expect that this will come but the figures or the numbers I cannot comment that it will be the same or not. It was obviously a very good month.

We can expect that the business is continuing. As long as there is no major issue worldwide, internally we are very confident that the foundation which we prepared, the hard work on differentiation on penetrating the market, we are confident that the flow of the business will continue.

The next question, in terms of the revenue or the increase. Look, it was a combination, a combination of volume increase and also a kind of margin improvement means partly price increase and the majority was volume improvement.

As you said, we worked very hard on the efficiencies and costs and we are aware also that the logistics cost is going to increase this year, as well as the raw materials. Meanwhile, we did our homework to be lean in terms of efficiency. We are working on it.

So, apart from the savings which we made, yes, it will be continuing and some of the expenses on a marketing exhibition, the moment it opens, also we need to spend it. I hope I answered your questions.

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Divye Arora The question on the volumes and prices was mainly on Saudi Arabia, so if you can give us a breakdown. We saw, basically, on a year-on-year basis, that we have seen 68% growth in Saudi Arabia in Q4. How much of this is from the volume and how much of this is from the price increase?

PK Chand As far as the volume is concerned, you want in Q4, right?

Divye Arora Yes, Q4. You have seen a 68% increase in Saudi Arabia. This is basically at the total level. I think we can even go by the tiles. If you want to just comment on the tiles and sanitary separately or let's just talk about at least the tile revenues.

PK Chand The average selling price increased by around 11-12% and the rest is on account of the volume. The total volume from Saudi Arabia was 22 million compared to about 15 million in 2019.

Divye Arora Okay, clear. And, your price was in line with the market, the other competitors, like the local guys over there, Saudi Ceramics? Did they also increase the same as you or were they higher in terms of price increases?

Abdallah Massaad Look, honestly, we do not offer in the market exactly the same products and we mentioned it before that our strategy is to have differentiated sizes, different finishes and this was our game. Honestly speaking, also, the anti-dumping helped us a lot. Where the anti-dumping is not there and the local factory started increasing their prices, we followed. To be honest, in 2021 the increase in prices will reflect even more.

Divye Arora So, you expect to increase prices further in 2021?

Abdallah Massaad Yes.

Divye Arora Is there a shortage there of tiles in Saudi Arabia?

Abdallah Massaad Sorry?

Divye Arora Any shortage of tiles? Because we were looking at Saudi Ceramics website and we saw that there were certain types of tiles which are not available right now.

Abdallah Massaad Look, for us, honestly, we are doing very well and it is not only that we are selling, we are opening showrooms. If you go and see it, we opened a 2,000 square metre showroom in Jeddah. Already, two showrooms in Riyadh are functioning and we are finishing three showrooms, again, in Jeddah.

These are our own, other than our distributors. So, to be honest with you, we cannot complain. The demand is doing very well and we are able to supply and we are very comfortable during these days.

Divye Arora A follow-up on the cost side. The container costs, the costs that we have seen globally have gone up a lot. Have you been able to pass on these costs to your end customers or do you have bear this cost?

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Abdallah Massaad In Saudi, we load by trucks, so it's not affecting. In Europe, which is our operation, we were able to increase the prices but not park it fully. In other parts of the world we sell ex-factory, so it's a combination, yes or no. Yes, we increased a little bit. We cannot come to a group of buyers in the UK and tell them, look, we will increase 70% because the transportation cost is fluctuating in a big way. We can say that part we'll absorb it and part we will pass it, as you see it, as consolidated figures.

Divye Arora You have given a number in your presentation AED 46.9 million as the higher impact of the high freight costs. Is this linked to the global freight costs or is this also to do with the increasing tariffs in the UAE?

PK Chand It is AED 46.8 million we incurred extra in the freight costs that includes because of the higher volume, as well. As we mentioned, in Saudi Arabia, itself, instead of 15 million in square meters, we sold 22 million in square metres, so that incidence is also there. Plus, of course, there is an increase the freight rates, per se, so it's a combination of both these factors.

Divye Arora Okay. All right. Thank you.

Abdallah Massaad Thank you.

