Operator: Ladies and gentlemen, welcome to RAK Ceramics Fourth Quarter and Full Year 2019 Earnings Call and webcast. I will now handover to Mohamed Haidar from Arqaam Capital. Please sir, go ahead.

Mohamed Haidar: Hello everyone and welcome to the RAK Ceramics Fourth Quarter and Full Year 2019 Earnings Conference Call. This is hosted by Arqaam Capital. This is Mohamed Haidar from Arqaam Capital Research. And we are joined today by Mr. Abdallah Massaad, Group CEO. And Mr. PK Chand, Group CFO. Without any delay, I will now hand over the call to Mr. Abdallah. Please go ahead.

Abdallah Massaad...: Thank you, Mohamed and good evening everyone. I'm Abdallah Massaad, CEO of RAK Ceramics. Welcome to RAK Ceramics fourth quarter and full year 2019 results conference call and webcast where I'll take you through the key business update and full year 2019 financial results.

Abdallah Massaad...: 2019 was tough for many businesses in the region. However, our results show that our company remain one of the most resilient in our industry as well as the region. We are confident of coming out of this current downturn stronger than before through our clear focus on enhancing brand equity and developing a differentiated product portfolio to provide premium right size solution. This along with the results of our ongoing efficiency program means that we remain one of the most prestigious ceramics brand in the world.

Abdallah Massaad...: We are pleased to mention that in our Saudi Arabian entities, a combination of the focusing on offering a competitive product mix to our customers and improving efficiencies through the rationalization of manpower and warehouse cost resulted in the Group and revenue and improved profitability. We have positioned our self as premium product suppliers in Saudi Arabian market with differentiated products compared to local manufacturers. Last year we have opened two new showrooms in Riyadh. And we are planning to open another six new showrooms. We are optimistic for growth in Saudi Arabia due to increasing construction activities.

Abdallah Massaad...: We are well-positioned to take advantage of imposing of anti-dumping duty of tiles from India, China, and Spain from GCC Council as being reported. Sanitaryware business as one of our focus growth drivers increased by 4% year-on-year to 505 million dirham driven by Saudi Arabia, Middle East, Europe and Africa. In UAE, we have upgraded our production line to produce bigger size ceramic tile. We continued improving technology in our plants to reduce energy consumption and increase efficiency.

Abdallah Massaad...: As a result of the above strategies, despite decrease of total revenue in 2019 by 5.6%, we have been able to improve the overall gross profit margin by 120 basis points to 33.2%. And lower SG&A by 13.6 million dirham on constant currency of 2018 revenue decreased 2.8% year-on-year. Coming to segment performance, our tile revenue decreased by 9.9% year-on-year to 1.66 billion dirham due to lower volumes in all market except Saudi Arabia and Bangladesh.

Abdallah Massaad...: Having reached maturity, it was essential for us to focus on value while protecting the volume. And we have succeeded in positioning the brand at the level where the impact of the macro-environment was negligible to what could have been end case, we had not strengthened our market presence and brand positioning. The rebranding of RAK Ceramics has and changing the brands perception has been a success in 2019. And we have done this by differentiating our self from competitors through better product management portfolio optimization and introducing innovative products like smart toilet, transclusion size, and many innovative product.

Abdallah Massaad...: Innovation and product design evolved by forming alliance with major renowned designers like Patrick Norguet, Maurizio Scutella, and others. In the tableware revenue also increased by 2.2% year-on-year to 269 million dirham on constant currency the increase is 4.1% driven by USA and UAE markets. Revenue in USA market increased by 25.1% to 37 million dirham. And in UAE by 1.4% to 73.6 million dirham year-on-year. Revenue from other businesses have increased by 2.1% to 138.6 million dirham supported by ceramics raw material glazing and paints business.

Abdallah Massaad...: In UAE market we continued investing and revamping of our own showrooms in RAK headquarter and via our showrooms, which were opened in the fourth quarter 2019. And we continued to supply tiles and sanitaryware to premium developers like Emaar, Damac, Nashaama and so on. Total revenue in UAE market decreased by 4% year-on-year to 761 million dirham in 2019 mainly due to decrease in project segment by 3.4% in distributors by 7%, and retail business by 6% year-on-year.

Abdallah Massaad...: Revenue in Saudi Arabia is higher by 9.1% year-on-year in 2019 at 272 million dirham supported by growth in the wholesale business. Tile revenue was higher by 6.9% and currently we have revenue by 41.6% year-on-year. In Middle East revenue decreased by 37.6% year-on-year to 78 million dirham due to continued regional economy slowdown and geopolitical conditions.

Abdallah Massaad...: In India exports have increased from 15 million dirham last year to 67 million dirham in 2019. Our strategy to make India operation as a hub to serve export market has been well established.

Revenue in INR for 2019 is lower by 8.5% year-on-year to 273 million dirham. Our priority in India is to ramp up full-fledged production of slabs and increase export turned around overall India operations by producing cost optimization, strengthening the position by opening company's homes and dealer showrooms to grow in domestic market. In Europe, the operational performance continued to improve in 2019 with higher gross profit margin. We are taking initiatives to build on the current strength, and help relationship, and increase the number of customers in Central Europe.

