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0800 138 2636 | service@incommglobal.com
www.incommglobal.com

RAK Ceramics Q3 and 9M Results Earnings

Wednesday, 04 November 2020

Mohamad Haidar: Hello, everyone, and welcome to the RAK Ceramics third quarter 2020 earnings call and webcast. This Mohamad Haidar from Arqaam Capital Research and RAK Ceramics Management Team, and as usual, we are joined today by Mr Abdallah Massaad, Group CEO of RAK Ceramics, and Mr PK Chand, Group CFO of RAK Ceramics. Without any delay, I will now hand over the call to Mr Abdallah. Please go ahead.

Abdallah Massaad: Thank you, Mohamad, and good evening, everyone. I'm Abdallah Massaad, CEO of RAK Ceramics, and we would like to welcome you all to the RAK Ceramics third quarter and nine months 2020 earnings conference call and webcast. I sincerely hope that everyone on the call, along with families, are keeping safe and healthy. As mentioned in our last call, we have built a strong foundation at RAK Ceramics and I'm confident that this will help us navigate the current challenging environment and enable us to deliver value to our shareholders in the long term.

During the third quarter of 2020, we continue to place great importance on safeguarding the wellbeing of all our colleagues, employees, and families by implementing measures, which reduce the threat of the COVID-19 virus, whilst protecting the financial health of RAK Ceramics. We are pleased to inform you that our performance in the third quarter of 2020 has gained momentum across almost all our business units, except tableware, with a revenue growth of 4.8% year-on-year, supported by rebound and core markets reaching pre-COVID-19 levels.

However, our tableware business continues to suffer during the COVID-19 restrictions in the hospitality and airline sector. Tableware revenue was impacted by 45.4% year-on-year. Average total monthly revenue, excluding tableware, has rebounded to 198 million dirham in the third quarter compared to 181 million in the first quarter of 2020. Our second quarter average phase was only 130 million during the shutdown for COVID-19.

Total revenue remained stable year-on-year at 625.7 million dirham. We continue to implement cost saving initiatives across the Group to manage our liquidity to reduce the discretionary expenses and place a hold on all non-essential capex plans. The cost savings in the third quarter were 19.7 million dirham and 44 million dirham for the nine months.

Now allow me to take you through our operational and financial highlights for the third quarter 2020. Total revenue remains stable year-on-year to 625.7, million mainly driven by the tile business. Tile revenue is higher by 7.1% year-on-year to 439 million dirham, driven by Saudi Arabian and European markets. Sanitaryware revenue decreased by 2.2% year-on-year to 121 million dirham. Tableware revenue decreased by 45.4% year-on-year to 31.3 million dirham.

Our total gross profits margin in the third quarter 2020 decreased by 220 bases points year-on-year to 31.1% mainly due to lower revenue and lower productivity in the sanitaryware and tableware businesses, resulting in absorbed fixed costs of 7.4 million dirham. Tiles gross profits margin in the third quarter 2020 increased by 130 bases points year-on-year to 31.2%.

Now, in Saudi Arabia, the restructuring and integration of operations, introduction of differentiated sizes and designs, focus on retail sales have supported the strong growth during the quarter. We have positioned ourselves as a premier product supplier in Saudi Arabia. Sales improved in the retail channel following the launch of three flagship showrooms where imposing of anti-dumping duty on imported tiles from China and India came into effect on 6th June 2020 and has also supported revenue growth during the quarter.

Saudi Arabian revenue in the third quarter 2020 has increased by 95.8% to reach 137.8 million dirhams, mainly driven by the tiles business, which increased by 104.7% to reach 131.4 million dirhams while sanitaryware sales remained stable at 6.3 million dirham year-on-year. In the nine months 2020, revenue is higher by 53.8% year-on-year to reach almost 300 million dirham, the average selling price of tiles has also increased through a combination of product mix enhancement and an increase in demand.

