Operator: Ladies and gentlemen, welcome. RAK Ceramics second quarter and first half 2018 results conference call and webcast. I will now hand you over to your host, Mr Mohamad Haidar, Arqaam Capital. Sir, please, you might begin.

Mohammad Kamal: Hello everyone and welcome to the RAK Ceramics second quarter 2018 earnings conference call hosted by Arqaam Capital. We are joined today by Mr Abdallah Massaad, group CEO of RAK Ceramics and Mr PK Chand, Group CFO. Without any delay, I will now hand over the call to Mr Abdallah, please go ahead.

Abdallah M: Thank you Mohamad. Good evening everyone and welcome to RAK Ceramics' second quarter and half year 2018 result conference call and webcast. I'm Abdallah Massaad, CEO of RAK Ceramics and I will take you through key business updates and second quarter financial results. The second quarter of 2018 continues to be challenging quarter due to macro economical headwind, where crude oil is on upward trend, resulting in increase in energy rates and raw material prices.

However, we continue to show the steady growth in the quarter with core revenue growth of 2.6%, year-on-year, and 8.2% quarter-on-quarter, making a second consecutive quarter of accelerating revenue growth in the year. With continuous challenges in the quarter we continue improvement in operation efficiencies apart from investing and upgrading of machines. Installation of core generation plans and heat recovery system to reduce consumption of gas and power. These initiatives have proved fruitful and increased our total gross profit margin by 110 basis points to 34.4%, and core gross margin by 50 basis points to 34.7% compared to the second quarter 2017.

The margin improved inspite of high energy and raw material costs led by increase in crude oil prices. Improvement in operational efficiency could also affect part increase in SG&A and finance cost. SG&A cost increase on consolidation of recently acquired joint ventures in Saudi, brand building in India, and tableware for higher sales in US market. Finance costs also increase due to Forex losses for high volatility and increased LIBOR rates. We continue to grow in the UAE market, India and Europe and in tableware business. Also in our faucets business. This resulted in stable growth with core revenue up by 2.6% year-on-year to reach 678.4 million dirham.

In UAE, our sales grew by 5.1% in tile, mainly from project segment which contributed 55% of our total UAE sales. Sanitaryware revenue was lower by 6.6% compared to the second quarter in 2017. In India, tile revenue grew by 1.7% and sanitaryware by 12.9% year-on-year, following the initiative seeking to rolling out new brands across distributor and expanding dealer network. Expansion of capacity in one of the recently acquired joint venture and commissioning of manufacturing facility in another joint venture in Morbi, Gujarat, are in full swing and are due for commercial production before end of the year.

As informed previously that with commissioning of these plants, the total capacity of India setup would increase to approximately to 18 million square meter. India is one of the emerging market for our future growth. Acquisition of 30% stake in our joint venture in Saudi Arabia was completed in the first quarter in 2018. Remaining 20% stake has also been acquired in July 2018 and now we have full control. Post acquisition integration of the joint venture is underway. Tile revenue in Saudi market grew by 19.5%, while in sanitary ware revenue is lower by 9.4% year-on-year. Excluding the impact of consolidation, tile revenue grew by 11.2% while in Sanitaryware it is lower by 34.8% year-on-year, with an overall growth of 7.6%.

In Bangladesh, revenue was lower in tile by 12.1% and in sanitaryware by 4.2% due to Ramadan and EID holidays as compared to the second quarter 2017. Initiative has been taken and we are sure that by end of the year, the lack of sales which we had in the first six months, we'll be able to cover it by end of this year. Where Bangladesh remain one of our most important markets. In Europe, tile revenue is stable, whilst there is a strong growth in sanitaryware segment by 17.8 % year-on-year.

In MENA, revenue continue to be under pressure due to continued blockade of trade to Qatar. In the first half of 2017, till May, sales to Qatar was approximately 11.9 million dirham, which we lost in this year.

Tableware segment had another great quarter with revenue growing by strong double-digits year-on-year, which is up by 25.5% with improved margin. We have recently tied up with Hyatt Palace Hotel for a newly developed concept. Actually, the concept and the tableware design will be in link and zoom to cater more than 1000 upcoming outlets in the next two years. The US market growth continued and revenue has increased by 130% quarter, Q-on-Q. Our new warehouse and showroom in Luxemburg is expected to be ready before the end of this year. The full benefit of this infrastructure will be in 2019.

