RAK Ceramics Q2 and H1 Earnings Call and Webcast Transcript

Wednesday, 04 August 2021

Mohamad Haidar Hello everyone, and welcome to the RAK Ceramics second quarter 2021 earnings call. Mohamad Haidar from Arqaam Capital, and, as usual, from RAK Ceramics we have Mr Abdallah Massaad, Group CEO, and Mr PK Chand, the Group CFO. Over to you, Abdallah.

Abdallah Massaad Thank you, Mohamad. Good evening, everyone. I'm Abdallah Massaad, CEO of RAK Ceramics. I would like to welcome you all to the RAK Ceramics second quarter and half year 2021 earnings conference call and webcast. I sincerely hope that everyone on the call, along with families, are keeping safe and healthy.

We continue to place great importance on safeguarding the wellbeing of all our colleagues, employees, and families by implementing measures that reduce the spread of the COVID-19 virus, whilst protecting the financial health of RAK Ceramics.

I'm pleased to report that RAK Ceramics continues its strong start in 2021. Our operation continues to improve across all global markets, and we have surpassed pre-pandemic level to record levels of revenue and profitability, in spite of challenges due to the second wave of COVID-19.

Our total revenue for the second quarter 2021 increased by 70.4% year on year, of which cost the AED 700 million and surpassed pre-pandemic levels, increasing by 5% when compared to the second quarter 2019, driven by growth in all our core markets.

Our total gross profit margin for the second quarter of 2021 reached an all-time high of 38.1%, driven by improved production efficiencies, decreased costs, and the optimisation of production lines across all our plants. The production capacity utilisation for the tiles remains consistent above 95% in the last three quarters. Various initiatives have been taken to reduce production costs by optimising the production line in order to increase productivity.

The UAE end-market revenue in the second quarter 2021 was higher by 3.9% year-on-year, at AED 143.7 million, mainly driven by the wholesale and retail business. The project channel is slowly recovering. In the first six months of 2021 revenue increased by 2.9% year on year to reach AED 306.5 million.

In UAE an anti-dumping duty ranging from 23.5% to 106% on importing tiles from India and China has been made effective from 6 July 2021, which will reflect positively on the demand of our product. In Saudi Arabia, the company's strategy continues to yield results. The demand for our products continues to grow and, capitalising on the demand, we invested in differentiated tiles and new showrooms.

This will help significant brand equity in the market. We have established ourselves as a premium provider of ceramics products in the kingdom. Two new showrooms in Riyadh are in progress which will open in the second half of 2021, in addition to one showroom for a distributor in Medina. In 2022, there are plans to open another three showrooms.

Our Saudi Arabia revenue increased by 114% year on year to gross AED 163 million. The major contributor to sales growth came from our wholesale and retail business. The retail sales grew by 45% year on year with the introduction of differentiated tile sizes. In the second quarter, revenue got impacted due to restrictions placed on trucks aged more than 20 years' entry to the Saudi border. Freight costs also increased significantly.

Saudi Arabia has amended its import rules from GCC countries by imposing 12% tax and duty effective from 1 July 2021. We are working to comply with the requirements. Actually, we have 90 days, these customs will be considered as deposits, and wherever we provide our documents, these can be recovered.

In Europe the business has surpassed pre-pandemic levels of operation. in the first half 2021 revenue increased by 20.4% to reach AED 215 million compared to the first half of 2019. Revenue increased by 75% year on year, close to AED 114 million. Our strategy to turn around Europe entities is working well, as operations are yielding positive results during the year in spite of increased freight costs.

In India, 2021 started with a positive business sentiment in the real estate sector, leading to an increase in demand for our products. Unfortunately, due to the second wave of COVID-19, the government lockdown resulted in logistic movement restrictions. To avoid inventory build-up, tiles lines had to be stopped from time to time. The market has started recovering well from June, as lockdown are lifted in the major states.

Revenue is lower by 26.9% quarter on quarter to reach AED 75.5 million. However, the first half of 2021 revenue increased by 93% year on year, to AED 167 million, and higher by 17.4% compared to the first half of 2019, and thereby surpassing the pre-pandemic levels. Our Indian operations continue to post positive results since the last three quarters.

