Speaker 1: Ladies and gentlemen, welcome to RAK Ceramics quarter four, full year, 2018 earnings call in webcast. I will now hand over to your host, Mr. [Mohamed Haider 00:00:12] from Arqaam Capital. Sir, please go ahead.

Mohamed Haider: Hello everyone and welcome to the RAK Ceramics fourth quarter and full year 2018 earnings conference call, hosted by Arqaam Capital. This is Mohamed Haider from Arqaam Capital Research, and I am joined today by Mr. Abdallah Massaad, group CEO and Mr. PK Chand, group CFO. Mr. Abdallah, please go ahead.

Abdallah M.: Thank you Mohamad and good evening, everyone. I am Abdallah Massaad, group CEO of RAK Ceramics. Welcome to RAK Ceramics fourth quarter and full year 2018 result conference call and webcast, where I will take you through the key business updates and fourth quarter financial results. 2018 continues to be challenging for us due to difficult regional market condition and high volatility in crude price. Despite these pressures, we continue to deliver satisfactory results through the implementation of our strategy, which included rebranding specification, product differentiation, product efficiencies, and focus to various markets. As a result, we continue to grow our market share in the UAE, India, and Bangladesh, the tableware and the faucet businesses.

Abdallah M.: During the final quarter, our core revenue increased by 0.9% year-on-year driven by stable sales in the UAE and the growth in the Middle East and African market. Saudi Arabia contributed to higher sales backed by the consolidation of our joint ventures. Tableware and faucets business also grew by 10 and 5.9% year-on-year respectively.

Abdallah M.: In the UAE, our tile revenue grew by 0.6%, mainly through the project segment, which contributed 52% of total sales in the UAE. Sanitary ware revenue was lower by 16.3% compared to the fourth quarter of 2017. However, it has grown by 7.8% quarter-on-quarter.

Abdallah M.: Revenue in Saudi Arabia is higher by 38.6% compared to the fourth quarter of 2017, mainly due to the consolidation of the Saudi joint ventures. The economic climate in our key market, Saudi Arabia and the rest of GCC continued to be volatile. However, we believe that Saudi Arabia may improve in the second half of 2019. We are pleased to report that our post-acquisition integration has been completed including the rationalization of workforce, warehouse and back- office functions. This year, we are investing in showrooms in Riyadh and Jeddah, directly dispatching to customers from the UAE, which will reduce our logistic cost establishing a shop in shop concept for dealers, implementing marketing campaigns and forming a specification team for the project segment.

Abdallah M.: We will also intend to invest in a state-of-the-art production facility. In phase one, this will add approximately 10 million square meters per annum for RAK Ceramics total tile production capacity. We are optimistic to further growth in Saudi Arabia due to increasing construction and real estate activity and the attraction, the attractive cost advantage for manufacturing due to competitive energy costs.

Abdallah M.: In India, the entire Indian industry is still under pressure to the post demonetization, the GST and RERA impacts. Revenue in India in local currency is lower by 3.2% compared to the fourth quarter of 2017. However, it is higher by 2.5% for the full year 2018. We believe that India will pick up again as a market in the future. Our former Indian CEO resigned in October 2018 due to personal reasons and the new CEO joined us in November. He has a three-decade experience in the building material industry, having worked with India premium ceramics brands.

Abdallah M.: Commercial production of our expansion in one of the joint ventures in Morbi to produce three million square meter per annum of ceramics tiles began in October. The trial production of our greenfield project to produce big slabs in Morbi began in January this year, and commercial production is expected by the beginning of March. With the commissioning of this plant, the total capacity of our Indian setup will increase to 18 million square meters.

Abdallah M.: In Europe, revenue is lower by 9.9% compared to the fourth quarter 2017, mainly due to seasonal impact. We continue to implement our consolidation strategy including the restructuring of our sales team, rationalization of warehouses, and the restructuring of agent agreements. The changes that we have been made so far are clearly making an impact and the feedback from customer is positive. We are also introducing our largest size tile and increasing our technical porcelain collection, both of which will contribute higher margins. The turnaround will be seen in 2019 as the new team and structures stabilize and move forwards.