As mentioned in our last call, contribution of non-core revenue to the total revenue has gone down to 5.7% due to discontinuation of Rough grading business in the first quarter of 2018. Presently, the major revenue contribution to non-core is from ceramic raw material trading business.

Now, I'll take you through the main financial highlights for the second quarter of 2018. Core revenue grew to 678 million dirham, an increase of 2.6% compared to the second quarter 2017 and 8.2% quarter-on-quarter. As a result of strong growth in the UAE, India, Europe market in tableware business. Total revenue is stable at 719 million compared to the second quarter of 2017, despite decrease in non-core revenue by 31.9% due to discontinuation of rough grading business. Core gross profit margin increased by 50 basis point at 34.7% year-on-year, and 110 basis point, quarter-on-quarter, despite increase in energy and raw material cost.

Blended gross profit margin increased to all-time high of 34.4%, an increase of 110 basis points year-on-year. SG&A increased by AED 17.8 million dirham on consolidation of recently acquired Saudi joint venture. Back integration of all the Saudi entities is in progress and full benefit of initiatives taken will be seen in coming quarter. SG&A in India increased for brand building and in tableware for higher sales in the US market. Finance cost increased by 12 million dirham, mainly on account of Forex loss net of 7.8 million as compared to gain of 2.2 million in the second quarter 2017. Due to high volatility in currencies vis-a-vis Europe Pound, Indian Rupee, Iranian rial.

Interest cost increased mainly due to increase in three months LIBOR from 1.14% in second quarter 2017, vis-a-vis 2.14% in second quarter 2018, impacting 3.1 million dirham.

Core EBITDA decreased by 16.9% to 107 million dirham with a margin of 15.8%, a decrease of 370 basis point, year-on-year. Total EBITDA decreased by 19.7% to 117.9 million dirham, with margin decreasing by 400 basis points to 16.4% year-on-year.

Net profit decreased from 113.2 million dirham to 55.1 million, mainly due to net extra ordinary gain of 34.8 million dirham on RAK warehousing, in the second quarter 2017. Increase in energy SG&A and finance cost as explained above. Like for like net profit, excluding provision and extra ordinary gains decrease to 58.5 million year-on-year.

Now, I will turn to PK Chand, our CFO, to brief you on the first half 2018 financial highlights and more in depth analysis on financial.

PK Chand: Thank you Abdallah. Good evening everyone and thank you for joining us. So Abdallah has already briefed summarized financial highlights and regional performance for the second quarter for 2018. I will take you through the half yearly results and segmental highlights with details on revenue, profitability, and the balance sheet. We start with slide six. I'm pleased to report that our core revenue grew to AED 1.30 billon dirham, an increase of 1.8% compared to the first half of 2017. Driven by steady growth in the UAE, India, Europe market and strong growth in tableware business.

Effective first January 2018, revenue recognition has been changed as per IFRS 15, impacting our core revenue by 25 million dirham in the first half of 2018. With this, the core revenue increased works out to 3.8% year-on-year as compared to 1.8% reported. Total revenue is 1.38 billion dirham, a decrease of 1.5% compared to the first half of last year as a result of decrease in non-core revenue by 37% due to discontinuation of rough grading business. Core gross profit margin increased by 20 basis points to 33.4% compared to H1 2017.

Blended gross margin increased to all-time high by 70 basis point to 33.2% year-on-year. Continued improvement in operation efficiencies have offset increased cost.

Core EBITDA decreased by 8.2 % to 206.3 million with margin of 15.8%, a decrease of 180 basis point year-on-year. Total EBITDA decreased by 12.6% to 228.8 million dirham, with margin decreasing by 210 basis points to 16.6% year-on-year. Reported net profit has also decreased to 120.5 million with margin of 8.7% compared to 177.7 million in the first half of 2017.

We all know that the first half of 2017 net profit included extra ordinary gain of 38.6 million dirham on sale of RAK warehousing and Electro RAK entity. Like-for-like net profit, that is excluding provisions and extra ordinary gains, decreased to 108.3 million in first half of 2018, with margin decreasing by 190 basis points. 7.8% year-on-year, due to increase in SG&A and finance cost on consolidation of Saudi JV's and also increase in India and tableware entities on account of increased revenue. Net debt increased by 7.7% to 1.52 billion compared to December 2017. Net debt to EBITDA increased from 2.64 times to 3.03 times on account of payment of dividends amounting to 235 million dirham.