Abdallah Massaad...: Total revenue in local currency is lower by 2.4% year-on-year to 328 million dirham by revenue lower by 12.4% year-on-year while currently we have revenue in local currencies is higher by 19.8% year-on-year mainly driven by UK market. In Bangladesh competition is more intense. And also increasing import of local tile from China, gas prices have also been increase effective 1st August 2019 by 38% for industry, and 44% for captive power.

Abdallah Massaad...: Despite this increase, our gas prices in all our India and UAE is much higher than what we pay in Bangladesh. To counter these challenges we have increased incentive to dealers to push sales and continue to improving operational efficiencies to support maintaining the first choice production for tiles. We also focus on branding, advertising, and promotion across various media channel. A new showroom also scheduled to open in Dhaka.

Abdallah Massaad...: Total revenue in local currencies is higher by 2.2% at 280 million dirham year-on-year in 2019. Gross profit margin has improved in tile due to better efficiencies. In Africa, revenues of 2019 have decreased by 4.8% year-on-year to 81.5 million dirham due to increase of competition from local manufacturing units largely driven by Chinese investments. Our tableware businesses continue to grow driven by USA market, which it grew by 25.1% year-on-year.

Abdallah Massaad...: Our Luxembourg warehouse has started operations successfully. We are upgrading the tableware plant to facilitate a large scale production of bone china products in 2020. Bone china is a very good product, which mainly gets sold into high-end restaurants and also in-flight product, in-flight tableware used in-flight in the planes. As you know, we are supplying in our lines launches around the world. And by entering into the bone china, this will open us a big market especially, in the high-end segment as well as the airline business.

Abdallah Massaad...: Revenue for 2019 is higher by 2.2% year-on-year to 269.4 million dirham. Our overall SG&A cost have also decreased by 13.6 million dirham year-on-year and net finance cost also remains stable year-on-year despite high currency volatility and increase in labor rates from 2.08% to 2.43% year-on-year. I will now take you through the main financial highlights for the full year 2019.

Abdallah Massaad...: Total revenue decreased by 5.6% at 2.57 billion dirhams compared to last year on constant currency of 2018 the revenue decreased by 2.8%. Total gross profit margin increased by 120 basis points to 33.2% driven by an increase in tiles gross profit margin by 240 basis points to 29.6% on improved efficiencies. Reported net profit decreased by 8.8% year-on-year to 205.2 million dirham with a margin decrease of 30 basis points year-on-year to 8%. Net profit after minority decrease by 10% year-on-year to 164.4 million dirham with a margin decrease of 30 basis points year-on-year to 6.4%.

Abdallah Massaad...: Our like-for-like net profit excluding provision and external netted gain decreased by 13.5% to 195.1 billion dirham with a margin decrease of 70 basis points year-on-year to 7.6% mainly due to. Total EBITDA increased by 8.9% year-on-year to 482.8 million dirham with a margin increase of 260 basis points year-on-year to 18.8%. I will thank you for listening and I will now hand over to PK Chand, our CFO.

PK Chand: Thank you, Abdallah. Good evening everyone and thank you for joining us. Mr. Abdallah has already briefed some rise to financial highlights. And reasonable performance for the full year of 2019. I will take you through the fourth quarter 2019 results and segmental highlights with details from revenue, profitability, and the balance sheet.

PK Chand: We will start with slide eight. A reported total revenue for the fourth quarter 2019 is lowered by 3.9% year-on-year to 685 million dirhams. However, on constant currency of the fourth quarter of last year, revenue decrease is 2.9%. Tile revenue decrease, 10.5% year-on-year to 428 million, mainly due to decrease in volumes from UAE, Middle East, Europe, and India markets.

PK Chand: Sanitaryware revenue increased by 2.8% year-on-year to 133.2 million dirhams, mainly driven by Saudi Arabia, Middle East, Europe, and Indian markets. Tableware revenue on reported basis increased by 4.6% year-on-year to 78 million dirhams. On constant currency of last year, revenue has increased by 5.8% driven by Middle East and Asian markets. Revenue from other businesses also increased by 51% year-on-year to 45.4 million dirhams due to higher sales in ceramic raw material trading and paints businesses.

PK Chand: Of the total revenue in the financial year 2019, tiles contributed 64.5%, sanitaryware 19.6%, tableware 10.5%, and others 5.4%. Total gross profit margins increased by 170 basis points year-on-year to 33.6% in fourth quarter 2019. Tiles margin increased by 370 basis points to 31.2% driven by continued cost reductions and improved operational efficiencies by leveraging automation.

PK Chand: Sanitaryware margins are stable at 36.2% while tableware margin decreased by 210 basis points to 48.4%, mainly due to product mix change. A reported net profit has decreased to 49.4 million with margin of 7.2% compared to 57.1 million dirhams in the last year fourth quarter. Net profit after minority decreased to 35.1 million with margin of 5.1% compared to 43.4 million in the fourth quarter last year.

PK Chand: Like-for-like net profit that is excluding provisions and external netted gains decreased to 55.6 million and margin decreased to 8.1%. Total EBITDA increased by 14.5% to 134.4 million year-on-year with margin decrease of 310 basis points to 19.6%. IFRS 16 had a positive impact of 9.4 million dirhams in the quarter. On like-for-like basis, the margin is 18.3% in the fourth quarter of 2019. Net debt decreased from 1.43 billion dirhams in December '18 to 1.37 billion dirhams in December '19. Net debt-to-EBITDA reduced from 3.23 times in December '18 to 2.85 times in December '19.

