Company: RAK Ceramics

Host: Abdallah Massaad, PK Chand

Conference Title: Q4 2015 Results

Date: Monday 15th February 2016

Operator: Good day and welcome to the RAK Ceramics Fourth Quarter 2015 Results Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Mohamad Haidar from Arqaam Capital. Please go ahead.

Mohamad Haidar: Good afternoon, ladies and gentlemen, and welcome to RAK Ceramics Fourth Quarter and Full Year 2015 Earnings Conference Call hosted by Arqaam Capital. I am joined today by RAK Ceramics' Management Team Abdallah Massaad, Chief Executive Officer; PK Chand, Chief Financial Officer; and Philippe Habeichi, Head of Investor Relations. Please note that the presentation will be displayed during this call, which can be accessed through the webcasting on the call invite and can also be downloaded from the Investor Relations page on RAK Ceramics' website.

Without further delay, I will now turn the call now to Abdallah Massaad, CEO. Please go ahead.

Abdallah Massaad: We are pleased with our performance in 2015, the first full year of execution of our value creation plan which was adopted by the Board by mid-2014. This year was a year of investment for RAK Ceramics, laying foundation for growth we expect in 2016 and beyond, and I will elaborate more on that in a moment, but first an overview of the numbers for full year of 2015.

Our Group revenue, we reported – we reached AED 3.1 billion during this year. It's a decrease of 1.5% over the previous year but in constant currency terms, we are up by 1.5%. We recorded – and one of the biggest achievements during this year – is our gross margin reached 28.2%. It's up by 230 basis points year-on-year and a level which we did not achieve since 2005. The improvement in margin gain from a mix of increase in our sale of sanitaryware, tableware and from a mix of product sold with a higher margin, as well as reducing our cost of production. Mainly we can see in UAE only, alone, we have reduced our raw material cost by AED 44 million during this year. This effort flowed through the bottom line, with a net profit coming at AED 310 million, an increase of 10.2% from last year.

As I said earlier, one of our main achievements during this year is that we restarted investing in our future. This year, we are pleased to say that we spent in capex AED 267 million. Only in our core business, we invested AED 257 million. I can say that it's an increase of 85% from last year and it's almost a double of our average spending the last few years. This investment went into increasing our sanitaryware, which we started producing in the third quarter of 2015, by 25% and the increase of tiles in Bangladesh which we are expecting to start by beginning of second quarter in 2016 which will increase our capacity by 42%, as well as the increase of our sanitaryware capacity in UAE which we started already beginning of this year and we are expecting by end of first quarter will be fully functioning, which will give us a 20% increase in our sanitaryware capacity in UAE.

We continued with our asset disposal programme. Approximately we did ten transactions this year, which we sold assets from our noncore amounting to AED 110 million including, we can say, Laticrete, Al Hamra Aluminium, RAK Gypsum; and recently, we finished, we announced already RAK Logistics sale during December. Factoring the sale of RAK Sudan, which we recently closed, our total disposals in 2015 reached AED 309 million.

While, as I said, this year it was a full year of implementing our value creation plan and while we are shutting down noncore assets, during this year we already acquired greater control and we did five acquisitions which now we own 100% of our manufacturing subsidiaries in India and in Iran and we already bought minority stake in our distribution joint venture in Germany and in the UK, which we announced in January 2016, and this, it will then, our Europe restructuring, in order to align our business and to control the distribution which is an important market for us.

We also both increased our stake in RAK Porcelain Europe, which is also an important market where we sell more than 50%, where now we own 91% of this entity.

To support this growth, we expanded the management team. So we strengthened our existing management team by 15 new senior hires, and it's interesting to say that one-third of these hires were into sales and marketing. Last year also, we all know that we paid AED 0.35 in dividend, which is AED 0.25 regular and AED 0.10 extra, which amount of AED 286 million to our shareholders and at the same time, we maintained our net debt to EBITDA by 2.71 times. And for 2016, the Board of Directors already approved a regular dividend of AED 0.30 in cash and 5% stock dividend, which is for sure subject to the AGM approval which will happen in March.

So RAK Ceramics' success in 2015 can and should be measured from the value creation plan which we shared with the investor community in mid-2014 after it got endorsed by the Board. And I'm pleased and happy to say that out of the 18 initiatives, already we executed 9; and if you see on the green boxes starting from material and energy which gave us a major input into increasing our gross profit, gross margin, in Bangladesh – which we already sold almost all noncore and we acquired the power plant which is required for operation – noncore, which gave us, which also shutting down and selling nonperforming assets also added into our margins. And I'm happy to say that the other 9 initiatives we are working and we'll talk about it, we can see from brand building which are building on the future of the company as well as others which we will be able, hopefully, to expedite on implementing during this year.