Abdallah M.: Due to the election in Bangladesh, revenue in local currency is lower by 7.2% compared to the fourth quarter 2017. For the full year in 2018 it is lower by 1.3%. We continue to focus on rebranding, on B2B sales, strengthening our dealer network and promoting our product into the premium segment. In 2019, we have plans to optimize production to produce larger size and value-added products.

In tableware, revenue growth in the fourth quarter 2018 is 10% year-on-year and 25.5% quarter-on-quarter. The main growth drivers are Europe, USA, and Africa markets. Our new showroom in Frankfurt is now operational, and we expect to complete our warehouse and showroom in Luxembourg by end of the second quarter 2019.

Abdallah M.: During another challenging quarter, we focused on improvements in operational efficiencies and these have enabled us to increase our first choice tiles production in all our tile plants. We also continued improving our production cost efficiencies, and this has resulted in all-time high core gross profits margin of 33.3% in 2018 despite significant increase of a 55 million dirham in energy cost year-on-year, at an average gas price of $10.9 per MMbtu. We are at a significant disadvantage compared to our peers as we pay higher gas price. Raw materials linked to brand price also increased. However, our operational and production efficiency combined with a higher GP margin in tableware resulted in offsetting most of the increased energy and raw material costs.

Abdallah M.: In 2018, as SG&A costs increased on consolidation of our Saudi joint ventures, we also saw higher SG&A costs in India and in tableware due to higher sales in our USA operation. Financial costs also increased due to Forex losses for high currency volatility and increased LIBOR rates. As mentioned in our last call, the contribution of non-core revenue to total revenue is an all-time low at 4.1% in fourth quarter 2018 due to discontinuation of our rough grading business.

Abdallah M.: I will now take you through the main financial highlights for the fourth quarter of 2018. Our core revenue increased by 0.9% at 695.6 million compared to the fourth quarter of 2017, and by 8.8% quarter-on-quarter. Total revenue decreased by 2.9% at 725.6 million compared to the fourth quarter 2017 due to decreases in non-core revenue by 48% year-on-year.

Abdallah M.: Our core gross profit margin increased by 210 basis points at 33.3% year-on-year despite increases in energy and raw material costs. Blended gross margin increased by 300 basis points to 33% year-on-year. Net finance cost has increased due to increase in three-month LIBOR from 1.38% to 2.43% year-on-.year. Forex loss is 1.4 million again of 5.7 million in gain in fourth quarter 2017 due to high volatility in currencies like Euro, GBP, and INR. Our core EBITDA increased by 12.2% to 117.6 million AED with a margin of 16.9%, an increase of 170 basis points year-on-year. Total EBITDA has also increased by 1.5% to 124.6 million, with a margin increase by 70 basis points to 17.2% year-on-year.

Abdallah M.: Net profit increased to 57.1 million from 53.2 million. Thank you. I will now hand over the call to PK Chand, our CFO, to brief you on the 2018 financial highlights and provide with you more in depth analysis in the financials.

PK Chand: Thank you, Mr. Abdallah. Good evening, everyone and thank you for joining us. Mr. Abdallah has already briefed summarized financial highlights and additional performance for the fourth quarter of 2018. I will take you through the full year 2018 results and segmental highlights with details on revenue, profitability, and the balance sheet items.

PK Chand: We start with slide six. I am pleased to report that our core revenue grew to 2.64 billion, an increase of 1% compared to 2017, driven by growth in the UAE by 5.1% and Saudi Arabia by 14.6%. Backed by consolidation of JVs, our tableware business also grew double digits by 11% supported by US and Europe markets. Effective 1st January 2018, revenue recognition has been changed as per IFRS 15, impacting our core revenue by 20.4 million dirhams in the year 2018. With this, the core revenue increase works out to 1.7% year-on-year.