PK Chand: As informed, IFRS 16 had a positive impact of 29.7 million dirhams in the full year EBITDA and therefore, on like-for-like basis, net debt-to-EBITDA works out to 3.03 times. Slide 12 shows some financial highlight with details of performance on operations. On the cash front, capital expenditure for 2019 was 178 million dirhams compared to 244 million dirhams in 2018. Mainly, the spending has been 119 million dirhams for plant up-gradations and maintenance capex, 38 million dirhams for Morbi, India joint venture, and 21 million dirhams for tableware Europe warehouse.

PK Chand: Capex for 2020 is expected to be in the range of 200 to 225 million. Now, we turn on the operating cycle. As far as quarter-on-quarter is concerned, inventory days have reduced from 261 days to 258 days. And in absolute terms, it decreased by 37 million. Trade receivable days increased by three days quarter-on-quarter at 119 days. Trade stable days decreased from 68 days to 67 days quarter-on-quarter.

PK Chand: Increasing overall working capital days compared to the fourth quarter 2018 is mainly due to lower sales year-on-year and reduction in trade stable days from 74 days to 67 days for capex payments. Now, I will turn back to Mr. Abdallah for his final comments on 2020 priorities before we answer your questions.

Abdallah Massaad...: Thank you, PK. 2020 gain was good news about discovery of a natural gas field containing 80 trillion standard cubic feet of gas between Abu Dhabi and Dubai. This would help the UAE to become more energy independent. As you know, we pay higher gas price compared to our peers in the region. However, we are hopeful that in a time where the gas would be available at the time RAK Ceramics. We will be able to benefit from lower energy costs, which is our big disadvantage.

Abdallah Massaad...: Also, we are well-positioned to take advantage of imposing of anti-dumping duty in the GCC as it's being reported. And during 2020, we will remain focused on our key priorities. We are focusing to invest more in sales and marketing to support our brand perception. We will continue to protect our market shares in the UAE, Bangladesh, our tableware growth, and our faucets business. We are taking initiatives to grow Saudi Arabia by eroding out the UAE more by further increase our presence by continue brand campaign opening the new showrooms and target government projects. The Saudi Arabian growth is likely to offset any slowdown in other regions.

Abdallah Massaad...: We will improve the overall performance of our Indian operations by developing domestic network for slabs, strengthening the brand in core markets through flagship showrooms of product offering. We will increase the distribution network across India by using a mix of franchise dealers and operated by RAK Ceramics showrooms to ensure proper communication. We will also optimize the cost structure and turn around the operation in India. To improve further the overall performance of distribution entities in Europe, we will continue to implement our strategy like sales of high margin product by changing our focus to more slabs from present selling of normal size as well as increasing the sanitaryware and tableware business in Europe.

Abdallah Massaad...: At times, we are focusing on diversifying our territorial revenue generation and increase our market share in the export division across the business lines. We will continue investing in our branding positioning with a focus on media, digital marketing, social media, and visual merchandising important for B2B and B2C market brand and seasonable campaign and participation in exhibition to maintain market leading position. To increase where we take footprint in core market, we are increasing new flagship and dealer showrooms in UAE, Saudi, India, and Bangladesh market.

Abdallah Massaad...: We will continue our branding through shop-and-shop concept. Our focus on tableware with higher revenue from USA will continue as usual. And we are focusing on the developing our share of tabletop with the launch of stoneware and bone china. Our focus on faucets is to grow market share in export market. We will be launching new products using innovative finishes. And supporting our distribution network by improving awareness and training of our products using our advantage of having a water-saving faucets, which is in a very high demand and direction of the region.

Abdallah Massaad...: I would like to thank you for listening and for your time. I would like to hand the call over to the operator and open the line to question. Thank you.

Operator: Ladies and gentlemen, the Q&A session starts now. If you wish to ask a question, please press zero, one on your telephone keypad. Please be informed that there might be a short silence while questions are being registered. Thank you. The first question comes from Anoop Fernandez from SICO Please go ahead.

Anoop Fernandez: Yeah, hi. Good afternoon gentlemen. Just three questions. First is on your Saudi project. Now, the fact that we have this big gas discovery in the UAE and the fact that energy prices are lower and the outlook for gas prices remains weak. Is this project now on the back burner and you'd rather focus on expanding your capacity in UAE?

Anuk Fernandez: The second question is accounting related. There was a big increase in your tax expense in the fourth quarter. If you could kindly explain why? And on the accounting side, there's a change in the accounting of performance in this quarter. If you could just give us some color on why there has been a change in the accounting methodology? Thank you.

Abdallah Massaad...: Thank you for your question. I will answer the first part of it, then PK will carry on the financial one. Till now, we don't... we pay almost 10 dollars per MMBTU in the UAE, which is far higher than anybody in the region. We did not yet got the low price in energy. Having say this, we are optimistic that during the time we will only benefit because the price, will come down. And this will give us a benefit.