In Bangladesh, also government imposed intermittent lockdowns between April to August 2021. Production line has to be stopped from time to time, impacting the revenue during the quarter. Revenue is lower by 11.4% quarter on quarter, to reach AED 66.5 million, while it is higher 214% year on year, and in the first half of 2021 revenue increased by 68% year on year.

Our tableware business has shown positive performance during the quarter. Production has been optimised to much increased demand, as the market situation across the world is gradually improving. Tableware revenue in the second quarter, 2021, increased by 35.9% quarter on quarter, and 160% year on year to reach AED 55.8 million.

In the first half of 2021, revenue is higher by 33% year on year, to reach AED 96.9 million. Our faucet revenue increased by 17.9% year on year in the first half 2021, to reach AED 78.5 million, mainly driven by all markets.

In China we sold the assets, and have received full consideration, recording a gain of AED 50.1 million during the quarter. The lease agreement of our hotel assets has been discontinued, as the leasee was not willing to run the hotel due to COVID-19. Therefore we have de-recognised the access lease rents recognised in earlier years, amounting to AED 27.2 million in line with IFRS 16.

Despite the continued pandemic, our liquidity position remains at a comfortable level. We were able to increase our cash flow from operational activity from AED 191.9 million in June 2020 to AED 305.9 million in June 2021. Working capital days have reduced from 196 days to 176 days during the quarter. Net debt to EBITDA also improved from 2.79 times to 2.04 times during the quarter.

Accordingly, the board proposed to distribute semi-annual cash dividends of 10 fils per share for the first half of the year 2021, subject to the necessary regulatory and statutory approvals.

Now, please allow me to take you through our financial highlights for the second quarter of 2021. Total revenue increased by 70.4% year on year, to reach AED 700.8 million. Quarter-on-quarter revenue decreased by 3% due to lockdowns in India and Bangladesh markets for the second wave.

Tiles revenue increased by 63.9% year on year, to reach AED 472.7 million, driven by all core markets. Our sanitaryware revenue is also increased by 72.5% year on year, and 1.1% quarter on quarter, to reach AED 139.7 million, driven by Europe and Middle East markets.

Tableware revenue improved quarter on quarter by 35.9%, and 160% year on year to reach AED 55.8 million in the second quarter 2021, as the market situation across all our core markets is gradually improving.

Total gross profit margin in the second quarter 2021 increased by 9.6% year on year, and 3.1% quarter on quarter, to reach an all-time high of 38.1%.

Our tiles gross profit margin increased by 11.8% year on year, and 4.2% quarter on quarter, to reach an all-time high of 39.7%. Gross profit margin in 2020 was impacted due to the plant shutdowns.

The sanitaryware margin in the second quarter 2021 increased by 10.3% year on year, and 0.4% quarter on quarter, to reach 36.5%. The tableware margin improved quarter on quarter by 7.5% to reach 37.7%, while it is lower by 10.5% year on year due to lower productivity.

Our reported net profits stand at AED 94.9 million, outperforming pre-pandemic levels of net profit compared to the second quarter 2019 profit of AED 73.4 million.

The second quarter 2021 net profit margin increased by 18.3% year on year, to reach 13.5%. Like-for-like net profit is also higher than pre-pandemic levels, increased by 48.3% compared to the second quarter 2019, to reach AED 77.6 million.

Like-for-like net profit margin increased by 14.4% to 11.1%. Net profit after minority in the second quarter 2021, was AED 87.8 million. In the second quarter 2020, there was a net loss of AED 11.6 million. Margin in the second quarter 2021 is 12.5% compared to a negative margin of 2.8% in the second quarter 2020.

Our EBITDA is at AED 129.9 million, compared AED 40.5 million in the second quarter of 2020. Margin is 18.5%, compared to 9.9% in the second quarter 2020. Our net debt level decreased by AED 125 million, to AED 1.02 billion, compared to March 2021. Thank you for listening. I will now hand over to Mr PK Chand, our CFO. Please, PK.

PK Chand Thank you, Mr Abdallah. Good evening, everyone, and thank you for joining us. Mr Abdallah has already briefed some right second quarter 2021 performance, financial highlights, and regional performance. I will take you through the half-yearly results and segmental highlights, with details on revenue, profitability, and the balance sheet.