Turning to slide seven on revenue highlights. The tiles' revenue increased by 1.1% compared to the second quarter 2017, and quarter-on-quarter by 5.7% driven by UAE, KSA and India markets. Sanitaryware revenue decreased by 2.9% in all markets except India and Europe. However, it increased by 1% quarter-on-quarter. In the first half of 2018, tiles revenue increased by 1.6% year-on-year to 938 million dirham, while sanitaryware revenue decreased by 2.9% year-on-year to 238 million dirham. Tableware revenue increased by 14.2% year-on-year to 129 million dirham, due to growth in Europe and US markets.

As mentioned, revenue recognition has been changed effective 1st of January as per IFRS 15. Based on dispatches, tile revenue grew by 3%, sanitaryware by 1% and tableware by 16.1%, year-on-year. Details of revenue by endmarket has already been briefed by Mr Abdallah and so I will skip slide number eight and nine and go to slide ten. Of the total revenue in the first half of 2018, tiles contributed 67.9%, sanitaryware, 17.2%, tableware, 9.4% and non-core 5.5%. As informed in our last call our rough grading business contract which was one of the major contributors for non-core revenue and profit has been discontinued effective 1st of January 2018. Now, the major contributor to non-core revenue is Ceramin, a supplier of raw material for Ceramics business. We do not expect any significant exit of non-core in coming quarter of 2018.

On slide 18, which relates to gross profit margin, the total gross profit margin increased by 110 basis point compared to the second quarter of 2017. Core margin increased by 50 basis points to 34.7%, despite of an increase in cost of energy and raw material. Continued improvement in operational efficiencies has offset the increased costs. Tile gross margin increased by 20 basis point to 30.3%, while sanitaryware margin decreased by 230 basis points to 37.9%

mainly due to change in product mix. Tableware margin increased by 290 basis point to 56.8%, year-on-year, due to growth in US market.

Slide 12 shows summarized financial highlights with details of performance on core operations. On the cash front, capital expenditure has been relatively high compared to first quarter at 53.5 million in the second quarter and 84.6 million for the first half of 2018. The major addition during the quarter is a equipment for co- generation plant in UAE. As per our earlier guidance to the total capacity of 2018 would be close to 300 million, out of which 100 million will be for the ongoing expansion in Mumbai, India.

On slide 13, which shows quarter-on-quarter core profit performance and return on equity to shareholders. Core net profit increased by 14.3% compared to last quarter, with margin improvement of 40 basis point, quarter-on-quarter. Return on Equity is slightly lower quarter-on-quarter, from 9.6% to 8.4% due to lower profit in the quarter. Now we turn on the operating cycle given in slide 14.

As far as quarter-on-quarter is concerned, there is an increase in inventory days from 239 days to 249 days due to building up stocks of raw materials and of spare parts. Finished goods inventory increased by two days from 155 to 157 days, quarter-on-quarter. Trade receivables is slightly increased from 115 days to 118 days, quarter-on-quarter, due to increased sales. Payable days have also been increased from 69 days in the first quarter of '18 to 78 days in the second quarter of 2018 to control the working capital requirement. Now, I would like to turn back to Mr Abdullah for the final comments before we answer your questions.

Abdallah M: Thank you PK. Looking ahead to coming quarters of 2018, we can see a challenging scenario with number of external factors like cost increases, mainly in energy and raw material, increased competition and geopolitical headwind. Seeing the challenges, we have set certain priorities which I will take you through. We will continue our effort to increase our market share in the UAE with focus on project channel penetration and enhanced retail channel. Corporate deal with some of the top developers for a longterm supply and with Dubai government and senior government project are helping to increase our market share.

A flagship new showroom in Sheikh Zayed Road in Dubai has been opened in May 2018. Various trade showroom are being renovated as part of the branding and positioning. This will have positive result and the improvement in the retail space. In Bangladesh, which is also one of our important focus market, we continue to focus on improving B2B sales, we optimized the dealers network to promote the product in the premium segment. Digital advertising and media campaign has been in place.

We continue focus to increase performance in our RAK porcelain, the tableware division and KLUDI RAK, which is a faucets and bath business. In order to reduce the cost of energy, two co- generation machines with 9.5 Megawatt involving CAPEX of 57 million dirham, are under commissioning and are expected to be completed by September 2018. Payback period is expected to be around 2 years. Moving some machinery from China plant to modify two plants in the UAE will be completed by end of this year. Upgrade polishing line to polish bigger size will increase output and the reduce cost. We will continue to keep control and monitor the overhead across all location.