PK Chand: Total revenue of 2.78 billion AED decreased by 2.8% compared to 2017 as a result of decrease in non-core revenue by 43.4% to 136 million, mainly due to discontinuation of rough grading business. Core gross profit margin increased by 80 basis point to 33.3% compared to 2017. Blended gross profit margin increased by 160 basis points to an all-time high at 33.2%. Continued improvement in operational efficiencies and higher GP margins in tableware resulted in offsetting most of the increased energy and raw material cost. Consolidation of Saudi entities also contributed increase in gross profit margin by 50 basis point in 2018.

PK Chand: Core EBTIDA decreased by 8.1% to 421.8 million dirhams with margin of 16%, a decrease of 160 basis point year-on-year. Total EBITDA decreased by 13.5% to 461.6 million dirhams with margin decreasing by 210 basis point to 16.6% year-on-year. The reported net profit has decreased to 225.1 million with margin of 8.1% compared to 315.5 million dirhams in 2017. Net profit in 2018 was mainly impacted by increase of 55 million dirhams year-on-year in energy cost at an average gas price of $10.9 per MM BTU. Higher finance cost and Forex losses, a decline in non-core revenue contributed as mentioned and an extraordinary net gain of 38.6 million dirhams from the sale of non-core entities, RAK warehouse leaving and Electro RAK. However, we are glad that net profit adjusted with energy cost for our core business is higher by 14.1 million dirham.

PK Chand: The like-for-like net profit that is excluding provision and extraordinary gains decreased by 21.7% to 225.5 million in 2018, with margin of 8.1%. The net debt increased by 1.5% to 1.43 million billion dirhams, compared to December 2017. Net debt to EBITDA increased from 2.64 times to 3.10 times due to payment of dividends amounting to 235 million.

PK Chand: Now, I turn to slide eight on revenue highlights. Tiles revenue increased by 1.3% compared to fourth quarter of 2017 and quarter-on-quarter by 7.6% driven by growth in all the markets except Europe. Sanitary ware revenue increased by 5.2% quarter-on-quarter while it decreased by 4.9% year-on-year due to lower sales in UAE, Middle East, and Bangladesh markets. Tableware revenue increased by 10% year-on-year and 25.5% quarter-on-quarter due to growth in Europe, US, and Asian markets.

PK Chand: In 2018, total tile sanitary ware revenue are flat year-on-year at 2.37 billion dirhams. Tableware revenue increased by 11% year-on-year to 264 million due to growth in Europe and US, Middle East and Asian markets. As mentioned, revenue recognition has been changed effective 1st January 2018 as per IFRS 15. Based on this our tiles revenue grew by 1%, sanitary ware was flat, and tableware by 11.2% in 2018 year-on-year.

PK Chand: Details of revenue by end market has already been briefed by Mr. Abdallah and so I will skip slide number nine and ten, and will go to slide 11. Of the total revenue in 2018, tiles contributed 67.7%, sanitary ware 17.9%, tableware 9.5%, and non-core at 4.9%. As informed in our last call, our Rough grading Business contract, which was one of the major contributors for non-core revenue and profits is over, effective 1st January 2018. Now, the major contributor to non-core revenue is Ceramin, a supplier of raw material for ceramic business. We do not expect any significant exit of non-core in 2019.

PK Chand: Turnign onto gross profit margin on slide 12, the total gross profit margin increased by 300 basis point to 33% compared to the fourth quarter of 2017. Core margin increased by 210 basis point at 33.3% despite significant increase of 55 million dirham and energy cost. We are at significant disadvantage compared to our peers as we pay higher gas price. Raw materials linked to crude oul prices have also increased. Continued improvement in operational efficiencies and higher gross profit margin in tableware has resulted in offsetting most of the increased energy and raw material cost.