We are proud of the performance we have delivered in 2015, especially when we consider the macro environment which we face this year. There were a lot of headwinds this year, with challenges – challenging macro and geopolitic conditions, especially in the Gulf, with lower oil prices and conflict in multiple regions: Yemen and Syria. And we were impacted by currencies that weakened against the dirham. But despite that, we grew in our two largest markets during this year. Tiles and sanitaryware sales in UAE and Saudi Arabia rose by 7.8% and 11.3% in Saudi this year. We are also proud that our stock, despite facing similar challenges than our GCC peers, returned 16% last year.

Let us look more closely at our segment performance, starting with tiles. Our Quarter 4 tiles sales were down by 10.2% year-on-year. If we exclude China and Iran, where we consciously shut down production during the year, and the current issue we are facing in India, sales declined by 4.3%. Also during Quarter 4, tiles sales in UAE and Saudi, our two largest markets, rose again 5.4% and 17.4% respectively. The strong result in Saudi reflects our efforts in the past year to improve our distribution and we are regaining our market share in Saudi. Weakness in the quarter was seen in other markets where a few countries accounted for the shortfall. Sales in Middle East/Northern Africa continued to be weak and fell 39.6% year-on-year on a mix of currency weaknesses and geopolitical issues in the region.

Decline in India tiles sales also reflects from, you know, we have done a lot of changes in India where, as mentioned earlier, we already bought our minority share – we own 100%. The CEO resigned. We are restructuring where we have in this company attrition of more than 50%, we are restructuring the management team, where today we deputed an interim CEO for India from our headquarters. We put a measurement to control our discounts, which earlier it was given at a higher discount by end of the month to push the sales, and we are more stringent in applying payment terms, controlling the payment terms. I will be sharing also that we are in the latest stage to appoint a CEO in order to again take our control in such an important market like India.

Tiles margin in the year were stronger year-on-year by 230 basis points but lower quarter-on-quarter, consolidated results still reflecting ongoing losses from the China operation and the start-up expenses at the Iran plant. In the UAE, we continued to extract cost saving from procurement and packaging which totalled during the last fourth quarter at AED 11.6 million and as mentioned, more than 44 during this year has been achieved, which offset the higher natural gas cost which rose by AED 37 million in UAE alone, which is 24% over last year.

On the sanitaryware, we had a 3% sales decline in the quarter. We did a remarkable quarter in UAE with the sales up by 15.1% year-on-year. In Bangladesh, which is an extremely important market for us where we completed a sanitaryware capacity increase, where we increased our sales by 13.8% but wasn't enough to offset the weakness in other areas where the major in India, which we discussed earlier, we had a quality issue which is still affecting us and it's taking more time than what we expected in order to recapture our market share off of this. But the good news that as mentioned, we are controlling the discounts and payment – our average selling price in India has been stabilised during this quarter. The sanitaryware margin fell quarter-on-quarter and year-on-year but we were above the first half of 2015 level. In terms of production location, Bangladesh margins fell 350 basis points to 41.4%. UAE margin fell by 240 basis points to 45.2% and India margin fell 160 basis points to 17.8% as average selling price began to recover. But overall, we are still at a very comfortable gross profit margin.

Going into our tableware business, which contributed during the quarter by AED 38 million, and there has been largely in the last four quarters, despite the fact that over 50% of the sales are to Europe, a number of product ranges were introduced in Quarter 4 in 2015 including we started a new line of cutlery where it can be sold with our tableware and we are confident of a solid growth for tableware in 2016. During the quarter, as mentioned, we already acquired 20% stake in our subsidiary in Europe where now we own 91% and the cost of adding the distribution business lowered Quarter 4. Again, the margin also has a pressure because we started actually a new subsidiary for us in the US market. The US market is a very big market. It is untapped by us. Till now we were selling, as mentioned, over 50% in Europe and 50% around the world. The US market, we already appointed till now five salespeople, very experienced, were based in New York and we are travelling to cover the other states where it's very important, as I mentioned, in order to drive the growth for the future. Tableware remains one of the most profitable businesses for us and we expect significant sales growth this year as well as a return of margin of above 50%.