We remain optimistic for long term growth in Saudi Arabia beyond the COVID-19 economic recovery and growth in the kingdom is likely to offset any slowdown elsewhere in the region. In the UAE, production lines have been operating at an optimal capacity range of approximately five million square metres from July 2020 due to a surge in demand in Saudi Arabia and other markets. The UAE and market revenue in the third quarter 2020 was lower by almost 19% year-on-year to reach 147.4 million dirham. In the nine months 2020, revenue is lower by almost 20% year-on-year to reach 445 million dirham.

In the Middle East, revenue decreased by 11% year-on-year to reach 19.2 million dirham. In nine months 2020, revenue decreased by 6.5% to reach approximately 60 million dirham. In Europe, lockdowns eased in the third quarter and businesses have improved. Revenue increased by almost 13% year-on-year to reach 91.5 million dirham. Tiles revenue increased by 17% to reach 41 million dirham and the sanitaryware revenue increased by almost 10% year-on-year to reach 50.4 million dirham.

For the first nine months of 2020, revenue was lowered by 5.5%, reaching 238.5 million dirham to compare to 2019 due to a significant COVID-19 impact in the second quarter of 2020. However, in view of the recent lockdowns, again, business sentiment remained uncertain, but I can say even after the lockdown and I see that with the new lockdowns, governments are trying to keep businesses untouched. And I can tell you that still now, we have a lockdown in the UK and certain companies in Europe, until now, we did not see any reduction in business over there.

In Bangladesh, all our tiles and sanitaryware lines have started operating at full capacity in phases. The markets recovered well in the third quarter 2020 and in September 2020, reached the pre-COVID-19 levels. Bangladesh revenue in the third quarter is lower by 13% year-on-year to reach 62 million dirham. In the nine months 2020, revenue is lower by 26.2% year-on-year to reach 146.2 million. We've been badly affected in the second quarter where, as you know, the company was almost closed. But as we see now the recovery has reached the pre- COVID situation.

In India, our Samalkot plan is currently running at two thirds capacity while Morbi plants are running at full capacity. The Indian market has rebounded to pre-COVID-19 levels, despite an increase of the positive cases. India revenue in the third quarter 2020 remained stable year-on-year at 66.7 million dirham, but in the first nine months of 2020, it was lower by 22.3%, reaching 153.3 million and this is clearly due to the lockdown, which we had during the second quarter.

Export revenue was 15 million dirham in the third quarter comparing to 20 million in the third quarter of 2019. Cost saving measures were initiated to limit discretionary expenses, resulting in savings in fixed SGA expenses in nine months in 2020 by 8.4 million dirham compared to last year. Our tableware business continued to suffer throughout the third quarter of 2020 due to restrictions in the hospitality and airline sector, which resulted in a revenue decrease by 45.4% year-on-year, reaching 31.3 million dirham.

Revenue for the first nine months of 2020 decreased by 45.6 million year-on-year to reach 104 million dirham. Markets are showing signs of recovery from exceptionally low levels and the speed and trajectory of demand remains uncertain. However, quarter-on-quarter revenue has increased by 45% based on market demand. We have optimised our production line to operate at approximately 40% capacity, resulting in absorbed fixed costs of 4.6 million dirham in the first nine months.

As you know, the tableware business was one of our most profitable businesses and well positioned, but the sector is badly affected. It will take some time. Our strategy is to reduce our costs, keeping ourselves in the market gaining market share because we believe that in this area, a lot of competitors will not be able to continue. Our cash flow position, tax position, and our well positioning in the market, we are confident that we will gain market share and, for sure, after the impact of the COVID-19 in this business, we will see a good rebound.

Our faucets revenue decreased by 10.6% year-on-year to 33.7 million dirham in the third quarter 2020 and in the nine months 2020, it decreased by 8.2% year-on-year to reach 100 million dirham. The primary focus for our faucets business has been to grow market share in the export market and to support this, we will be launching a range of new products using many new and innovative finishes. Revenue from other units in the third quarter 2020 increased by 2% year-on-year to reach approximately 35 million dirham.