PK Chand: Tiles gross margin increased by 260 basis point to 28.9%, while sanitary ware, the gross profit margin decreased by 110 basis point to 39.5% due to increased cost. Tableware margin also increased by 400 basis point at 50.6% year-on-year due to growth in US market. In slide 13, we have shown the summarized financial highlight with details of performance on core operations. On the gas front, capital expenditure has been relatively high in the fourth quarter compared to the third quarter at 96.3 million dirhams. Total capex in 2018 has been 244 million as per guidance in our previous calls.

PK Chand: Capex for 2019 is expected to be in the range of 250 million, including maintenance capex of around 125 million. Slide 14 shows quarter-on-quarter core profit performance and return on equity to shareholders. Core net profit increased by 31.5% compared to last quarter with a margin increase of 130 basis point quarter-on-quarter. Return on equity is also higher quarter-on-quarter from 7.2% to 8.5% due to higher profits in the quarter. Now we turn on operating cycle in slide 15. As far as quarter-on-quarter is concerned, there is decrease in inventory days from 256 days to 246 days. Finished goods inventory decreased from 164 to 159 days due to increased sales in quarter-on-quarter. Trade receivables also reduced from 116 days to 108 days. Payable days are stable at 74 days.

PK Chand: Now, I will turn it back to Mr. Abdallah for final comment before we answer your questions.

Abdallah M.: Thank you, PK. Looking ahead for 2019, there are a number of external macro-factor which will continue to affect our business. However, we are focused on enhancing our brand and positioning and optimizing operation across the group while continuing to protect our strong market share in the United Arab Emirates, India, Bangladesh, and Saudi Arabia. We expect 2019 to continue to challenge us but remain focused on our key priorities. These includes protecting our growth in the UAE, India, Bangladesh, tableware and faucet business. We will continue investing in our branding and positioning with a focus on media, digital marketing, revamping our showroom, shop in shop concept, social media, visual merchandising, portal for B2B and B2C market, brand and seasonal campaign and participation in exhibition, improve overall performance of India operation as I previously mentioned. We anticipate a turnaround in India which will be supported by the additional capacity. The overall performance of distribution entities in Europe and in Saudi Arabia will continue to implement our strategy and expect to yield positive results in 2019.

Abdallah M.: We will continue investing in upgrading our machinery to reduce the water and the energy cost and develop our automatic cutting, sorting, and packing line and here PK mentioned that last year 2017, our capex was 98 million, this year was 244 and we are expecting to continue spending around the 250 million. This results the capex of the new facility in Saudi, the greenfield facility in Saudi.

Abdallah M.: We will continue our product differentiation by investing in R&D through collaboration with known design houses and the introduction of new marketing tools. We are launching a new technical collection of tiles and glazed porcelain and full body porcelain. We have outsourced the designing of a new collection in sanitary ware to renowned Italian designer, including value-added product.

Abdallah M.: As I mentioned, we are pleased to announce our intention to invest in a state-of-the-art production facility in Saudi Arabia with lower energy price in the region, which has historically been one of our most important markets in the region. We remain focused on improving the profitability of our Indian and European operation, and the growth of our tableware business in the US, Europe and Asia market. Thank you for listening and for your time. I would like to hand over the call to operator and open the line to questions. Thanks again.

Speaker 1: Thank you. Ladies and gentlemen, we will now start our Q&A session. If you wish to ask a question, please press 01 on your telephone keypad. Thank you for holding until we have our first question.

Speaker 1: Our first question comes from [Anu Fernandez Sico 00:26:05]. Please go ahead.

Anu Fernandez: Yeah. Good afternoon and thanks for the opportunity. My question is on the Saudi plan that you are [inaudible 00:26:16]. What sort of a capex are we expecting? I think you mentioned it but I sort of missed you on that. And, secondly, what are the timelines that you expect in this regard? The other question related to this is, is it only the gas price differential that is motivating you to expand capacity and to start to build capacity because this problem has been there for quite some time. It's always been an issue but somehow where it's something that they're excluding only now. So is there just a gas problem or do you see it becoming increasingly difficult for the non-Saudi entities to sell into the Saudi market because of the higher focus on the [inaudible 00:26:57] because if it is only gas, then aren't you better off acquiring some ceramic tile plants in Oman, where [inaudible 00:27:06] so cheap and I'm sure it will be much cheaper for you to buy them than to build a greenfield plant in Saudi.