Abdallah Massaad...: Despite this, you know how we work on efficiency and will reduce the consumption per gas per square meter by 20% from multiple initiatives, which we worked on till now. The Saudi project, it did not go through because we did not get till now the license. And we are continuing, we will update you. For the time being, we are carrying on with a differentiated product selling in Saudi and our sales is increasing. And the positiveness that our operation in Saudi is profitable.

Anuk Fernandez: Okay.

Abdallah Massaad...: PK?

PK Chand: As far as your question on tax expense is concerned, please to refer to schedule 12. Now, if you go through the schedule 12, you will find that as far as current tax is concerned, last year it was 18.4 million. This year it increase to 19.6 million. While the full tax last year there was reversal of six million. This year there is a charge of seven million. So that is basically again, and that is coming out from our operations. We're to be more prudent and to be more conscious what we decided was that the full tax essentially to which was created in previous years should be we have written off to be more prudent and to be more conscious as far as our balance sheet is concerned.

PK Chand: Since India has been incurring losses, so this decision was taken. But we are confident about the better performance of Indian operations. And then it can organized as and when it makes profit. So that, the decision we took proactive attitude. And we write off the deferred tax, which we had created in earlier years. Now your question on the performance, the greatest concern, as for IFRS 15. If you pay to the same party, then it is required to be deducted from the revenue. And frankly speaking, this we should have done last period itself. But anyway, we have done this year. And we reclassified the last year accordingly. So this is in line with the requirement of IFRS 15.

Anuk Fernandez: All right, understood. Just one follow up. Any updates on the anti-dumping? Abdallah mentioned something on this earlier in the call. Anything new that you heard on this?

Abdallah Massaad...: No, it is not yet implemented. So we are hearing a lot. And you remember when you asked me the first time, I told you till now it is not implemented. We hear a lot about, a lot of sometime they say it will start in March. I said from the beginning that we are well-positioned to take advantage of it. But we will see when, they are speaking about March 2020. But not yet anything official on this.

Anuk Fernandez: And your Saudi volumes have grown... your revenue has grown by 17%. Is this entire volume?

Abdallah Massaad...: It is kind of mixed of volume and values.

Anuk Fernandez: Okay. Okay, thank you very much-

Abdallah Massaad...: But if you see our Saudi results, this year that we already opened two showrooms. And we are going to open another six showrooms, which gives us, we change the overall look and feel of our showrooms in the UAE as we started now. The showroom in Riyadh, our first showroom looks really different and very well accepted by the clients, which they are visiting.

Anuk Fernandez: Yeah, thanks Abdallah.

Abdallah Massaad...: Thank you.

Operator: Thank you. The next question comes from [Devi Arullah 00:31:00] from Daman Investments. Please go ahead.

Devi Arullah: Hi. The first question is on the macro outlook. So can you please shed some light on 2020? What do you see in UAE? All markets basically, and UAE, and Saudi Arabia, and India, and Europe because the UAE has been weak. So 2019 we can understand it was fair. Do you expect 2020 to be the same as 2019 in the UAE? And in Saudi do you expect revenue to continue? And how about India and Europe? That's number one.

Devi Arullah: And if you can just throw some light on Bangladesh, and also your utilizations in these regions. Also, can you just tell us what is your EBITDA margin, gross margin, as it stood for IFRS 16 and back? Thank you.

Abdallah Massaad...: Fine, I'll start also by the macro too. We are looking optimistic, I can say cautiously optimistic yeah, in 2020. I can say really that ceramics will become immune to any changes comes from a macro perspective. So I still remember the days of 2008, how we became stronger in 2012, and 2016, and we are continuing. Looking at 2020, for sure the UAE market will have a slight decline. But we are opening a new more showrooms. And we're trying to get the maximum benefit.

Abdallah Massaad...: You know that last year, also the market's gone down more than what we lost and saved. We lost 4%. But the market's gone in our competitors much more. We also see a slight decline. But we see this recovered by Saudi growth will recover any decline in the UAE. We see that there will be growth in India, Bangladesh, and Europe. In UK, we open showroom in Birmingham last year. And you see our sales in sanitaryware, which is the highest what we sell in the UK, which is grew by 13.8%.

Abdallah Massaad...: I can see big growth in tiles because historically in Europe, the tiles is sold in Central Europe, mainly Germany. And we are re-opening our operation in Germany starting, the 1st of April. And we see a growth. So looking at 2020, I would look at it as cautiously positive.

Devi Arullah: Yeah, just follow up on-

Abdallah Massaad...: PK?

Devi Arullah: Sorry, just a follow up on Saudi market. So the growth that you're seeing in Saudi, are you getting more market share over there? Overall the market is growing, so there's more activity that you're seeing? Is that [crosstalk 00:34:24]-

Abdallah Massaad...: Yeah, I'll tell you when we look at what is the advantage of the players having or competing in the market, you have to have the raw material, the energy price, and proximity of market, plus for sure, your people, the manpower. So what we did, as we don't have a factory in Saudi. And as we have to pay transportation costs. So we've gone out of the competition of the low level product. And we differentiated our product by having bigger sizes and different typology of product where local factories in Saudi is not producing.