Operator As a reminder, ladies and gentlemen, if you'd like to ask a question please press * followed 1 on your telephone keypad now. We have a question which has come through on the Chatbox from Metehan Mete. The question is given the strong fourth quarter 2020 sales trends, how do you see the first quarter of 2021 evolving and do we see similar strong results continuing in the first quarter of 2021?

Abdallah Massaad Again, thanks for the question. To be honest, we don't give an announcement of what will happen but, as I said, the starting of the year is good and I expect to be, if nothing major happens, business is as usual.

Operator I can confirm we don't have any further questions coming from participants on the phone lines, so I will hand back to the management team to make any closing remarks.

Mohamad Haidar Actually, Abdallah, I have a question. Given that UAE is operating near maximum capacity or optimum capacity, how would you cater for new demand in Saudi and in Europe?

Abdallah Massaad Mohamad, this is a good question. Look, we are opening but meanwhile I can tell you that we are working on the efficiency side and, to be honest with you, we are looking at the situation and some of the capacity we can enhance it soon.

As you know, we are working on unprecedented events, so in the first quarter we will be seeing it but we our plan is we have available inventory and that's why we had a lot of discussion initially on the working capital and the increase of inventory, and we are hopeful by this year we will be able to reduce the inventory and this will be able to divert the production whenever we need to sell on the production as well as reduce our finished goods inventory.

Mohamad Haidar Thank you, Abdallah.

Abdallah Massaad Thank you, Mohamad.

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Operator We have some more questions that have come through on the phone lines now. Our first question is from Saqib Masood, from AIMS Investment. Please, go ahead.

Saqib Masood Hi. Good afternoon. Can you hear me?

Abdallah Massaad Yes.

Saqib Masood Hi. Good afternoon. Thank you and congratulations on succeeding in a very difficult year. Just a follow-up on the previous question. In terms of your outlook for 2021 what, in your view, will be the key risks that you will be looking for and trying to circumvent those and trying to grow the company going forward?

Abdallah Massaad Allow me. I heard what is your outlook for 2021 but after this I couldn't understand.

Saqib Masood I was just asking, in your view what are the key risks and challenges that you see as you come into 2021, other than COVID? Obviously, the anti-dumping duty, especially in the tile segment has helped a bit but is that sufficient to allow you to continue to grow through the rest of 2021 and beyond or are there other challenges on the horizon that we should be aware of?

Abdallah Massaad Look, honestly, if you ask my view, I am optimistic by nature and on the business side, as we're seeing now, if you tell me if I take out COVID-19, and I hope nothing will develop or things will not get in a bad direction and it continues looking in a good direction.

Macro we cannot do anything. From a micro perspective I look at it, as you said, other than our tableware, because the tableware business, like I mentioned, I believe it will not recover in a big way in 2021 and it will be pushed further till the hotel and the HORECA business improves, so this is one of the main challenges we have. Other than this, the supply chain management and, as I said, the logistic availability of raw materials and stuff which are trying to manage very closely.

Saqib Masood Great. Thank you very much and all the best for the rest of the year.

Abdallah Massaad Thank you.

Operator As another reminder, ladies and gentlemen, if you'd like to ask a question, please press * followed by 1 on your telephone keypad. We have another follow-up question here from Divye Arora, from Daman Investments. Divye, your line is now open.

Divye Arora Hi. I have a few questions. I'll just ask them one by one. The first one is on the capex. We saw that you have reduced the capex from AED 117 in 2019 to around AED 110 in 2020. What is the outlook for capex in 2021? If you can just tell us, as far a maintenance capex versus the expansionary capex, if there is anything you are looking into 2021.

PK Chand In 2021, the capex that we are looking for is in the range of AED 175 million. There is no expansion capex, as such, but, of course, there will be some investments for efficiency improvement. That is a regular

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feature as far as our plans are concerned but most of it will be maintenance capex and some improvement in efficiencies.

Divye Arora Is there a breakdown we can have, like the maintenance is AED 140 million and AED 30 million is going to be capex on the improvement of efficiency? Can we take that breakdown, 140 and 30? Hello?

Abdallah Massaad I can see that the maintenance cost is less than AED 100 million and the remaining is the improvement.