We will start with slide seven, which shows half-yearly financial highlights for 2021. Total revenue increased by 41.8% year on year, to AED 1.42 billion. Last year, second quarter revenue was impacted due to COVID-19 lockdowns. Half year 2021 revenue has surpassed the pre-pandemic levels, increasing by 10.5% compared to half year of 2019. Tiles revenue increased by 45.5% year on year, to AED 992.9 million, driven by all core markets.

Sanitaryware revenue is also increased by 42.2% year on year to AED 277.8 million, driven by all markets except the Saudi market. Tableware revenue improved quarter on quarter by 35.9%, and 33.1% year on year, to reach AED 96.9 million, as the market situation across all our core markets is gradually improving.

Total gross profit margin in the first half of this year increased by 5.6% year on year, to reach an all-time high of 36.5%. Tiles gross profit margin increase by 8.4% year on year, to reach an all-time high of 37.5%. Last year margins were impacted due to plant shutdowns. Sanitaryware margin in the first half of 2021 increased by 3.9% year on year to 36.3%. Tableware margin also improved quarter on quarter by 7.5%, to reach 37.7%, while it is lower by 13.7% year on year, due to lower productivity.

Reported net profit in the first half of 2021 is AED 157.6 million, compared to a net profit of only AED 10.5 million last year after considering gain on sale of China assets amounting to AED 50.1 million, and write-off of access lease rent recognised in earlier years, for total assets amounting to AED 27.2 million, in line with IFRS 16.

Like-for-like net profit increased by AED 124.2 million year on year to AED 146.8 million, with a margin increase of 810 basis points year on year to 10.3%, mainly due to higher revenue and gross profit margins.

Net profit after minority during the first six months of this year is AED 148.5 million, compared to AED 14.1 million in the last year. Margin is 10.4% in the first half of 2021, compared to 1.4% in the last year. EBITDA for the first half of this year is AED 256 million, compared to AED 135.7 million in the same period last year. Margin is 18%, compared to 13.5% in the first half of 2020.

Net debt decreased from AED 1.23 billion in December 2020 to AED 1.02 billion in June 2021, due to higher cash profits, and receipt of [unclear] on sale of assets in our subsidiary in China.

Net debt to EBITDA decreased from 3.25 in December 2020 to 2.04 in June 2021. In June 2020, net debt to EBITDA was 3.88 times. In line with the performance, the board proposed to distribute a semi-annual cash dividend of 10 fils per share for the first half of the year 2021, amounting to AED 99.4 million, subject to necessary regulatory and the statutory approvals.

For this purpose, a general assembly meeting is scheduled on 21 September 2021. It is important to note that semi-annual dividends have been proposed for the first time in the history of the company.

On the cash front, capital expenditure for the first half of 2020 was lower, at AED 33.9 million, compared to AED 52.3 million in the last year. CAPEX for 2021 is expected to be in the range of AED 150-175 million.

Now we turn on the working capital cycle. In absolute terms, overall working capital is stable at AED 1.28 million quarter on quarter. However, it has reduced from 193 days in March 2021 to 175 days in June 2021, mainly due to reduction in trade receivables and inventory days.

Inventory days decreased from 225 days to 212 days quarter on quarter, due to increased last 12 months' revenue. Trade receivable days also decreased, from 122 days in the first quarter of 2021, to 106 days in the second quarter of 2021, due to decrease in trade receivables. Trade payable days are decreased from 69 days to 64 days quarter on quarter. We continue to take measures to manage our liquidity.

Now I will turn back to Mr Abdallah, for his final comments on the remaining quarters of 2021 priorities, before we answer your questions.

Abdallah Massaad Thank you, PK. We have implemented measures across all our core markets to improve brand visibility, customer service, and production efficiencies, which have increased revenue and profit, setting the stage for long-term growth. While our recovery in 2021 continues, we are closely watching the situation in India and Bangladesh, and monitoring the health and safety of our employees.

Looking ahead for the remainder of 2021, our priority will be to protect our market share, continue to improve overall productivity and efficiency, turn around the performance of our tableware business, and improve the profitability in our core markets.

As discussed, the supply chain management remains a challenge which affects our production costs as well as outward freight costs. But we are working hard to manage the situation. Thank you for your time. Now I would like to hand the call over to the operator, and open the line for questions.