Abdallah M.: Thank you, Anu, for your question. First, in regard to the expansion or the factory or manufacturing setup in Saudi, we mentioned several times that Saudi was and will remain in the region the biggest market and the biggest demand will come from Saudi. Saudi passed through restructuring the last three years, but we can see a momentum of projects on investing, the new [inaudible 00:27:44] and others. So for us, it is very early stage to declare what will be the capital involved but as yesterday we had the green light with the board, no doubt that we will go explore and see what is the best option and which area. We already were in touch with two industrial cities in Saudi where they have the availability of gas and we will try to finalize and we keep our option.

Abdallah M.: Now, the capacity which the first phase we are looking at is almost 10 million square meter, unless things change in the way and the capex, I don't want to give you an exact capex, but no doubt it will be more than 300 million dirham alone for the expansion. But that is still early because we have the SIDF, the financing in Saudi, and how it will be spent. The expansion might take almost two years. But we will go back and declare all the detail while ... when we have it and when we finalize the location and where we'll start to do it.

Abdallah M.: Your second question on the gas, as we mentioned here, you can see that we did what we can do in the UAE and we are continuing. So we improved our production and the first choice we invested in machinery like core generation to reduce the consumption of our gas prices and the bill in electricity. We invested in new burners to reduce the consumption of gas per square meter. We went and invested even in digital line and digital sorting and direct packing. But as you said here, this year our impact from the gas was 54 million dirhams. So it is a big amount and when we look, you mentioned Oman, we already looked at it. To put it on context, so the price in Saudi, it is less than $2, so they gave us a price of $1.6 per million million BTU. We studied in Oman, it is $6 per million million BTU and what we are paying on average, what we paid 2018 in [inaudible 00:30:39] was $10.9.

Abdallah M.: So the cost advantage remains in Saudi from a cost perspective, and the proximity to market where we already sell to Saudi, so it's not a new market, where it's only we will reduce our transportation cost and also lot of [inaudible 00:31:02] the project in Saudi and the region, it is mentioned to be produced in Saudi, so we will have an advantage to be a local manufacturer in Saudi.

Abdallah M.: I hope I answered your question, Anu.

Anu Fernandez: Yeah, probably, but gas availability remains an issue, right? The thing is, Saudi for example, will have [inaudible 00:31:29] in the past, even cement, the companies that have expanded capacity in Saudi, they are struggling with the availability of gas or even fuel oil, for example. So it's not going to be ... it's always going to be a challenge [inaudible 00:31:43] you will be assuming when you embark on this project. So I was just trying to look at it from, assuming that risk versus buying capacity also, if it's not [inaudible 00:31:54] sale of material within the GCC is not an issue, that doesn't become an issue in the future, then you're probably better off buying something which is cheaper and where you have more visibility on the price of fuel.

Anu Fernandez: But that's fine. My second question is related to your UAE market. The sales that have been secured in the fourth quarter, how do you see demand evolving over the next two years compared to the previous two in the context of all this new supplier, real estate supplier that is coming in? If you could give us some color on what's happening there, what speaks, are these projects, when you look at it from the point of view of demand for your products, tiles and sanitary ware, and how will that impact demand over the next two years? And if you could give us some more color on the softness in Bangladesh as well, because it's been a trend now for the past three quarters.

Abdallah M.: Anu, one regarding the availability of gas, for sure, as I said now, we took the approval or the direction from the board to go and negotiate and see. We will look at the availability from our initial check out, but it was the gas, there is a guarantee of availability of gas. So the second one is the UAE market. Look, no one can give in two, three years' time, but what we can see in the UAE, our sales to the project sector grew last year and the total sales was 52%. We know during 2019 there are lot of supplies and this is coming out further, come on the last stage.