Abdallah Massaad...: So honestly speaking, the market is improving in Saudi generally. And what we are selling is we are able to cater the higher end level. Also, people they have reaction of what will happen on the anti-dumping. And they need alternative products from Spanish, from high-end product, which they were importing as well as the SASO and the new requirement in Saudi that any factory has to be registered. So we were able to position our self as the higher-end factory, be able to supply registered. And the advantage that we have our warehouses in Riyadh and Jeddah, and our team on the ground. So therefore, it's this mix. And I look very positive going forward.

Devi Arullah: But you said [crosstalk 00:36:11]-

PK Chand: As far as your question-

Devi Arullah: Sorry. Just can I follow up [crosstalk 00:36:14]-

Abdallah Massaad...: Yeah.

Devi Arullah: ... again. Is there any update on the acquisition? So you are looking for license also? But I think you were also considering an acquisition in Saudi, right, in ceramic?

Abdallah Massaad...: We wait till now honestly speaking, that's why we were considering either greenfield or acquisition. But till now, we nothing gone through. And we are focusing on the operation in the UAE. And we'll see if we get a good opportunity. Otherwise, we are focusing on the segment. And the way our strategy followed by producing in UAE and exporting.

Devi Arullah: But if the anti-dumping kicks in, then obviously, a lot of cheaper imports might be out of the country. Then it will be beneficial for you to again enter into the lower end segment. So it will make sense to have a factory over there [crosstalk 00:37:07]-

Abdallah Massaad...: This will make sense, no doubt. No doubt, it will make sense. But also it's making sense also from UAE when we differentiated our product. So it is when we will benefit. With a factory, we benefit more because we'll have the full range of product. Without the factory, we'll benefit on the higher segment, which we are doing now.

Devi Arullah: So the license you are talking about, this is the greenfield, right? That's you want to start a new plant [crosstalk 00:37:36]-

Abdallah Massaad...: Greenfield. But honestly, till now we did not get the license and the gas allocation. And without the gas allocation there is no point to do it.

Devi Arullah: Okay. On the UAE, so there is a committee formed till now we have not heard anything in terms of controlling the supply in the real estate market especially, in the residential market. So are you hearing something on that? If that happens, do you think that will be negative for you? So you can, the market for you in UAE can further drop and next one to... If not, then next to one year and next two years?

Abdallah Massaad...: Honestly, I didn't understand the question properly. So what is it? Controlling the demand in real estate?

Devi Arullah: A real estate committee has been formed where the public will oppose on it. And they're having talks that there might be some sort of a freeze or reduction in the off-land sales in the official supply because you know that the real estate market is pretty bad right now. And the prices are falling every year. So there have been talks that they want to do stabilize the market by reducing the supply. So if that... Are you hearing something on that? Can that... How soon can be taken by that committee of public sector developers?

Abdallah Massaad...: yeah. I will tell you for us in UAE, yes, our biggest sale is the project. But project is divided between private government as well as housing program. So any reduction in construction is not good for us, yeah. So we'd like always to see a growth in construction. Meanwhile, we are pretty well focused and available on the retail sector. That's why we opened 12 showrooms in UAE. We are pretty available and working with architects. We have pictured also the different typology of products. So I have featured our product is used in Expo 2020 in counters and some designers worked out.

Abdallah Massaad...: We are working with international designer on having offer. So we are trying to gain more market share, more and more market share. Any reduction in construction, no doubt, will have limiting the demand. But we're trying to gain more market share. It will be better for us. But the good thing that Saudi is opening and Saudi is naturally in the boarder of UAE. And we have also our operation. So we will do this if any reduction happen in UAE, we can offset it by selling more in Saudi.

Devi Arullah: Okay. The second question regarding the margins.

PK Chand: Yeah, yeah. As far as EBITDA is concerned, we have reported EBITDA 482.8 million. And based on this, the margin was total 18.8%. Now, IFRS 16 had a positive impact of 29.7 million. And therefore, on like-for-like basis, EBITDA margin will be 17.6%.

Devi Arullah: And what was it last year on like-for-like basis?

PK Chand: last year. 16.2%.

Devi Arullah: Okay. So there is an increase of...

PK Chand: Yes.

Devi Arullah: Okay. All right. Thanks.

Operator: Thank you. The next question comes from [Michel Said] from CI Capital. Please go ahead.

Michel Said: Good afternoon gentlemen. Thank you for the call and congratulations for the results. I had three questions. The first one regarding gas price as you mentioned, or the potential reduction in gas price in UAE. So did you already had exercise to give us a sense for every one million Btu reduction in gas price, what would be the benefit or the outcome in terms of EBITDA or EBITDA margins? So we can understand the impact. This is my first question.

Michel Said: The second one would be regarding the dividends. You think that you can continue with the same pay out or the same level of dividends going forward because we can see that dividends increased this year. So should we expect this going forward? And the third one regarding any potential trade restrictions with China on the back of the coronavirus? And how will this impact your business in India or the UAE? Do you expect this to be positive or it to be negative? And that's all for my end. Thanks.

Abdallah Massaad...: Okay. If you allow me even though PK will give more in financial. But the gas energy price is one of the most relevant for us. And for every one dollar reduction, the impact in UAE is approximately 19 million dirham. So today, and this is what we always say, that all this result and what we are doing is basically where we are. Our energy price is at the highest level in the region. So every one dollar will give us an impact of 19 million dirham. On the second question-

PK Chand: Dividend.