In the noncore, we can say that yes, as mentioned in our value creation plan, we are exiting our noncore so we did, as mentioned, 10 operations already which – but we were patient in the business where we felt there is a future and we can create more value, and I believe today we are bearing the fruits. Noncore businesses are turning around, reflecting our effort to pursue profitable operation while discounting unprofitable ones. Noncore revenues rose in Quarter 4 by 23% quarter-on-quarter and 10.1% year-on-year. Higher revenues for the quarter and year largely reflect higher contribution from Electro RAK, our MEP business. During the quarter, we announced an agreement to sell RAK Logistics for an amount of AED 16 million and the unit will no longer be consolidated starting 2016. The EBITDA in noncore rose 154% in the fourth quarter and 169% for the year. Turnaround was driven by a reversal of profitability at Electro RAK Group and improved profitability of Al Hamra Construction Company, our construction unit, as the current traffic grading work being performed by Al Hamra Construction Company ramps up. Results were always helped by better performance at KLUDI RAK, our taps and faucets joint venture, and RAK Warehousing Leasing. Once again, our strategy on noncore is to improve the profitability of these businesses in order to get higher value in the sales. We have previously stated that we anticipate to fully exit noncore within the next 12 months.

Now I'll turn it over to our CFO Mr PK Chand for an overview of the financials. PK.

PK Chand: Yes, thank you, Abdallah. And the first slide is showing the financial highlights on a quarterly basis for 2015 and we have restated the prior period results to exclude Sudan, which we sold in Q4 2015. As you can see, for the fourth quarter of 2015, core revenues have fallen by 8%, led by a decline in tiles revenue of 10.2%. Noncore revenues have risen by 10.1%, primarily on the back of higher revenues at Electro RAK, our MEP contracting unit. This has led total revenue to decline by 5.3% in this quarter versus the last quarter of 2014. And on a constant currency basis, the revenue has declined by 2.5% on YoY basis. Despite lower revenues, Q4 2015, the EBITDA margins expanded year-on-year to 19.1% from 15.2% as a result of improvement in our tiles margin and a product mix more skewed toward higher-margin sanitaryware and porcelain.

And the EBITDA margin also substantially benefited from a turnaround in noncore EBITDA which, as we indicated earlier, rose 154% year-on-year in Q4 2015 as we continued to restructure and improve these businesses with a view to sell them during the next 12 months or so. At the net level, profit for the fourth quarter was AED 81.9 million, up by 10% year-on-year and roughly equivalent to quarter-on-quarter.

For the year 2015, it was a similar story to the quarter at core revenue fell 2.9%, tiles revenue declined 8.4% and sanitaryware was slightly softer as well down 1%. However, core revenue benefited from the consolidation of three additional quarters of porcelain, our tableware, so core revenue declined by only 2.9%. For the year, noncore revenue was up by 9% year-on-year, again mostly on the back of Electro RAK, and total revenue was down by 1.5% year-on-year. If we look at the constant currency impact of 2015 then revenues were actually up by 1.5% year-on-year.

The full year EBITDA was 1.7% higher at AED 594 million and EBITDA margin was 19.3% versus 18.7% in 2014. Net profit was AED 310 million versus AED 282 million for the previous year – that is, an increase of 10.2%.

We go to the next slide where we have given the details of the EBITDA calculation and Abdallah has already mentioned that EBITDA for this quarter has already surged, with EBITDA margin of 19.1% versus 15.2% in Q4 2014. From the details, it will be observed that a provision of AED 25.9 million has been created in the year 2015 as against a provision of AED 20.4 million in 2014. Further, other nonrecurring amounts include AED 20.7 million, which is the net financial gain on account of transactions involving sale of Group's stake in Laticrete, Sudan, RAK Logistics, RAK Paints, Pharma, Al Hamra Aluminium and Gypsum. For the year, EBITDA margin was 19.3%, an increase from 18.7% in 2014. And please keep in mind these EBITDA numbers reflect continued negative impact from our loss-making China plant and our as-of-yet productive asset in Iran. Combined, these effects reduced 2014 and 2015 EBITDA by AED 17 million and AED 34 million respectively, and EBITDA margin would have been 19.9% and 20.5% respectively if we would not have considered these loss-making units – that is, China and Iran.

The next slide gives the detail of the net profit position adjusted for the impact of hyperinflation in Sudan and Iran on our results. The good news is that we have no more operating – we are not operating in Sudan and Iranian economy is now out of the clutches of hyperinflation. However, please make a note that the assets in Iran have been last restated for hyperinflation index as at 31 December 2014 and will continue to be depreciated in the next few years.

Next slide, on the balance sheet highlights, we ended the year with a comfortable gearing level with net debt to EBITDA ratio of 2.7 times versus 2.4 times at the end of 2014, but in line with our historical range. During the year, we changed the composition of our loans, shifting short-term debt to long-term, thereby reducing our interest costs. The tenor of our long-term loans is currently six to eight years. By the same token, we lowered our average cost of debt to 2.6% from 3%. Composition of debt also reflects a lower percentage of conventional debt to total assets and as we said previously, we satisfy the main criteria to be considered as a sharia-compliant company and we are applying through the Sharia Board to confirm this, which we think will broaden our appeal to the overall investor base.