Divye Arora Okay. In case if you're not expanding capacity, let's say, for the next two or three years, assuming there is nothing in terms of expansion, then can we assume that your average capex is going to be around AED 150-160 million or are efficiency projects over by 2021 and your capex will taper down by 2022 to the maintenance capex of AED 100-110 million?

Abdallah Massaad Look, I would keep it at AED 175 million. Always, we upgrade and this is our DNA, plus the maintenance. Even with this 175, we can assume some increase in capacity going forward.

Divye Arora All right, clear. When it comes to the inventory part, we have seen that you have done some reductions and overall the working capital has gone down in absolute terms, not going by the days in all because there have been some disruptions in revenue in 2020.

But, in absolute terms, we have seen that the inventory has gone down, receivables have also gone down. So, do you think this is optimal now for you or there is more scope to reduce the inventories from here and even the receivables?

Abdallah Massaad Look, from an inventory perspective, we are going to reduce it further. Because you have a finished good, from a raw materials and spare parts, this is an optimal level.

Divye Arora Okay. So, from the finished goods perspective, you think there is more scope to reduce this?

Abdallah Massaad Yes.

Divye Arora How much could it be? Right now, we are seeing a number of around 1076, right, the latest number, as of the fourth quarter. So, this can go down by 100 million more, 200 million more from here?

Abdallah Massaad Look, it is too early to go into numbers as we are still in the beginning of the year. Let us see by the second half. It will be clearer for us.

Divye Arora Okay. How about the receivables side?

Abdallah Massaad Look, the receivables, if you see, it is very well-controlled this year and I don't see that it will go down because, also, our sales will go up next year.

Divye Arora Okay, clear. Coming back to the geography of Saudi Arabia. You have been talking about setting up a factory there. I think you are trying to look for gas approval. Can you give us any update on that?

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- Abdallah Massaad** Honestly, some improvement happened but till now the final approval is not yet given.
- Divye Arora** How long would you be waiting for this?
- Abdallah Massaad** Go ahead, please.
- Divye Arora** If it doesn't get approved even for the six months, how long are you willing to wait or you will take another step and go and acquire a small company over there?
- Abdallah Massaad** Look, honestly, we took a different route and that's why we say our strategy is working even better. What we did, we invested in differentiating our category of products where we are targeting and we started with a showroom.
- So, to be honest with you, with our margin today and the demand, we are satisfied the way we are doing the business. That's why, even if it does not come, we are comfortably benefitting from what's happening underground.
- Divye Arora** All right. When it comes to your dividend policy, obviously were also one-offs in this year, you have shown your life-for-like net profit to be around AED 147 million for 2020 but there are certain numbers.
- Obviously, if we subject the impairment of trade receivables, I think this is a number which will happen every year and that's part of the business, and if we take out the hyperinflation effect, then your profit was around AED 110 million, in that range, and that's before the one-offs. And, you have given a dividend of around, I think, close to 75 million, if I'm right, I think.
- Abdallah Massaad** Exactly 68%. You can take it as 68% percent of the profit.
- Divye Arora** And, historically, you were giving around close to 80%, right? That was in 2019. We know this was a bad year, this was a tough year. You have given a dividend. That's a great thing. But, let's say if next year your profit goes back to 2018 or 2017 levels, at the shareholder level you make around AED 200-220 million. Would you swing back to 80% payout ratio?
- Abdallah Massaad** It is not our call but, look, as we see the business, working capital is going down and I cannot promise anything but, for sure, above 60%. If you go and see the dividend payout since we declared our policy it never came down below 60% and that's way today we consider the 110 and this is 68%.
- Look, the board and the company, as we said, during this pandemic we were able to reduce our net debt in absolute figures by AED 200 million. It was no reason to continue and, for sure, if the company is in a better condition. Also, we always look to the best interests of our shareholders.
- Divye Arora** All right. Just coming back to the need for expansion capex. Other than that AED 170 million, if you manage to get gas allocation in Saudi Arabia this year, how much capex do you think you have to spend over there? And, if that happens, then, potentially do you think you will be not that generous as you used to be in 2019 and 2018 when you were paying out 80% dividends?