Abdallah Massaad...: Dividend policy, we paid the same of last year. We had our dividend policy, which is minimum 60%. And what we paid last year is 15% in cash. Now, the stock is different. But the cash I can see that as we are seeing it is a sustainable level. In term of coronavirus, now fortunately or not fortunately, actually, we don't sell to China. It's very, very minimal amount. And on the other hand, we saw that some demand arise from projects, which they were getting delay of supply from China. And people came to us because there is a timeframe to supply. And we saw some demand of product even they say at higher price. But we'll be able to supply. I do not see any impact of coronavirus in our business as of now.

Michel Syde: Yeah, thank you. [crosstalk 00:44:52] thinking of it on the positive side. I was thinking that the substantial limit of trade with China as its biggest exposure can be positive for Indian business, or your e-business.

Abdallah Massaad...: Yeah, yeah. So this, we saw it. So honestly, this year for the reason or not. So I had the local VP UAE market calling me said, "Look, three projects, big projects. They were material from China delayed." They came. They paid us higher price, but three supply. So we see it, yeah. We don't want to see it positively. But yeah, so this while we have a good capacity, we are well-positioned. So any delay from anywhere it will impact us positively.

Michel Syde: Yeah, okay. Perfect. A follow up question on the gas impact. You just mentioned 19 million. This is on the bottom line or is it on the EBITDA?

Abdallah Massaad...: It's on the bottom line.

Michel Syde: Yeah, okay. Thanks. Thank you very much.

Abdallah Massaad...: Thank you.

Operator: Thank you. The next question comes from Samir from EFG Homes. Please go ahead.

Samir Hey, thank you for the time. I have one question on your tableware capex you mentioned. So how much, I mean, more investment are you planning to tableware? And what kind of capacity are you planning for? And another question is on your Indian operation. I know you have a lot of growth expectation from the market. But if you look, that despite additional investment you have made in the market, it's revenue kind of needs to decline. So I know the market is also not doing well in the last couple of quarters. So what's your plan going ahead? Yeah, these are the two questions I have.

Abdallah Massaad...: Samir, I will thank you for your questions, always valuable. In India, yes, local market is tough the last few quarters. So what we discussed last year, we mentioned in our earning calls last, we will leverage our export market to create an export to make India a parallel export hub to RAK Ceramics, where we will have two export hub. One from Ras al khaimah and one from India. And if you see that this year we were able to grow our export from 15 million dirham last year to 65 million dirham this year. And this was a great success, which offset part of the decline in local markets.

Abdallah Massaad...: So we feel that our team in India gave us a little optimistic budget for 2020 where we will recover what we lost locally last year. And will continue to support the export out of India. For the tableware investment, it's a very, very high margin and profitable business. And to grow this business, we went into different typology of products. We were producing the ivory color. We started producing the white, which is white porcelain. Then the other two categories in this product is the bone china and the stoneware.

Abdallah Massaad...: So stoneware we started introducing. Bone china, we had existing place within our premises. For only we are investing more or less 15 million dirham in total between adding one kiln, some presses, and moulds. So it is not a big investment. But will have big impact on the business.

Samir .: Okay. Thank you. I have one follow up question. I'm sorry. I have one other question on your SG&A expenses. You mentioned that it is down year-over-year. So is it sustainable, that decline? Or, since you have additional plans to penetrate into more markets, you might increase that SG&A going forward? So how do you see?

PK Chand: It is a continuous exercise. So every time we keep on organizing based on the zero budgeting. So wherever we feel that yes, this expenditure we can reduce, we attack on that. And this is how if you see our last two years, three years performance, every year we have been reducing our SG&A. So this a continued exercise. And we will continue to do that.

Samir Okay. Got it. Thanks a lot and...

Operator: Thank you. Ladies and gentlemen, just a reminder. In order to ask a question, please press zero, one on your telephone keypad. Thank you. We have a question from Devi Arullah from Daman Investments. Please go ahead.

Devi Arullah: Hi. The first question is linked to the cost of sales. So do you see a place for more efficiencies going forward in 2020? Or, now you think your at optimal levels in terms of the labor costs, in terms of power and fuel costs, which has been going down. Even the LPG and natural gas cost, they also been down quite significantly. So that's number one.

Devi Arullah: And on the European operations. Are you making profits there right now? And then can you just explain more about the European strategy and also the strategy Bangladesh going forward? That's what is my understanding I think. In Bangladesh, you are almost fully utilized in terms of your capacity, right? So is there any plan to go further over there? Thanks.

Abdallah Massaad...: So thank you for your question. Regarding the efficiencies, so it's always we cannot say that this is the maximum level. We always continue. So this year, we gone to almost 2% more in first choice. We were able to as you said, the cost of energy, it didn't go down by the energy per square meter because of changing part of our machineries and implementing the Six Sigma. And we have more than 10,000 man hour training. So we are working very hard on our people on the SKUs and the substitution of raw material. And they're using the latest technology to reduce our cost and improve our efficiency.