As Abdallah said, this year we will return to investing in our core business after many years of expending little more than maintenance capex. In 2015, we spent AED 257 million in our core business, which is 85% higher than the previous year. These amounts went into expanding our sanitaryware capacity in the UAE and our tiles and sanitaryware capacity in Bangladesh as well as updating our digital printing technologies. For 2016, our capex budget has been kept at AED 300 million, out of which AED 115 million is expected to be spent for expansion and this expansion includes AED 50 million spillover from the money we expected to spend in 2015 and the remainder will be towards further expansion of our sanitaryware capacity in the UAE for a new line, subject to board approval. Our maintenance capex this year includes a one-time payment to FEWA amounting to AED 38 million for enhancement of their supply of power.

The next slide looks at the working capital evolution throughout the year. As far as working capital is concerned, the receivable number of days is slightly better at 108 days compared to 110 days in Q4 2014. We have taken effective measures including credit controls to bring down the number of days further. Inventory days continued to be at higher level of 187 days and as we were not able to meet our objective to reduce the inventory throughout the year, we are considering options to reduce this and are quite hopeful that this level will come down. Trade payables continued to be around 71 days, just over 69 days at the end of last year, and we are comfortable with this level.

Now I will turn over to Mr Abdallah for his concluding remarks.

Abdallah Massaad: Thank you, PK. Again, 2016 is shaping up to be another challenging year on the macro front but I am confident it can be another successful year for RAK Ceramics. Why do I say this? As I said previously, 2015 is the year we started reinvesting in expanding our capacity and upgrading to more modern equipment and machinery. Two major expansions are set to complete in the first quarter of 2016, in Bangladesh – our most profitable market – our capacity will be increasing by 43% while our capacity in sanitaryware in the UAE is set to increase by 20%. Besides financial capital, the other major investment for RAK Ceramics was in human capital. We made, as I mentioned, 15 senior hires, positions – one-third of which in sales – which will help grow the management depth and decision-making going forward. Beyond that, we are taking a number of major initiatives which will contribute to growth of our company not just this year but for the next several years.

One of the major initiatives we worked on in 2015, and when I say "worked", we already started more than nine months working on this project, through it we developed a better understanding of our product position in the market, how the clients perceive us and what they expect from us, not just in our focus market but in all our markets. The result of this exercise is a specific roadmap that will drive this company's product development priority for the next three to five years, in line with our vision to be the world's leading ceramics lifestyle solution provider. I can't give you too much away right now but expect RAK Ceramics to come with a new visual identity in stores and online supported to increase visibility on eye of the customer and especially in order to support our initiative to increase our B2B business. In fact, we are planning to do this launch in Quarter 3 where we have our major exhibition in Europe.

Second, we are working to restart the production in our Iran plant. As you know, till now we have an ideal plant but we have a capacity of 6 million square metres of tiles, equivalent to more than 7% of our UAE tiles capacity and almost as much as Bangladesh and India. With the easing of international sanctions in Iran, we are in process to reinitiating our production capacity and I can say that we, as mentioned earlier, we have the best machinery in this facility so we need only to upgrade it and a few minors, and we don't expect to spend more than $3 million. We are waiting in order not to violate any regulation and I can say that wherever we have more colour and clarity there, we will be ready soon to be operational.

In India, price declines have moderated. In October, as I said, we announced that we already acquired 100% of this plant. As mentioned earlier, the CEO resigned and we are strengthening our team. India today is among the top three big markets. We are having a good position. We are known in India that we are at the high end level. I can say that during this year, we already again upgraded the plant. We already, we are producing big slabs there, big sizes, the 1m by 1m. we are, I believe, one of the only factory producers so we increased our capacity there and we have a bottleneck in polishing line which is already in place, and the new feeders in the unglazed vitrified tiles which give us an edge, a competitive edge actually vis-à-vis our competitors.

Again, China, which we said we reduced our losses during this year but still we lost AED 29 million, so we are giving ourselves till mid of this year and we have, if the plant will not be sold, we have strategic decisions which we can take it including maybe adding this capacity to our existing plants elsewhere.

As I said, other than restructuring our production units, also we are restructuring our distribution. As mentioned, we have three companies in Europe, we already acquired two fully; the third will happen during this year, then we will have one vice president heading Europe, looking at the holistic interest for the factory. We still have two joint ventures in Australia. Also we are looking now to restructure it where we can have mainly, as mentioned, our focus on the B2B end specification and in this case, architects and consultants are based all over the country so we don't want to have each joint venture – we have to work towards the brand and the interests of the company. Still in Saudi, also we have two joint ventures which we are working close with them and working close with them despite that the market didn't grow much, but we grew in India with the support we have over there.