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Abdallah Massaad I don't think so because any expansion, say in Saudi Arabia, you pay almost 25-30%, then you finance by SIDF and banks from there. So, even if the project cost will be AED 300-400 the capex required from your side is, say, AED 100 million, and the AED 100 million project will take two years, three years, so it will not cannibalise our cash flow from operations.

Divye Arora Clear enough. And, you have cash on the balance sheet, right? You have it at AED 470 million on the balance sheet. How much of that is free cash to be put into this capex AED 100 million?

PK Chand The cash balance that we have in the balance sheet is all free cash and, basically, every year we are repaying the outstanding loans and capex. These are the two major cash outflows.

Divye Arora When it comes to you debt, obviously you've reduced the debt this year. Is there plan to keep on reducing, to deleverage also, along with paying dividends?

PK Chand Yes, our plan is obviously to reduce the net debt level. In the year 2020, what we have seen was one of the efforts that we did, how to reduce the net debt levels.

Divye Arora But, if you look at your fourth quarter EBITDA, if you analyse that, then you would be very well below three times, right?

PK Chand Yes. We have said earlier, also, that our board is comfortable around 3.0-3.5x, so we will work on that basis.

Divye Arora It means that the interest rates are very low.

Abdallah Massaad Look, let me tell you clearly, it is not in this forum to discuss but what I saw and what you saw is that the board is generous when you come to dividends normally.

Divye Arora Okay, clear. Basically, given the low interest rate environment, you think that it makes sense, obviously, right, to keep this level on the debt on the balance sheet and there is no point going below 3.0x net debt-to-EBITDA to 2.0x and all that, as long as you have good visibility on our EBITDA?

Abdallah Massaad Look, all of these are premature. We will look at it. It depends on the circumstances. No one expected COVID-19 to come and the liquidity crunch. So, we will look at it accordingly. At least, we will continue on the operation and by end of the year the outlook will be clearer and the company performance will be clearly and according to the needs we will look at it.

Divye Arora All right. Can you spend just a few minutes on your India strategy? You have done a lot of improvement in India. We have seen that in local quality in terms of marketing and branding. Do you think there is more effort to be made from your side in India?

Abdallah Massaad Always you have to improve and we always see that there is room for improvement. What we've done is we restructured our business, we focused on our cost efficiency, meanwhile working on the branding and franchising concept. I believe we are on the right track.

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All the headwind in India over the last two or three years, you remember GST, RERA, demonetisation, everything happened against us. Meanwhile, the team did well and I believe that we are on the right track and, for sure, we will be putting all our effort to capitalise on this.

Divye Arora I don't have these numbers in front of me. You did AED 88 million in India in the fourth quarter in terms of revenue, let's say AED 90 million in round figures. Can you give us numbers on the history? What was your peak annual revenue in India or peak quarterly revenue in India? Are you close to the peak now or do you still have more to catch up?

PK Chand We have still more to catch up. In total revenue, as far as our Indian operations are concerned, that was around AED 410 million at one point in time, about four or five years back.

Divye Arora So, you have a bit more to catch up. Do you think that you can surpass it, you can even hit AED 500 million, maybe in the next couple of years in India.

PK Chand Our target is to definitely aim for that and, hopefully, it will be done.

Divye Arora The reason why I'm asking you that is because you have just, I think, become positive, right, in terms of your bottom line in India? Obviously, you do make a good amount of profit there. To have an impact on the bottom line, you need to go particularly go from AED 400 million to AED 500 million, right, to that level?

Abdallah Massaad I fully agree. This is our target and we are working on it.

Divye Arora Can you comment a bit upon the branding in India because, obviously, when the quality issues happened the brand must have got hurt? Have you done any recent surveys over there, how well it is perceived now after a rebranding effort, change of team, change of quality?

Abdallah Massaad What we're seeing in the market is that, as a brand, it's well-recognised under premium category and I believe we have no issue in the brand perception in India. What we have is it is perceived as a premium product and things are on the right track there.

Divye Arora On Europe, obviously we are seeing the lockdowns in most of the European countries, the virus spread is pretty sharp over there, with the new mutations spreading. Germany is talking about further lockdown for the next few days. So, do you think the first quarter will be bad in Europe? Are you getting hurt? Is the construction industry taking a hit over there?