Abdallah M.: And we do not see even there is [inaudible 00:33:52] we said it's cautiously looking at the market, but we are well-positioned and we are specified of the major projects and the building getting delivered in 2019. Looking at the 2019 onwards, we have to see how the market of real estate moves. Meanwhile, as you know, we mentioned that we opened a new showroom in SH Zayed road Dubai this showroom was a success story and it is one of the major stage happening. We already are strengthening our showroom network. We are signing off another showroom in Abu Dhabi. We are working on the specification, on the distribution, so we're trying our best as we said to protect and to increase our market share. Even the market demand will reduce, our market share will increase.

Abdallah M.: Regarding Bangladesh, Bangladesh we mentioned from the beginning of the year that this is the year of election. And during a year of election, we do expect some disturbance in the market, but if you see our sales in Bangladesh was lower by 1.3%, which is stable. Bangladesh market also we are looking and studying to increase our capacity. We have limited land bank, so we studied how to change some existing machineries and to increase our capacity because also, lot of new player in the market and when the new players in the market prices were reduced but we are playing in the premium segment and we are strengthening our existing by also the same concept of rebranding which we have done it, as well as the shop in shop and distribution, plus the specification focusing on B2B sales.

Anu Fernandez: Yeah. Thank you, thank you, Abdallah, and all the best for 2019.

Abdallah M.: Thank you.

Speaker 1: Our next question comes from [Samir 00:36:21] [EFG]. Please go ahead.

Samir: Hi. Thank you, gentlemen for the call. I have two questions mainly. First on, do you have any update on the anti-dumping investigation which started in November? When do you expect any kind of anti-dumping duty to be enacted? That's the first question, and second is on your tableware, because it has been growing from the last couple of quarters, and I just want to know what's the capacity utilization for tableware and any capacity expansion you have planned. And third is on your gas prices you mentioned for the Saudi, because the Saudi government is planning to increase or cut down the subsidy significantly over the next couple of years. How will it fit into your plan of moving to Saudi to set up a new production over there?

Abdallah M.: Okay. Thank you, Samir. Regarding the anti-dumping, after filing the anti-dumping case, in six months I believe a provisional duty, which is above 30%, can come. So till now, there is no manual, but we expect in the few months coming an anti-dumping which will come on the import of tiles. This is a good opportunity for the local manufacturer. Also for us because, as you said, we produce differentiated product and we have the full solution, so this is where we're expecting.

Abdallah M.: In terms of the tableware production, up to the existing capacity we are using 95% out of the existing capacity, but it is easier for us to grow and now we are also working on [inaudible 00:38:34] because we produce the ivory color, the white color, and now by end of this year we'll be able to produce the bone china, which is used in airline, which is lighter. And the growth in sales mainly is coming from Europe as well as growing our operation. We mentioned three years back that we started our operation phase, distribution operation on the [inaudible 00:39:03], and this is shaping up, and we have a good potential.

Abdallah M.: In terms of the gas price, honestly, as mentioned till now, we are not ... we are discussing and no doubt we have to take assurance on the gas prices. But as the initial discussion, it was the price is more or less, they can give a guarantee on how much it will be increased, the ceiling of increasing. But all of this is a preliminary stage. We will have to negotiate and we come back on this.

Samir: All right. Thank you. [crosstalk 00:40:02]

Speaker 1: Our next question comes from [inaudible 00:40:05] Holding Company. Please go ahead.

Speaker 7: Yeah. Good afternoon, gentlemen. My question is regarding [Alhambra 00:40:12] land. So is management effectively pursuing this land or this is something that you have put back on the agenda? And second question is, can management give kind of a broader guidance on revenue for 2019? That's all.