In 2016 also, as mentioned earlier, our gross profit or our margins in sanitaryware is important and therefore after absorbing the capacity which we have already started sanitaryware in Quarter 3 in Bangladesh and also we started our expansion in UAE which will ramp up the capacity to be full by end of Q1, we are studying an expansion, a new expansion in sanitaryware which will increase our capacity, which is today 5.5 million pieces.

We will continue focus on the turnaround happens in our noncore but we will for sure, our revenue from or our assets from noncore is 30% where our revenue is 20%. So we will continue, as mentioned, improving our margins and operation, and meanwhile having an absolute target to exit whenever is the right moments.

Again, our inventory by end of 2015 is at the higher level. We continue the relation and coordination between the production and sales to better manage our stock level and we are working on options to dispose some of our old stock which we are identifying areas such as Africa where we have potentially buyers. Again, because of our size and our balance sheet, the current economic environment presents us with opportunities we never had before. Rising borrowing costs – I mean lower liquidity in the banking system is hurting our competitors with weaker balance sheets, creating opportunity for us in the market, similarly, while being backed to a currency that has appreciated against almost every other currency globally, has its challenges for sure which, as we said, in the export market we are facing difficulties but the cost of making acquisitions in foreign currency is now at a lot more attractive, and we may choose some small track of acquisition in 2016 in line with the value creation initiative set out in our value creation plan.

Thank you and Mohamad, I give it to you.

Mohamad Haidar: Operator, we can now switch to Q&A.

Operator: Thank you. If you would like to ask a question, please press the star or asterisk key followed by the digit 1. We will now take our first question from Vijay Harpalani from Al Mal Capital. Please go ahead.

Vijay Harpalani: Yes, hi. Thank you, gentlemen, for a very elaborate presentation. I've got one quick question on the Saudi market. So the revenue growth appears to be quite robust given the current challenging circumstances. Could you please highlight what is driving the revenue growth in Saudi? I'm referring to year-on-year growth for Quarter 4. And second question is related to receivables in Saudi. Are you facing any difficulties in recovering receivables? Thank you.

Abdallah Massaad: You know, we already started almost two years back focusing on Saudi. Saudi is a very important market and it's naturally our home market, and therefore we strengthen our distribution network, we already launched a lot of new products which get appeal from the market. We studied the market in depth. We worked in the three segments, you know. We are majorly, we sell to wholesaler which sell to retailer. So already we kept a balance between the projects, so yes, we were focusing on projects, keeping in mind that you know, the youth population in Saudi is big and the requirement from individual houses also big. So we are well-positioned, differentiated from the competitors, offering a good product and as I mentioned, well-appealed and available in Saudi.

Second, in terms of receivables, look, in projects from the beginning, we never supplied any project without LC. So we're very caution in this and we don't have – we are not facing any issue, honestly, in receivables from this.

Operator: We will now take our next question from Jagdish Bathija from Lazard. Please go ahead.

Jagdish Bathija: Hi there, it’s Jagdish from Lazard. I had a couple of questions. Apologies if this has already been answered. One was the inventory, you mentioned there are some things that you plan doing on some options you have available. Secondly, what's the strategy in Saudi in terms of you faced problems and 2015 was actually a good year in terms of turning around but in terms of distribution and so on, how do we see you panning out given what's happening in the south of the country there? And do you hedge your currency risk.

Abdallah Massaad: Okay. Look, in Saudi, first in sales, look, yes. We are working to reduce our inventory level. We have a lot of new products in place and we already started contacting, in areas which should not affect our image, some big bulk trading which already we are working on this. Second, in Saudi market – as mentioned, looking at Saudi, at RAK Ceramics during 2008-2009 despite the crisis, we grew. So in the end, Saudi market is more than 225 million square metres. So during a bad year, you know, a lot of factories will have difficulties and will not be able to invest. So what we are telling, it could be an opportunity for us while we’re already there, while we’re already invested. This year, we launched more than 200 different series. We launched new products, new sizes, which no one in the region have it, I mentioned earlier, products which goes size more than 3m. So we are well-positioned and we are still investing on the end – even if the market will shrink, on the end still is a huge market for us. So we feel that we have a potential even to grow our share in this market.

Regarding currencies, look, we did last year some hedges during a period for Europe but as a company and PK, you might elaborate, we are naturally hedged. We sell in euro, we sell in dollars, we sell in rupees, we buy in euro. So the exposure is not huge. PK, please elaborate more on this.

PK Chand: Yes, as far as our euro exposure is concerned, we are more or less naturally hedged. Now obviously since we have loans which is linked to the LIBOR, we keep a very close watch on the LIBOR movement and in fact we evaluated once in October then again in January and just a few days back also we evaluated where the swap rates have come down drastically, and we are in the process whether to take a call or not. So we are fully alive to this situation and keeping in view the MTM losses and obviously the whole economic situation, we will take a call at an appropriate time.