Operator Thank you. As a reminder, if you'd like to ask a question, please press star followed by one on your telephone keypad now. Or, if you're joining us online, please click the request to speak flag icon. When preparing to ask your question, please ensure you are unmuted locally. Participants are asked to limit themselves to two questions per person, to ensure we have time for everyone. That's star one, or the flag icon.

Our first question is from Pratik Khandelwal, from Al-Rajhi Capital. Pratik, please go ahead.

Pratik Khandelwal Hi. Thanks for the call, and congrats on a great set of numbers. So I just wanted to ask about the Saudi market, what exactly happened there, and if you're going to give a break-up on what's the revenue driven by price volume on this segment in particular? That's the first question.

And the second question is regarding the tariff increase which was done by Saudi. So, how is it impacting you going forward? What's the kind of impact, if you can quantify something around that? Thanks.

Abdallah Massaad Thank you for your questions. You know we are already, the last few years, actually since the start of the restructuring of the whole Saudi market, for us, as we know, Saudi is one of the most important markets in the region. For us, as we discussed, our company in Saudi is performing well with a differentiation of sizes, as well as the implementation of the anti-dumping on Chinese and Indian manufacturers in Saudi.

This has created a further demand on both quantity and the differentiated product which we launched. So the growth is driven both from the volume, as well as value. And here what we mentioned now, in UAE and the other, in UAE they implemented, starting 6 July, the anti-dumping this year.

So with regard to the tariff, actually the Saudi customs requires any company, even from GCC, to export to Saudi they have to have a minimum 45% value added in the manufacturing process, as well as 25% employing local people. Now at RAK Ceramics we have 65% our value added in the manufacturing process, and therefore the local requirements, we already attested this certification and sent.

Because we have more than 45%, our requirement in local goes down to 10%. And we have 90 days to submit. Now we are paying 12% when we have 90 days to comply, and whenever we submit the complying, as it is written that we can claim back everything paid. So for us we are working to provide, or to comply with the requirement here. I hope I answered your question.

Pratik Khandelwal Yes, thanks a lot. That's fine.

Abdallah Massaad Thank you.

Operator Our next question is from Divye Arora from Daman Investments. Divye, your line is now open.

Divye Arora Hi, thank you for the conference call, and congratulations for the great set of results. So if you can give us some colour on your core markets other than Saudi and UAE, so, India and Bangladesh. So, obviously we saw the COVID ravaging the situation at their end, lockdowns and all. In India the things have gone much better now. A lot of cities are out of the lockdown, barring a couple of them.

So, what are you seeing there in the third quarter? How much recovery should we expect in the third quarter? Can we expect a number like the first quarter, or will it take a couple more quarters from here? And also in Bangladesh, what are you seeing? That's on India and Bangladesh.

And on the UAE itself, when you look at the second quarter, you did around AED 110 million in revenue. And when we go back to 2019 the average was AED 115 million a quarter. So still this is a big decline from those levels. More than 20% decline. And now you're talking about the anti-dumping duty which has started at the beginning of July.

So, when do you expect this revenue to recover to the levels of 2019? How many years is it going to take? How much can be the impact of anti-dumping duty? And have you already seen some impact over the last one month? All the other inventories, other labels, the importers, so the impact would take around four to five months for you to see. Thank you

Abdallah Massaad Thank you for your question, but the second part of the question, if you allow me to answer first, because you asked many questions there. And, as you said, yes, the UAE market which is the least market performed vis-á-vis 2019. All markets improved from 2020, but vis-á-vis 2019, the UAE does not yet come back to the level it was.

And mainly this lack of demand, it's coming from the project sector. So our wholesale and retail improved, but the project sector, we all know that there was a freeze in projects, but the good news in UAE also is that the real estate sector improved. And you see the prices, the demands in UAE are picking up. And this will reflect, for sure, increase in demand going forward.

What you mentioned later is the impact, and this is also a very good move for us, is the anti-dumping in the UAE market. And you answered yourself by, for sure, initially there will be a lot of inventory with the traders. The improvement in demand we'll see in a few months going forward, and we're expecting that by next year the demand will pick up in UAE.

So I hope I answered you on the second part of the question. Now the first part, which is...

Divye Arora Sorry, just on the UAE again, you were saying the demand is going to pick up next year. So when do you expect to hit the 2019 levels? It will take you two years from there?