Abdallah Massaad...: So there will be always room to improve. So we cannot know what will happen. But till now, everything we could do it, we've done it. And we will continue to improve it further. In Europe, this year it was not profitable and is not very losses because of the exchange rate also. Our major sale is to the UK where we have a translation loss of products. But if we look at the level of currency adjustment, we are good. But Europe, gives us not only the profitability in Europe, but gives us to be always competitive being selling products in Europe with a high standard, give us a lot of percentage in other market. And the know-how and knowledge, and the trend setting worldwide.

Devi Arullah: Okay. And Bangladesh?

Abdallah Massaad...: Bangladesh? What was the question? Sorry.

Devi Arullah: So what is the strategy in Bangladesh? Do you think you need to expand your capacities over there further? And how is the market doing in Bangladesh?

Abdallah Massaad...: Bangladesh, as a brand we are remaining as the premium brand in Bangladesh despite a lot of capacity increase in the market. But the market is improving. We can see continuous growth and demand in tiles and sanitaryware. We will improve our production. We have in our capex this year some upgradation on the plant to improve our production cost and efficiency. Bangladesh remains one of our core market. And if you see also we are opening a showroom in Dhaka to improve for our existing facility can absorb the improvement we are doing. Then we'll look at no doubt going forward for acquisition on a greenfield, no doubt.

Devi Arullah: Okay. Sorry, just a question regarding are there any smaller markets you think in your portfolio where you should be exiting? Or, you feel that you should exit in next one or two years and is not worth staying there and spending money?

Abdallah Massaad...: Honestly speaking, if you follow us, that we've done already this value creation plan. You know that we exited Sudan. We leave Iran. We shutdown China. We sold many, many, many non-core and core businesses by selling Laticrete and so on. So if you look at our business, 95% today from the revenue comes from the core. And the other non-core is mainly from trading of raw material. So basically, we became very fit and focused. And the two areas which we will focus more in next year is the turnaround in India and Europe. So these are strategic market, which we don't want to exit. But we want to be more efficient and focused on it.

Devi Arullah: And sorry, on the Bangladesh side, how is the market doing in terms of let's say demand supply situation over there? Is there a growth [crosstalk 00:56:59]-

Abdallah Massaad...: Demand, yeah. Demand is growing. But there are a lot of newcomers and a new capacity, which get absorbed by the local market, by the way. There is a growth in demand in building material sector products. As I said, we were among the first and we are positioned as the highest end, or a high-end product, premium brand in Bangladesh. And honestly speaking, this plant since inception till now, it is always profitable and always performing.

Devi Arullah: For India, is there any timeline for you to be profitable? How much time you have set, let's say next two years we've offered double, or we have to take [crosstalk 00:57:50]-

Abdallah Massaad...: You touch it. So we have a plan for the next two years. So no doubt [crosstalk 00:57:59].

Devi Arullah: I think it has a drag on the company's performance from last so many years now because [crosstalk 00:58:07]-

Abdallah Massaad...: Yeah, but also not only us. The Indian market gone into a recession. But we succeeded by opening it as a export hub. And it is profitable for us. So if we look at the export, we exported 67 million at the margin more than 31%, which is a very profitable for us as a group. So yes, local market, no one knew about the monetization about GST, RERA etc. So all the information in the economy happened in the last two, three years. Meanwhile, with this we adapted ourselves to the new regulation. And no doubt, next year will be better. And then, within the next two years, it will turn into profitable locally in India.

Devi Arullah: Okay. That's based on the turnaround done by you? Or, the profitability will depend on the market itself? If market doesn't turnaround in next two years, then even you will have the same issues, right? So you're depending on [crosstalk 00:59:27]-

Abdallah Massaad...: Yeah, but we are growing our exports from India. So if we can grow, last year we exported only 15 million dirham. This year, 2019, we're able to export 67 million dirham at 31% profit. So it's added 20 million, more than 20 million dirham in our profit margin. So we are hopeful. If the market turn, this is good. That's why I told you as a Group, as RAK Ceramics we became very immune. Immune because sometime Saudi gone down market, UAE come up, sometime Europe improve, Bangladesh doesn't.

Abdallah Massaad...: But this is a natural hedging at least to the Group. So we hope that it will go positive. If it will go negative, we'll try our best from our perspective and our micro, we will do whatever's we needed. And our brand will support us. And that's why if you see , all our focus on branding and positioning.

Devi Arullah: So let's say right now the Indian exports from India contributes around I think 15% to your overall sales from India. Then what this can be in next two years or three years? The contribution exports.

Abdallah Massaad...: I don't have a simulation now in front of me. We're trying our best to increase. But we don't want to increase because there is a lot of exports out of India with zero margins. So if you see our margin is 31%. So it's a high margin. And we want to do it, value more than volume.

Devi Arullah: Okay, fine. Thank you.

Abdallah Massaad...: Thank you.

Operator: Thank you. Your next question comes from [Mohamed Tallids 01:01:29] from FALCOM Financial Services. Please go ahead.

Muhammed Tallids: Hello. Hi, good afternoon. [inaudible 01:01:36]. I have three questions regarding to the... Hello?

Abdallah Massaad...: Yeah. You have a problem in the voice, yeah.

Muhammed Tallids: I have a problem? Do you hear me now? [crosstalk 01:01:51].