Jagdish Bathija: Thank you.

Operator: We will now take our next question from Divye Arora from the National Investor. Please go ahead. Hello, caller, if you are using a speakerphone can you please pick up the handset or depress the mute button your telephone.

Divye Arora: Yes, hi, this is Divye. My question is linked to your revenues first so what we have seen is that the trend looks good in Saudi and also in UAE, it is growing like 4-5% but when it comes to Euro, when it comes to MENA, there is a strong decline. India is an exceptional case, as you were saying, you are working on it. But for the time being, if you look at 2016 now, you were growing your capacities in sanitary and in tiles, but the downfall you are facing in MENA and also in Europe, would the new increases be able to cover it or in a nutshell, would you be able to grow your revenues in 2016 considering the decline in Europe and MENA and also to an extent with India? That's my first question.

Abdallah Massaad: Okay, thank you for this question. As mentioned to you, look, the first option for us was to focus on the UAE where it is our highest margin we sell. So this, we grow it and even during this year, we added a lot of changes, specifically on the specification, B2B businesses and we saw the fruits coming very quickly and we won a lot of projects. In the other regions, as I said, I told you in Europe, we entered into restructuring. We said during this good period in UAE and Saudi, let us restructure our business in Europe and in Europe, the good news that it is not – it is what we call, it's the replacement, you know, it's mainly it's a replacement market where it is always growing with a very 4-5% on a yearly basis. So we do expect by the change in control and our joint venture and the new hires we did, we are confident that this year it would be a better year in Europe. The same of MENA – and MENA first, it was an impact what was happening in the region politically and the second is also we were putting pressure on our collection and receivables during this period so we put more effort there. But all the hires and the efforts which we should have done it, we already did it, and we expect a better year in these areas.

Divye Arora: So you know, looking at the current environment which we are seeing especially in UAE and Saudi that governments are cutting capex and all, so do you think even if you add new capacities for sanitary and tile, would you be able to drive growth?

Abdallah Massaad: In sanitaryware what we are adding capacity, we are adding capacity in sanitaryware in the UAE where yes, we still have room to grow. We always have a constant capacity and therefore when we took the decision, we took the decision to grow our sanitaryware capacity in UAE. The remaining in tiles, if you see, we are telling since two years that we are adding and upgrading our technology because we know that tiles is commoditised and the price is a main driver, but again it's when you come to fashion, to design, people – you know, you can have an advantage on your competitors and then you can create demand, especially look, in Saudi Arabia when we launched the 13mm tiles in floor, so this only product is becoming 60% of the total requirement or the total demand. So we are comfortable that we are in a good position to grow our market share and sell our capacity for next year.

Divye Arora: Can you give us guidance for – can you give some guidance for the next year in terms of revenues by key geographies like – at the overall level and how much do you expect the revenues to grow in the UAE, Saudi, India and Europe?

Abdallah Massaad: We don't give – yes, our problem, we don't give guidance on our calls but for sure, our core market will be the driver for growth for next year plus the restructuring, we've done it in Europe as well as the office we opened in Singapore and our office – our representative office in Saudi plus, as I mentioned, the new hires and the existing team with the existing network, we are confident that next year we have a good year.

Divye Arora: Okay, how about the sale of the noncore assets such as – like, not noncore but even the Chinese business, which the inventory in China, and the second thing would be the sale of the land in Ras al-Khaimah. So are you going to see, are we going to see some news on that this year, in 2016, China and Ras al-Khaimah?

Abdallah Massaad: Look, first to start with China, as we said, we already stopped the production, we cut the losses, we are trying to sell it but you know, we have now tried last year. Unfortunately, the economy and the impact of the economy and the demand in China was bad last year, where we could not find a buyer for our plant. But this year, we have an alternative plan if we will not be able to sell it. We have a plan, honestly, to shift the capacity to some of our existing plants where we can utilise it if the sales will not happen.

So regarding the land, the land, we know that there are some sales happened from noncore during this year, and that's why I said we have AED 111 million sold from noncore businesses, and real estate portfolio, we already sold 15 townhouses and we have other things which we are focusing. The land also, we have a plan, we are working on a plan with a master planning, trying to expedite the sales. If it will not happen as the one slot maybe it can be in a different place.

Divye Arora: And what could be the valuation of the Chinese business and if you were able to sell that in case, then will that lead to sort of a special dividend in 2016?