Abdallah M.: Okay. There is a tight market for a big plot and big project is [inaudible 00:40:48] but as mentioned, we are discussing, we are always keeping in mind what can be done. And we are discussing internally with a development company [inaudible 00:41:03] preparing a plan with them, but all of this we will give an update whenever it is available. In term ... in term of revenue, now with the capacity we have in India coming this year, and the projects which we are planning in Saudi it will not come in play, so normally it is going slightly higher than this year.

Abdallah M.: (silence)

Speaker 1: [Mr. Osip 00:41:56], has your question been answered?

Speaker 7: No ... Yes. That is it. Thank you very much.

Speaker 1: Our next question come from [Muhamad Asulfan 00:42:06] of [inaudible 00:42:06]. Please go ahead.

Speaker 8: Hello, everyone. Thank you PK, thank you Abdallah for insightful presentation. This is [inaudible 00:42:18] from [Rochelle Investment 00:42:18]. I have three questions. The first is, are you comfortable with the current state of the day-to-day operations? If you look at your cash convergence cycle over the last eight year, it has been lengthening and you have stated previously that you are looking to take this number down. What plan in place do you have to reduce the cash convergence cycle, for instance? And are you willing to change the current business model to incorporate those plans?

Speaker 8: My second question is on the operating margin. If you look at your gross margin in [inaudible 00:42:59] report over especially the last five years, but I cannot say the same on the operating margin level. So do you have any plans in place to improve the operating margin? And lastly, on the gas efficiency [inaudible 00:43:12], so you talked about the impacts of increasing gas prices and you talked about investments in gas efficiencies, so what would the impact have been without those gas efficiencies investments this year? Thank you.

PK Chand: [inaudible 00:43:46] your first point is concerned, as far as cash, day-to-day cash maintenance is concerned, for 2019, what we are targeting is that we need to reduce the level of inventory. Right now the level of inventory is around 246 days, which we think that we are targeting to reduce to 220 to 225 days. So that is what we have thought of in 2019. As far as receivables are concerned, it has already gone down in 2018, and significant reduction is not expected in the given circumstances. The payable number of days will also continue to be almost same, so as far as the total operating cycle, which is around 222 days, we feel it should be around 210 to 215 days in 2019. Your second question was as far as the operating margin is concerned, so which is at all-time high of 33%, but the-

Abdallah M.: Despite the gas price.

PK Chand: Despite the gas price, so if we have some benefit in the gas price, then obviously it will reflect in the operating margins. Then, next question, what you asked is that the gas price increase has been in 2018, now what actions we are taking. So what we have done is we have partially held our gas cost because the gas is linked to the crude oil price, and we have held part of our exposure because recently, you must be knowing that the crude prices have come down, and we have held part of that. So that benefit should come from March or April onward compared to 2018. Does that answer your question?

Speaker 8: Just a followup on the inventory cycle. So, what do you plan to do to reduce the inventory cycle? Are you cutting back production of ... what is the plan exactly?

PK Chand: Yeah. The plan is that, yes, we will optimize production so we will ensure that in each plant the production is lower than sales. So that is the first step that we are taking. And then even some older stock, wherever we can sell. So all that plants will be there, how to sell the inventories.

Speaker 8: Okay. That answers my question. Thank you very much, and have a good day, [inaudible 00:46:32].

PK Chand: Thank you.

Speaker 1: [crosstalk 00:46:33] Our next question come from Mohamed Haider from Arqaam Capital. Please go ahead.

Mohamed Haider: Thank you, [Olid 00:46:40]. Can I please ask about the formulas, the dividend payout policy [inaudible 00:46:46] is currently ... we're operating at? Is it in line with what you gave for 2018, 75%?

Abdallah M.: Look, always, we mention that the board of [inaudible 00:47:01] announced that the payout dividend will be 60% and since then, we are paying more than 60%. And if you see this year, the board approved yesterday or recommended to the general assembly cash dividend of 15 [inaudible 00:47:19] which is exactly 60% of the profit, plus the 5% stock dividend. So our policy, which we put in and we always expected that we will be paying 60% of our profit in case the company does not need this money to reinvest.