Abdallah Massaad Look, honestly I don't want to throw only answers. We are working hard. As we always say, we are realistic. So we are working hard. We see that now the demand for real estate and the projects will start, already starting again. This will recover the demand. Plus the anti-dumping, it will add on the demand on our products, as we are local and we will not be, with anti-dumping for sure the import will reduce.

So without mentioning time, that's why I said by next year I perceive that the demand will pick up again. Now we will be seeing some recovery during this year. But the impact will see it more visible, or more relevant, next year.

Divye Arora And just to follow up, and the impact of anti-dumping should be lesser on you, because you don't really play in that segment, right?

Abdallah Massaad Well, what do you mean? I did not understand you here.

Divye Arora What I'm saying is that the anti-dumping duty, is it more on the tiles which are at the lower end? That's where the dumping is happening? Where you don't play.

Abdallah Massaad Lower or higher, and on the end, where there is an anti-dumping that goes from 23.5% to 106%, no doubt that we will benefit, because we are producing locally. And this is what happened with us also in Saudi, because the anti-dumping, it will apply everywhere.

So we will have benefit, but that's why with the availability of stock with the trader, this will take this year to absorb the quantity. And this is why I'm saying, we will see improvements in demand, but next year the visibility will be even more on increasing our products in the UAE.

Divye Arora All right. In India and Bangladesh [overtalking].

Abdallah Massaad If you will allow me, I will move into India and Bangladesh. The good news in both India and Bangladesh, even though there was the second wave which affected both countries, and we had to reduce our production from time to time, because we were not able to supply, because there was no possibility to transport the products.

We did even better in both countries than 2019, and this with improvement in manufacturing, with efficiencies, with our investments, and the strategies implemented it's working. And I do see the improvement which you saw in the first two quarters, we will continue to see this improvement going forward there, at least during this year for sure. I hope I answered your question.

Operator Our next question comes from Sameer Kattiparambil from EFG-Hermes. Please go ahead.

Sameer Kattiparambil Thank you, gentlemen, for taking the call. I have three sets of questions. First, you mentioned about this truck shortage had some challenges, and also there were higher freight charges. Could you quantify how big that impact is on your cost side and on your margins, and how long do you think this is going to sustain, especially on the truck shortage side?

Second question is on your growth plan in India, UAE and Bangladesh plans. What kind of capacity addition are you planning in those markets? Third is on your sanitaryware business in Saudi, which has been growing despite strong construction activities. Any specific reason? That's it from my side.

Abdallah Massaad Sameer, I will answer me and PK on this. On the shortages of trucks, already this has been resolved, and today we have enough trucks available, and even the price came down. But initially when the implementation happens, that no trucks aged more than 20 years can enter Saudi, at that time the trucks available in the UAE they were, most of them, old trucks.

And with the period the transportation companies already replaced their fleet with a newer fleet. So this problem happened, already cost us more, because we had to divert to the containers for some of the quantities, and paying higher costs per truck. But this is false today. PK, on the...

PK Chand Yes, as far as the amount is concerned, it can be over [unclear] freight extra costs that were close to AED 15-20 million. But that does not include only Saudi. It also includes the higher freight costs for the shipments to Europe. So since, Saudi has been sorted out, but as far as the shipping freight costs are concerned, it is still on the high side. So we hope that we [unclear].

Abdallah Massaad Your second question, Sameer, was on the capacity additional in India and Bangladesh. So, look, we don't have yet a plan for the expansion. If you see today in India, our Samalkot plant is not fully utilised. So we are using almost 50% of the capacity in Samalkot, and we are doing improvements and studies to change some technology where we will be able to be competitive.

Where we are fully utilising the capacity is in Gujarat, in Morbi. And also there the utilisation as well as the sales improved. So we are now studying on additional capacity, either to add in our Samalkot, or to move it to Morbi, which we did not yet finalise.

In terms of Bangladesh, also there is the same. Today we are utilising fully our capacity. Unfortunately we don't have extra land available to increase the capacity in the same premises, and therefore we are in the process of acquiring land, and we will be working on having the capacity. Whenever the figures are available, we will announce it.

In terms of the sanitaryware, you see the sanitaryware, if you see, Saudi is the only market maybe we didn't grow in sanitaryware. Because our main market for sanitaryware is Europe, and we had a lot of demand increase in our sanitaryware, especially the WCs. And therefore, we did not put pressure to increase in Saudi. It does not mean that we will not increase, but honestly we are fully utilising the capacity of WCs and we cannot add more.