Abdallah Massaad: Look, this is too early to talk about it but we did our valuation and we don't perceive any impact on the P&L, and we saw last year that we have an extraordinary – this is a call of Board of Directors, which they will take it into consideration. Therefore, last year they distributed AED 0.10 extra as case and this year they have 5% extra, so this call, we'll keep it to the Board of Directors.

Divye Arora: And in India, so have the prices bottomed out in India?

Abdallah Massaad: Sorry, I did not hear it?

Divye Arora: No, I'm saying in India, have the prices bottomed out because as you were saying the prices were falling in India?

Abdallah Massaad: As I mentioned to you that –

Divye Arora: Your sales were also falling and the prices were also falling, so are you seeing some sort of a bottom out there?

Abdallah Massaad: Yes, yes, in India you know, like if you don't refresh your products, your products will be copied by competitors and therefore this is what I said, you know, that we put the push, we stop the push sales and therefore we saw that the average selling price has improved. So I believe that with the new strategy, new CEO in place and now with the new production which we already put new machineries and technology in place, we feel that it will be in a better condition next year.

Divye Arora: Okay, fine. Thank you.

Abdallah Massaad: Thank you.

Operator: We will now take our next question from Roman Fuzaylov from Prince Street Capital. Please go ahead.

Roman Fuzaylov: Hi guys, thank you very much for the presentation. I just had a question about the raw material costs in the UAE on natural gas. You mentioned in the presentation that natural gas costs I think were up 20 some odd percent and that was during a year where global gas prices were coming down. So I was just wondering, how does the mechanism work for your gas prices in the UAE and what do you expect that evolution to look like over the course of this year? Thank you.

Abdallah Massaad: I think we mentioned earlier that we buy gas from RAK Gas, and RAK Gas, they have their own sources. Some come from Dolphin, some come from other fields, and due to some technical issues with them during this year, at some months where they get a higher gas from other sources, so the average selling price increased for us. So I agree with you that today, naturally, the gas price and the oil price is reducing and we should get benefits from this.

Operator: We will now take our next question from Alok Nawani from Ghobash Trading and Investments. Please go ahead.

Alok Nawani: Good evening, gentlemen, and thank you for the call. Just one or two questions from my side, the first one on Saudi again. Obviously you've seen good growth year-on-year but I'm actually looking at your quarterly sales number in the third quarter, which was significantly higher than what you've seen in the fourth quarter. I recollect you were saying you reclaimed some lost market share from previous years and which is why you had a very strong quarter in third quarter. Accordingly, I'm just wondering what's kind of driving the quarter-on-quarter decline that we've seen so far. And my second question is to do with margins. On both sanitaryware and tiles, you have seen a sharp quarter-on-quarter decline. Would you kindly shed some colour on that please? Thank you.

Abdallah Massaad: Again, in Saudi you can see that Quarter 4 was historically, you know, people reduce their purchases because traders and distributors would like to reduce their inventories, and so this drive that you meant on the second and third quarter normally these are the best quarters. That's why we can see that despite that the sales declined vis-à-vis the Quarter 3, but like in Saudi we're still at a higher level than last year. So it isn't like in Europe, it is the same during the end of the year, you have a vacation and people would like to reduce their inventories. So this is one. In terms…

PK Chand: And just to add – just to add, Abdallah, as far as the tiles sales in Saudi is concerned, if you see the Q4 2014 number, we sold AED 70 million worth of tiles in Q4 last year, while in this year Q4 it was AED 82 million. So on quarter-to-quarter basis, it is better while as compared to the Q3, it is obviously lower.

Abdallah Massaad: Yes, which comes from the seasonality issue, as mentioned earlier. Regarding the gross profit, PK please.

PK Chand: The gross profit quarter-on-quarter has gone down. That is mainly because of the lower sales, because in Q4 if you see the sales have come down and the lower gross margin is mainly on that account. And the gas prices also was higher in the month of November. That also had an impact.

Alok Nawani: All right, great, thank you. Just one final question. in terms of your noncore assets besides obviously the land and your core asset, China, what are the other assets which are still up for sale and if you could give us an idea of the quantum of that asset size?

Abdallah Massaad: Apart from land, the noncore, one is RAK Warehousing Leasing where we own 50% and RAK Investment Authority, they own 50%. This on an independent basis, this is a very good business and they bring very good profitability margin and EBITDA margins. However, as far as RAK Ceramics is concerned, it is a noncore business so that is one where we are looking for sale at a price which is beneficial for us. And the other one is the Acacia Hotel. So Acacia Hotel, we are preparing the document and if we get a reasonable price, we would like to go out of this asset also.

Alok Nawani: Okay, thank you very much.