Abdallah Massaad I wish I had a view on the long-term but, look, what I see till now, there is no big impact as the second lockdown happening in Europe is not like the first lockdown, they closed everything. So, all the business is as usual. Yes, some disturbance of having a percentage of the people in the offices but all the business till now are still happening.

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Fortunately, people are sitting at home, they are doing their work and the business, in Europe specifically, is not a new project. The DIY, do-it-yourself, is reappearing, so the demand on our products, till now we don't see a major hit there and I hope it can continue because this it is till now.

Divye Arora All right. Thank you very much.

PK Chand Metehan Mete is asking a question on the Chatbox. What he is asking is, is the oil price linked to the crude price?

Abdallah Massaad Yes. Our gas price is linked to crude and crude is increasing. Here, we have to monitor and see and we're working hard with the government in order to find any kind of support but, meanwhile, the good news is that the last three years, I can tell you that in production of every square metre, our efficiency in gas consumption is down by 17%. So, we are monitoring to see how it moves but, yes, our gas price is linked to the oil.

PK Chand Somebody wants to know whether there are any plans to sell the land in RAK? Are you in discussion with any buyer at the moment?

Abdallah Massaad At the moment, the land, we don't have serious buyers. We are not putting much effort during the pandemic but I see that, going forward, we will work on it hard.

Operator We have a question that's some through from Saqib Masood from AIMS Investment. Saqib, your line is now open. Please, go ahead.

Saqib Masood Yes, sure. Just a quick one. Are you guiding towards any price outlook for 2021 for the tile segment?

Abdallah Massaad Excuse me. The voice was not clear. If you can repeat, please.

Saqib Masood Sure. Are you giving any guidance on the price outlook for the tile segment for the next 12 months?

Abdallah Massaad Honestly, speaking we don't give a guidance but we will see the market and I can assure you we will do our best in order to get the maximum we can. So, it depends on the demand/supply but we don't have it with us here.

Saqib Masood Do you have any indication now if you're competing against imports or local payers? Is your product at a discount or premium? Based on that should we build in a price increase in our models for this year? Broad guidance on that, please.

Abdallah Massaad To be honest with you, you have an issue with the mic. We are hearing very few. If you can please say your question again because, really, we are not able to understand it. Sorry, for that.

Saqib Masood That's fine. No problem. Thank you very much.

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Operator We have another question here from Divye Arora, from Daman Investments. Divye, your line is now open. Please, go ahead.

Divye Arora Hi. Just a follow-up on the gas side. If you can just tell us what sort of gas price you're paying as of now and what sort of an impact a one dollar in gas price, one dollar per MMBTU would have on your bottom line or cost. For example, if a one dollar increase in price would have a five million negative impact, if you can give us some colour on that. Thanks.

PK Chand As far as the gas price is concerned, right now it is around \$8.5. I'm talking about the UAE gas price. That is in that range, \$8.5-9.0 MMBTU and every one dollar increase in the Brent price, that has an impact of about AED 2.7-3.0 million on our bottom line.

Divye Arora Every one dollar increase in the Brent price?

PK Chand In the Brent price, yes.

Abdallah Massaad But, the cost, last year we had a hedge, so we did not benefit from the very low base, by the way.

Divye Arora Okay. Are you still hedged or are you not hedged at this moment?

PK Chand It is almost over now. We had done the hedging in the month of January/February 2020. That was for one year, so it's almost over now.

Divye Arora The average price that we saw last year, gas was around 40-something. Now, we are at 60, right? If the oil average is around 60-something, then that's a \$20 increase, almost a 50% increase. So, you will see a 40-50 million increase in the gas cost this year?

PK Chand As Mr Abdallah said, we had hedged the crude last year, so the whole benefit did not come to us for the lower crude price. The hedging was also around 55-60 level, which is the current price.

Abdallah Massaad It will have some impact, but not the figure you mentioned. It depends on how the oil is heading.

Operator We have no further questions from participants on the line, so I hand back over to the management for any closing remarks.

Abdallah Massaad Thank you very much for everything.

Mohamad Haidar Thank, everyone, for joining us.

Abdallah Massaad Thank you. Thank you. Bye.

PK Chand Thank you so much.