Therefore, we took a decision to increase our capacity anyway, by 250,000 pieces, which should be ready in the next six to nine months. And therefore we are working hard on the strategy to improve our sales in Saudi in sanitaryware.

Sameer Kattiparambil Okay, thank you. I have one follow-up question. You mentioned about the tracking or freight charge that has already gone high. Were you able to pass on any of these costs to your customers, or is there any chance to pass it on?

Abdallah Massaad Sameer, you know there is a lot of product mix within the ceramics. We have thousands of SKUs. Yes, we are implementing between 3%-5% increase in prices. In some markets it is not enough, especially that the major, as I mentioned, challenge in running any industry today, is a hike in prices of raw material, as well as the challenges in the supply chain, especially increasing the containers freight, especially from east to west.

And our market to Europe is one of our most important markets. And therefore the transportation has gone up very high. We do expect that the transportation costs will have to stabilise at the time. Meanwhile we cannot increase our prices more than 5%. But we're trying also adjustments to this to add some [unclear] transportation costs wherever we can.

Sameer Kattiparambil Okay, I understood, Mr Abdallah. And thank you, PK, for your comments. And good luck for your next quarters.

Abdallah Massaad Thank you, Sameer.

Operator Our next question comes from Alok Nawani from Ghobash Group. Alok, your line is now open.

Alok Nawani Good evening, gentlemen, thanks very much for the call. Congratulations, also, on a very good set of results. I had two questions. The first one is on your EBTIDA margins. How sustainable do you see current levels, considering you do want to maintain market share, and perhaps pricing might be a bit of consideration to be able to do that? That's one.

The second one is, you've made substantial progress in terms of reducing your net debt levels. So I was wondering, where do you see them in the near term? Are you comfortable with the current levels, or do you actually have plans to continue reducing it? And perhaps if you could quantify that, that would be very useful.

Abdallah Massaad Again, in terms of the EBITDA margin, we are, as we say, we look forwards. And according to the present scenario, without any surprises, the last two years we are working with surprises. We cannot plan without considering any changes, especially the virus is changing, variant is coming. But in terms of our strategy, it was always to optimise our costs, improve efficiency, differentiate ourselves, and try to maximise our margin to create the best value for our shareholders.

So within the current EBITDA margin, we do see that it is at a sustainable level. In terms of the net debt, the strategy of the company is one to reduce aggregate non-core, and we exited, and within this quarter we have good news on exiting or selling the assets in China, and we generated cash.

Meanwhile, we are looking to grow, and we will be looking to increase our capacity in UAE in tiles, in UAE in sanitaryware, which we will be doing. Plus also we have plans to grow in other markets. So with this level it is the two times net debt to EBITDA, it's already a very good level which, within, if you take our track record, we reach up to four times net debt to EBITDA. And even last year we reached 3.8. Now it's two. It is a very comfortable level for us.

Alok Nawani Great. That's very useful. On the back of that I just have a follow-up. You mentioned the CAPEX this year would be around AED 170 million or so. Could you give us a more medium-term guidance, considering you do want to grow? And I'm just wondering if these levels of CAPEX requirement, and the way you're progressing, is it fair to assume that the interim development that you have given us can comfortably be achieved?

I'm not talking about a board decision, but from a management comfort point of view, I just wanted to get your sense. Because your EBITDA levels are healthy, and your payout levels are also comfortable.

Abdallah Massaad If we look at the CAPEX, as we mentioned that AED 175 million will be required, unless we have a major, you know, we have to look for organic and non-organic opportunities to grow. And whenever we find a good opportunity which will create value, this is what we are looking at.

Considering the dividend this year, you have to consider also the AED 50 million which we received from China included. So if you see our record in dividend, even though last year we paid 7.5%, but it was always between 15-20 fils per share, which is something we see that it is attainable. Especially that we have a dividend policy of 60% minimum of our net profit.

Alok Nawani Great. Thank you very much.

Abdallah Massaad But you know that the dividend is a board decision, and it will be taken year on year, and depends on the results and the requirements.

Alok Nawani Understood. Thank you.

Operator Our next question is from Zeeshan Bagwan from Abu Dhabi Capital. Zeeshan, your line is now open.