Philippe Habeichi: Sorry, this is Philippe jumping in. Just want to mention that if you want to check the investor pack we sent around, obviously this is an interesting topic for a lot of people, people want to know what's still up for grabs. If you look at slide number 26 in the slide deck and the appendix, you have a detailed breakdown of what's left for us, what's core, what's noncore, what's land, what's investment properties. Hopefully this will be helpful to you.

Alok Nawani: Thank you.

Operator: We will now take our next question from Anoop Fernandes from SICO Investment Bank. Please go ahead.

Anoop Fernandes: Thanks, gentlemen, my questions have been answered.

Operator: We will now take our last question from Vijay Harpalani from Al Mal Capital. Please go ahead.

Vijay Harpalani: Yes, thank you, gentlemen, for taking one more question. This question relates to the dividend. If you can please elaborate on your dividend policy, the payout ratio is I think around 80% this year. So do you – is it fair to expect that the same or similar payout will continue? Thank you.

PK Chand: As far as our payout ratio is concerned, it is 60%, minimum 60%. Yes, Abdallah, please continue.

Abdallah Massaad: Yes, so you see last year the Board has approved a dividend policy which the company will distribute at least 60% in cash from the profit in case the management feel that we don't need it for emergencies. So we can see that during this year that the Board took a decision to distribute AED 0.30 which as I said, 80%. So this decision will be on the Board hands. But if you see also last year, it was like based on one question like when we took some extra cash from selling of assets, the Board decided to give another AED 0.10 extra to the shareholders.

Vijay Harpalani: Thank you so much.

Operator: We will now take our next question from José Paul from United Securities. Please go ahead.

José Paul: Hello, thank you, gentlemen, for the presentation. I have a quick question regarding your noncore operations. The land, when does the contract wind down and you mentioned in the call that you want to be out of the noncore segment totally, so that's a significant chunk of the EBITDA. Is that going to happen like by the end of this year or do you have a timeline for that, and will you be able to replace that from your core operations? Thank you.

Abdallah Massaad: In terms of the contract in place, you know, which we have it, it will last the beginning of 2017, so it is covering the whole 2016 years. Now, it does not mean that there is no other contract which might appear but till now, this is the case. In terms of our core business and this is obviously where we are working and what I mentioned on the working on rebranding on turnaround businesses, on the opportunity we have it in Iran and the turnaround in India, as well as all these initiatives we are working in order of strengthening our margins and growth in our core business, which is our most important task.

José Paul: Thank you. I have a couple of follow-up questions. Like, your utilisation rates, have you seen an uptick or is it like similar to last year? And Iran, what – out of your capacity, how much will you be bringing online, how quickly and do you have plans for that? And finally just we are seeing, especially in the GCC, the macro situation has obviously slowed down and with the weaker currencies especially in India and China, we can see that in Oman that it's affecting the market pricing-wise. So do you see that in your core markets of GCC? Thank you.

Abdallah Massaad: Starting from our utilisation, and you know that our utilisation is at a higher level then this is an important – you know, we said that we are expert in our field and as mentioned, this year we'll be celebrating 25 years since we started producing. And other than utilisation ratio, our first choice grade is more than 90%, which is really remarkable in this industry. So we are stable in this. This is one.

Second, in terms of selling in, I believe your second question was in…

José Paul: Iran.

Abdallah Massaad: In Iran. So Iran, as mentioned, our capacity is almost 7.3% from our capacity in UAE. We have three kilns there. We already inspected the machines, very good condition. As mentioned, we need to upgrade this. We can, the moment we take a decision, we need maximum two months to start producing the first kiln with one-third of the capacity and within a maximum of six months, we can ramp up the production up to 100%.

Third, in the core market, we see some dumping coming from India or from China. As mentioned, we are different than our peers in the region. We have a product mix, an impressive product mix and we have the flexibility in our technology and factory to differentiate ourselves from the competitors. And you know, having a brand known for quality and innovation, there will be for sure products coming from all over the world but for sure, we'll be able to defend and growing our market share in our core markets.

José Paul: Thank you. Just one last question. Iran, now that like, at least formally, they've announced the repeal of sanctions, what are you waiting for or what is the impetus for you to actually start production?

Abdallah Massaad: I'm not, I don't think that the sluice has yet opened. So we want to make sure everything is set to start but we still have the details to get a very clear position from our banking relations that we can start it.

José Paul: Okay, thank you so much for taking the call.

Abdallah Massaad: Welcome.

Operator: As there are no further questions in the queue, that will conclude today's question and answer session. I would now like to turn you back to Mohamad for any additional or closing remarks.

Mohamad Haidar: Thank you, everyone. That concludes today's conference. Please have a great day.

Abdallah Massaad: Thank you.

Operator: That will conclude today's conference call. Thank you for your participation, ladies and gentlemen, you may now disconnect.