To improve the performance in our European business, we are currently focusing on certain projects to increase sales and lower cost. Non-profitable Agents/ distributor have been discontinued. Cost reduction by consolidating back office function is in progress and restructuring of agency agreement to improve efficiency are in progress. As informed earlier, expansion of capacity in one of the recently acquired joint venture and commissioning of manufacturing facility in another joint venture in Morbi, Gujarat, in India, is continuing and are due for commercial production before the end of the year.

On acquiring sales in Saudi distribution entities, we have started with the first acquisition integration by focusing on headcount reduction and warehousing rationalization.

For product portfolio optimization, we continue differentiating of our product by investing in R&D and designs sourcing from known design houses. We launched new collection in different sizes, patterns and finishes, to keep us away from price competition. We will be participating in the upcoming fair in Cersaie in Italy, and it's our pleasure to invite you to the fair where we will showcase our product.

I believe the product which we will be displaying, it will be one of the most interesting series and innovative series in our industry. We continue to show, to focus on our brand rollout sponsored by the shop-in- shop concept. Lastly, to thrive our growth in core business, we continue looking for opportunistic acquisition. With this, I would like to turn the call over to the operator and open the line to questions. Thank you once again. Operator.

Operator: Thank you. We will now start question and answer session. Ladies and gentlemen, if you wish to ask a question, please press zero-one on your telephone keypad. Thank you for holding until we have the first question. Our first question from Ibrahim Atia, HSBC, please go ahead.

Ibrahim Atia: Hello?

Operator: Mr Ibrahim, the line is open.

Ibrahim Atia: Yes. I have a couple of question. How is the market condition in Saudi Arabia, specifically the residential sector? Second question is the prices in general and the prices also the real estate market, and about the mega project, any bidding started yet? So what are they?

Abdallah M: Sorry, Ibrahim, the last part of the question I couldn't hear. If you can raise your voice?

Ibrahim Atia: Regrading the mega project, second program [inaudible 00:27:17], is there any bidding yet started or not? So what are they?

Abdallah M: Okay Ibrahim. First, as you know, the Saudi market is fast during this period. If you see, our sales in Saudi grew by 17.8% this year. Mainly what we've done, we differentiated ourself from the local players as the prices is under pressure in Saudi. So we launched like bigger size and we differentiated products, where a local manufacturer is now producing. Therefore, we put ourself in a different segment from the competition, from the hard competition. As we mentioned, we finished the quarter actually the acquisition of shares where we have a distribution company. Where we will be consolidating in order to reduce and focus on what we've done in the UAE India and Bangladesh, in the rebranding, rolling up the rebranding.

We started now in [inaudible 00:28:33] as well as in [inaudible 00:28:35] by renovating two showrooms where we'll have the branding and the different perception in the market. Regarding to the project, we are ... Our team is very active in the specification and even young, for the small projects which have been done, we already supplied in this project. Honestly, you know the Saudi today, if you look the sales we're doing, it's not the main market. Where we're either ... The sales in Saudi gone down to divert our focus to the UAE, Europe, India and Bangladesh. But Saudi still on the medium and longterm, is our major focus which we are hopeful that the project will restart.

Ibrahim Atia: Thank you.

Operator: Our next question from Mr [inaudible 00:29:56], EFG Hermes, please go ahead.

Speaker 6: Hi. Thanks gentlemen for the presentation. I have a couple of questions. First on the UAE market, how do you see the market, real estate and conceptual market in the UAE recently? Over the middle term, what's your outlook on that UAE market? My second question is on your finance cost. You already mentioned that there're a couple of factors that increased the finance cost by almost 70%. So what will be the run rate going forward? Will it be this kind of level or will it come down? My third question is, is there any further cost escalation? Are you anticipating from your expansion strategy like what you have seen in the SG&A expense this quarter? Thank you.

Abdallah M: I'll take the first one, as you see in the UAE market where in the last three years we are growing. The strategy which we follow, that we have a specification team, following with big project, individual project, mega and in all sectors. Plus we renovated all our showroom with totally new rebranding. Also our wholesale business.

If you see till now, the project business is growing but also we have focus in other segment. I see a stability in the project. At least from the order and flow, we have good back order and flow. I believe for the medium term, the visibility in term of project and where we are specifying in the project, we are in a good shape. PK, you can ... Yeah.