Zeeshan Bagwan Thank you. Most of my questions have been asked. I have just one more follow-up question. I just wanted to understand, what are the company plans, what progress is around setting up production facilities in the Saudi market?

Abdallah Massaad Thank you, Zeeshan. For us, we mentioned that we are, since the last three years, progressing with our plans to set up a factory. We are following up. We've made some progress, but still now, whenever we get all the necessary approval and defining the location, we of course will update you on this. But our plan is still there.

Zeeshan Bagwan Thank you. And just a clarity to the question asked by the previous participant. So, the company would continue to pay semi-annual dividends, and would it be at the same rate, like 10 fils, which we saw over the first half?

Abdallah Massaad We cannot have any guidance on the dividend. The dividend is a decision of the board. This year, from what we see, the board saw that it depends on the approval of the general assembly, because we need to change our article of association to be able to pay the semi-annual dividend, as well as the approval of the AGM.

For this year, what we are seeing, the semi-annual ten fils means you can expect something at least at the end of the year, for sure. But we cannot give a guidance, or a decision. It's a board decision. But when we are changing to pay a semi-annual dividend, I can expect that the semi-annual dividend, without defining the amount or the percentage, it will be there.

Zeeshan Bagwan All right. Thank you for the clarification.

Operator Our next question is from Yawar Saeed from International Securities. Yawar, your line is now open.

Yawar Saeed Hi. Thank you, thank you for the call. My question is regarding the hotel. Have you found another operator for it? If not, what will be the impact on financials? Because I noticed in FY 2020 you have around rentals of AED 27 million in other income. One, that.

And second is on international commodity prices. They are not flexed significantly. So what kind of impact do you see from this, if any, that is? Thank you. These two questions.

Abdallah Massaad To answer you the first question on the hotel, already we leased it, starting from August. The lease is AED 7 million yearly. With regard to the commodities price increases, I don't know if PK can quantify it, but what I can tell you, it is something, a lot of volatility. And what we are trying, we're trying to control our micro on efficiencies, and in substituting material which go up in an abnormal way with some raw material or spares which can be used.

Meanwhile, that's why we're trying to also improve and increase our prices, because this is a commodity hike, and the inflation is something where it will touch everything. I don't have quantity, perhaps you can quantify it.

PK Chand Yes. The data calculations that what is the raw material and these prices are higher in 2021 compared to the half year of 2020, and it is around AED 4-5 million, we calculated that number.

Abdallah Massaad So we will always try to, whatever we can pass to the market, we will be able to do it.

Yawar Saeed Thank you.

Abdallah Massaad Thank you.

Operator Our next question is from Wei Chow from QIB. Wei, your line is now open.

Bijoy Joy Hello, hi. This is Bijoy from QIC. My question is on the market front. So the cross-margin improvement that we are seeing, can we assume that it is coming from mostly, and without any one-offs or anything, it is coming from the import duty that has been imposed in Saudi Arabia?

Abdallah Massaad Thank you for your question. In terms of margin, you see it is one of the highest in maybe the last ten years in the company. For us, there is no one-off inside. But it is at the higher level. So I don't know, honestly. It depends on how the raw materials transportation, our COGS will get impacted, and what will be the market acceptance, especially that we don't only sell in local markets. We do exports. And this will have some impact.

So there is no one-off, but it is honestly on a higher level. And we don't know, and we cannot expect what will be the rate, as it is not in our hands.

Bijoy Joy Understood. But if you can quantify what impact would be there from Saudi?

Abdallah Massaad What Saudi impact? I did not understand.

Bijoy Joy Like how much of the impact in gross margin improvement is coming from Saudi?

PK Chand Not significant. The [unclear] the price.

Abdallah Massaad No doubt, the anti-dumping in Saudi helped on improving the gross profit margin, and also the volume which was sold in Saudi vis-á-vis export markets. So when the wider market, that's why I say we cannot have it, I don't have it with me what is the quantity exactly, or how to quantify it. But it is already high. And they could be slightly impacted from the cost side.

Bijoy Joy Okay, thanks.

Operator Our next question comes from Mohamad Haidar. Mohamad, please go ahead.

Mohamad Haidar Thank you. Abdallah, will that 1% import duty be reflected on customers in Saudi, or will RAK Ceramics bear all of the increase in taxes?