Mohamed Haider: I see. And are dividends usually linked to the group net profit or to parent net profit in your policy?

Abdallah M.: Total. No, total group profit. Total profit.

Mohamed Haider: Okay. Understood. Thank you very much.

Abdallah M.: Yep.

Speaker 1: Our next question comes from [Joe Francis 00:48:05], Bahrain National Holding. Please go ahead.

Joe Francis: Hi, thank you for taking my question. I have only one question. It's regarding the environment testing assumption, in which you have assumed an annual growth rate of 8 to 13%. Given the difficult market condition you are going through in recent past and some future going forward, isn't that an aggressive assumption? And if you come down your assumption to, say, 4 to 5%, what would be the impact on goodwill? Yep. That's my question.

PK Chand: No, can you repeat your question, please?

Joe Francis: My question is regarding the environment testing. So you have assumed an annual growth rate of 8 to 13% for next five years to test the environment on the goodwill. Given the tight market condition you have been going through, and the expected slow growth in future, isn't that, the 8 to 13% annual growth too optimistic? And if you say half the annual growth, what would be the impact on goodwill?

PK Chand: Before testing the goodwill environment, yes, we have assumed a growth of around 8%. And we do not foresee, because the several actions which have already been taken by us, like backward [inaudible 00:49:56] in the back office function, reduction in the number of warehouses, so the profitability is bound to improve in Saudi Arabia and we do not foresee any problem as far as the goodwill impairment in Saudi is concerned.

Joe Francis: Okay. Thanks.

Speaker 1: Ladies and gentlemen, I would like to remind you if you have any further question, please press 01 on your telephone keypad.

Speaker 1: Our next question comes from [Michael Shay 00:50:33] from CI Capital. Please go ahead.

Michael Shay: Good afternoon, everyone. Thank you for the presentation. I just had a question regarding the strategy. So as I understand ... as I currently understand that there is an issue with the inventory and trying to lower your inventory days on hand. And you are operating ... you operate [inaudible 00:51:03] rates in the tile UAE is around 75%, 75 to 80%, and you're now adding your capacity in Saudi. I understand that you might have ... be doing higher margin with the Saudi plant given the lower cost, but why not just to be using the remaining [inaudible 00:51:26] that you can be using with your existing plant in UAE and ramp it up to 100% instead of building a new one and lower your inventory?

Abdallah M.: Thank you for your question. As we said, what we invested this year was, and will continue to invest, is the [inaudible 00:51:53] and how we can be more efficient in manufacturing and lower the energy cost. But as you see, historically and from a strategy perspective, we mentioned that we have our core market, which is the UAE, India, and Bangladesh where we have manufacturing and we have a value market which is the Saudi and Europe, which are the biggest markets for us. And obviously, with a lower cost of production plus higher cost of transportation, even though we are having a good margin but on the end, this is eating from our market share in such market.

Abdallah M.: So, adding a ramp up the capacity to 100% in UAE will be using old machinery where the efficiency is not there. So instead of increasing our spending to modernize this facility, it is better to put up a factory which is closer to the market, which is having a lower cost of production which will not serve only the Saudi market, but also will serve some export market where by having the same price and the same positioning will have a better margin on the long term.

Michael Shay: Yeah. Okay. I see. Thank you very much.

Abdallah M.: Okay.

Speaker 1: Ladies and gentlemen, as a reminder, if you have any further questions, please press 01 on your telephone keypad.

Speaker 1: We have no further questions. [inaudible 00:53:44] for the conclusion.

Abdallah M.: Thank you. [crosstalk 00:53:49]

Mohamed Haider: Thank you Abdallah and PK for your time and thank you everyone. Yes, Abdallah, go ahead, please.

Abdallah M.: Thank you, Mohamed. Thank you everyone for your time.

PK Chand: Thank you.

Speaker 1: Which concludes today's conference call. Thank you for your participation. You may now disconnect.