Abdallah Massaad...: [crosstalk 01:01:53]. There is a lot of echo.

Muhammed Tallids: My voice is it clear right now? Hello?

Abdallah Massaad...: Oh, no. Your voice is not audible.

Muhammed Tallids: Oh, it's much [inaudible 01:02:08].

Abdallah Massaad...: Carry on, maybe we'll be able to hear the question.

Muhammed Tallids: How's the market now in Saudi Arabia in terms of coronavirus? Is this the same issue happens to the UAE reflecting Saudi Arabia right now?

Abdallah Massaad...: Well, what we heard what is the micro or how you see the Saudi market. But we couldn't link what you are asking in UAE and Saudi together honestly. Can you repeat it?

Muhammed Tallids: I mean, the coronavirus, in terms of coronavirus. Is it the same reflecting that happen to the UAE is happening right now to Saudi market?

Abdallah Massaad...: Honestly, we don't know because of it is something where in UAE this what I get from our head of the UAE market. And to be honest, I did not ask our Saudi operation what is there. But I can see a good order intake coming from Saudi. But I cannot say if it is linked to coronavirus or not.

Muhammed Tallids: Yeah, because my question is related to the demand from China. So they suspend all the products in China. So how's kind of this reflect [inaudible 01:03:54]? And my second question is if you have any updates and knew about the anti-dumping case because when we are now in a quarter one in 2020. So is there any updates coming from that?

Abdallah Massaad...: Again, I agree with you that one, the first one that any, China is the biggest producer in tiles worldwide. And it exports more than one billion square meter worldwide. And any delay in supply will give in every region more demand. And what I can tell you that we are well-positioned to also any delay in supply to be able to cater it from here. And we will see during the time.

Abdallah Massaad...: Regarding the anti-dumping, we spoke about it. Honestly speaking, we heard about it last year. And we had many questions coming. But officially, we did not get any communication when it will be implemented. Now, we hear from the market that it will be implemented in March. Honestly, we don't know. And we cannot confirm, but this what we heard. Now, what we can say that for sure we as the largest factory in the GCC. And with our brand and differentiation no doubt will when it will be implemented, we will have a positive impact on us.

Muhammed Tallids: Yeah. My third question and last question's about the SASO certificate as a SASO standard. How this reflecting view and to the companies in Saudi Arabia? Do you gain any market share and update us on that?

Abdallah Massaad...: Honestly, yes. I can tell you that we are seeing a big demand. Now, I can see from a lot of factories or traders that some low cost factories or maybe unorganized factories are struggling to get the SASO certificate to export to Saudi. And this will give no doubt and is giving us as factories where we are able to get the SASO certificate and the requirement to get the benefit from the demand no doubt.

Muhammed Tallids: Yeah. Thank you gentlemen. I have another question, which is my last-

Abdallah Massaad...: Please.

Muhammed Tallids: ... question for that. But I-

Abdallah Massaad...: Take your time. Take your time.

Muhammed Tallids: Yeah, about the average price now on the market. How do you see? Is there an increase quarter-to-quarter, or month-to-month demand? Yeah, now I think in Saudi Arabia for example, housing are financing individuals loans and this will reflect the of course, [inaudible 01:07:36] and other players in the market. So is there any increase in the average price?

Abdallah Massaad...: Look, are you based in Riyadh?

Muhammed Tallids: Yes. Yeah.

Abdallah Massaad...: If yes, I urge you and I invite you to visit our showroom in Takhasussi. We opened a showroom in Takhasussi. I hope you visit them.

Muhammed Tallids: Yeah, yeah. I saw. I saw it. One [inaudible 01:08:10] and that one is closed. So you opened a new one on Takhasussi Street.

Abdallah Massaad...: But I urge you to also go inside. I would like you to go inside. Yes, I will tell... Sorry.

Muhammed Tallids: I have bad news for you about in particular to your store that in Takhasussi because they will do construction on that road. So it will be for 18 months.

Abdallah Massaad...: We are opening another showroom North Riyadh. So we are closing. So we'll have three showrooms in Riyadh honestly. And already we took two showrooms in Jeddah. We started the construction. Another third in Jeddah will be finalized within the third quarter of this year. So the plan is to open eight showroom. And we have two showrooms by franchise. So we'll have 10 showrooms. So what I'm trying to tell you that we are not fighting for the housing projects.

Abdallah Massaad...: So we are differentiating our self and working on the high-end project with a differentiated even for the wholesale with differentiated sizes from what the local factories are offering. And yes, we are improving and increasing our average selling price. And therefore, last year the Saudi operation was a profitable operation. We ended with a profit from a few years of losses, which we had previous.

Muhammed Tallids: Thank you. Thank you, gentlemen. Thank you.

Abdallah Massaad...: Thank you.

Operator: Thank you. Ladies and gentlemen, I will now give back the floor back to Mohamed Haidar. Please go ahead.

Mohamed Haidar: Thank you everyone for joining. Mr. Abdallah, PK Chand. Thank you for your time. And hopefully, we see you in next quarter. Have a nice day.

Abdallah Massaad...: Thank you Mohamed. Thank you everyone. Thank you for your time.

Operator: Ladies and gentlemen, this concludes today's conference call. Thank you all for your participation. You may now disconnect your line.