Abdallah Massaad Thank you, Mohamad. Until now we did not increase our prices, because we do believe that we will be able to comply with the regulations, as regulations came out. And that's why we are working, we have 90 days to comply. And this is what we are aiming. We did not pass anything to the client on increasing in customs.

Mohamad Haidar Understood. And so, exceptionally, in Q3, we might see some margin valuation because of that.

Abdallah Massaad Unless we provide, before this, the documents, and get accepted, and we get the refund.

Mohamad Haidar Very clear. Thank you so much.

Abdallah Massaad Thank you, Mohamad.

Operator Our next question is a follow-up from Divye Arora from Daman Investments. Divye, please go ahead.

Divye Arora Hi. I have a few questions. So, the first one is linked to CAPEX guidance. You were talking about AED 150-170 million that you want to spend this year. But in the first half we have seen only AED 23 million being spent. So is this number really achievable in 2021?

Abdallah Massaad We started two projects within the company, and always we do the efficiencies. Something gets held from the second wave which came to India, so we are cautious, and managing the liquidity, and seeing how the situation is going. But with the improvements we saw that these projects are going ahead, and we will utilise, hopefully, what is expected.

PK Chand And just to add to what Mr Abdallah said, you know this AED 150-175 million is based on a calculation that gets based on what orders we have placed when the material is likely to come. Now, if there is a delay in the supply due to any reason whatsoever, then obviously we will not be able to spend so much. But based on the current situation, yes, we feel like this amount is likely to be spent.

Divye Arora And just to clarify, you said almost, I think, AED 70-80 million was the CAPEX needed for improving efficiency, and around AED 80-90 million was for the maintenance, right? The breakdown of this AED 170 million number.

PK Chand Generally around that number is for maintenance, every year.

Divye Arora All right. A follow-up on the commodity price impact. So, you said that the unit impact of higher commodity prices was around AED 4-5 million on the cost. Were you also considering the gas price increase over here?

Abdallah Massaad According to, we are not seeing a hike in that price as the arrangement we have in RAK Ceramics this year. So it's not a consideration, no.

Divye Arora So, I just want to understand, what sort of an arrangement do you have? Because we have seen a significant increase in the gas prices, globally.

Abdallah Massaad For us, we are not disclosing the details, but as RAK Ceramics, average cost of gas, we do not see a hike within this year.

Divye Arora All right. On the Saudi factory side, a follow-up. So you said that you are waiting for the approval. So this is to set up the factory, or this is first to get the approval for the gas?

Abdallah Massaad We are getting the license, the land, the factory, the whole project to start.

Divye Arora And how about the gas at that location?

Abdallah Massaad We don't have everything yet ready, but we would be able to get the gas at location. So therefore we are following with the team in Saudi, and whenever we are ready, we will declare it.

Divye Arora All right. And just a question on the shipping costs, so we have seen that, globally, there has been a very strong increase in the freight costs. So obviously you are trucking it from the UAE to Saudi. But a lot of companies from India and China which are exporting to Saudi through ships, also with higher freight costs, has it increased your pricing power in Saudi Arabia? Has it given you more market share? Is that also a factor in the growth that we have seen in Saudi Arabia for RAK Ceramics?

Abdallah Massaad For sure, this is what we mentioned, that the trucking initially, the price increased because of the aging factor. Then we had to transport via container. Now the trucks are available, and we are loading to Saudi. The trucks rate did not increase as what happened with the containers, so for sure this gave flexibility for us.

But we are not alone, because you have ten factories in Saudi and you have factories in Oman, and you have other competitors within the region. What we can say is that this impact of transportation, it is not impacting our sales in Saudi, and it's giving us room for growing our volume. And this is where and why we are seeing a volume.

So it's coming from the anti-dumping, from the increase of transportation costs, from the increase in demand itself, and from the differentiation what we followed in sizes in our product mix, as well as our investment in our showroom position and marketing.

Operator Due to time constraints, this concludes today's question and answer session. I will now hand back to the management team for any closing remarks.

Mohamad Haidar Thank you, Adam, and thank you, Abdallah, thank you, PK Chand for your time, and we look forward to hosting the call next quarter.

Abdallah Massaad Thank you, Mohamad. Thank you, everyone. Thank you for your time. And thank you.

PK Chand Thank you so much.