PK Chand: As for the finance cost concern, I will also take up the SG&A cost. Now, the selling and distribution and administrative expense, it has increased. As Mr Abdullah said, it is mainly on account of the consolidation of our Saudi joint ventures. So last year, none of these two joint venture entities which we have in Saudi, they had not been consolidated. While this first half, these have been consolidated in our financial. So what has happened is some growth profit has come into our gross profit but that has not been able to upload the complete selling and distribution expenses related to these Saudi entities.

We also mentioned that several initiatives have been taken to reduce the cost and have the benefit of the backward integration. That is likely to reduce the selling expenses in Saudi entities going forward. So maybe in the full benefit, we're able to see in 2019. Then Mr Abdallah had also mentioned that in India we are building the brand. Actually, the brand is already there but we are spending a lot of money again to build up our brand in India. So to that extent, we spent about four million dirham additional in India for this purpose. In tableware business, where the sales in US is increasing and since the manpower is expensive in US, so we take it as an investment to grow our sales in US market. Which will give us eventually benefit and that full benefit will also be seen in the year 2019.

As for the final cost concerned, you know last year was an exceptional year, where we had the foreign exchange gain of 21 million in the whole year, last year. Now, this year, the Euro, the dollar [inaudible 00:34:03] and therefore Euro has gone down. Particularly in the porcelain, our tableware division which exports about 50 to 60% to the European markets, it has got affected. That is why there is so much of foreign exchange loss.

Further to this, the rival rates have also moved up. I have already given the details. Now, obviously as far as the movement of rivalry is concerned, we cannot control it but we are trying to reduce the spread as far as possible. The total outstanding long-term loan, you are aware that it is about 1.6 million dirham. So obviously on that there is an impact.

Speaker 6: Okay, thank you.

PK Chand: Yeah, the next question which you asked was about COGM. You asked whether there is any item which could affect the cost of manufacturing. Now, the gas cost is not in our control, which is linked to the crude price. Now, you will see that the crude price everyday is coming down and moving up, moving down. So it is very difficult to take a call what is the right level. Now, there are predictions which say that yes, it will go up, while there are predictions which say that it will go down.

Speaker 6: Oh, thanks a lot Chand.

PK Chand: Is that okay? Yeah, thank you.

Operator: Thank you. Our next question from [inaudible 00:35:40], Share capital. Go ahead.

Speaker 7: Good afternoon everyone. I'll ask question, we'll take them one by one. So the first one regrading Hamra land, is there any update?

Abdallah M: Till now there is nothing materialize in the land. Whenever there is any material thing, we'll declare it.

Speaker 7: So is there target price you are waiting for or just the market condition you are waiting for it to improve or?

Abdallah M: You know, the land is big, the amount is big, and for sure, this land is meant for a project with a lot of investment. We are exploring many ways but till now, honestly, we did not get a serious offer on that.

Speaker 7: Yeah, okay. Regarding the drop we've seen in sanitaryware, is it more on the volume side or the average selling price side?

Abdallah M: Look, the sanitaryware is ... Honestly in Bangladesh, June, we had like 15 days stoppage because of Ramadan and it was seasonal things. Regarding the price or the margin because we sold more from the B grade. B grade means the second grade sanitaryware. So whatever we saw in the sanitaryware will be recovered in the next half year.

Speaker 7: Yeah, okay. My next question regarding the inventory. We have been recently witnessing a pile up of inventory, whether it was more on the [inaudible 00:37:52] side, also there've been ... You have mentioned raw materials and spare parts. So should we expect an improvement during the second half on this front?

Abdallah M: Yeah. Again, it depends if investors reach or doesn't reach. This will be taken care in the second half, so it's not something where we need to consider it in the second half.

Speaker 7: Okay, this is all from my side. Thank you very much gentlemen.

Abdallah M: Thank you.

Operator: Thank you. Ladies and gentlemen, as a reminder, if you wish to ask a question please press zero-one, on your telephone keypad. Ladies and gentlemen, as a reminder, if you wish to ask a question please press zero-one, on your telephone keypad. We have no other question at his moment dear speakers, back to you for the conclusion.

Abdallah M: Thank you for the ...

PK Chand: Thank you.

Abdallah M: Thank you.

Mohammad Kamal: Thank you Abdallah, thank you PK Chand. Please have a nice day everyone.

Abdallah M: Thank you Mohammad, thank you. Bye-bye.

Operator: Ladies and gentlemen, please conclude this conference call. Thank you for your participating, you may now disconnect.