Now I will take you through the profitability highlights for the first quarter. Reported net profit was 34 million dirham compared to 45.6 million year-on-year. Profit is lower mainly due to lower GP margins by 220 bases points, resulting in a decrease in gross profit by 13.5 million. Hyperinflation accounting impact of 7.1 million dirham and higher provisions for trade receivables at IFRS 9 requirements accounting for 6.1 million dirham vis-à-vis 3.6 million last year.

Net profit after minority was 33.1 million dirham compared to 39.1 million dirham in the third quarter 2019. Total EBITDA decreased from 108.7 million dirham in the third quarter 2019 to 104.4 million dirham in the third quarter

2020. Margins decreased from 17.4% to 16.7% year-on-year.

Before I conclude, as you are aware, we own a waterfront Jazeerah plot, a large plot in *Ras Al Khaimah, and in the last year, we have engaged an independent real estate valuation specialist to perform a valuation of the vacant land based on an assumption determined by the management as no master plan has been developed. The fair value of the land as at 31st December 2019 indicated no impairment of its carrying value.*

Due to the current economic situation and uncertainty, resulting from the unexpected, prolonged impact of the global pandemic, we will, again, engage evaluation specialists to perform the valuation for the land as of 31st December 2020. Thank you for listening. I will now hand over to PK Chand, our CFO, to brief you on segment highlights and provide you with a more in-depth analysis on the financials. PK.

PK Chand: Thank you, Mr Abdallah. Good evening, everyone, and thank you for joining us. Mr Abdallah has already summarised our Q3 performance, financial highlights, and regional performance for the third quarter 2020. I will take you through the nine month results and segmental highlights with details on revenue, profitability, and the balance sheet. Let us start from slide nine.

The total revenue for the nine months of 2020 decreased by 13.8% year-on-year to 1.63 billion dirham due to a significant COVID-19 impact in the second quarter of 2020. On a constant currency basis, as of the nine months of 2019, the total revenue decrease is 13.2% year-on-year. Tiles revenue is lower by 9.1% year-on-year at 1.12 billion dirham.

Sanitaryware revenue decreased by 15% year-on-year to 316.3 million dirham. The tableware business continue to suffer due to the restrictions in the hospitality and airline sectors and this has resulted in a revenue decrease of 45.6% year-on-year to 104 million dirham. Revenue from other businesses also decreased by 5.4% year-on-year to 88.2 million dirham due to lower sales in certain raw material trading businesses and paints businesses.

Of the total revenue in the nine months 2020, tiles revenue contributed 68.8%, sanitaryware, 19.4%, tableware, 6.4%, and other businesses, 5.4%. The total gross profit margin in the nine months of 2020 decreased by 210 bases points year-on-year to 31.0% due to lower revenue and lower production, resulting in unabsorbed fixed costs of 35.4 million. The tiles margin improved by 90 bases points to 29.9% year-on-year despite a decrease of 230 bases points in the second quarter of 2020 due to plant shutdowns.

The sanitaryware margin was lower by 4.3% year-on-year to 33.1% due to lower sales and lower production. The tableware margin decreased by 9.4% year-on-year to 44.6% due to, again, lower revenue and lower production. The total EBITDA decreased by 31.1% to 240.1 million dirham year-on-year with a margin decrease of 3.7% year-on-year to 14.7%. Reported net profit was 44.5 million dirham compared to 155.8 million dirham in the last year.

Profit is mainly due to lower revenue by 260 million dirham and lower gross profit margin by 210 bases points, resulting in a decrease in gross profit by 120.6 million dirham year-on-year including plant shutdown costs of 35.4 million dirham. Hyperinflation accounting impact of 7.1 million has also impacted net profit in the third quarter of 2020. This includes the depreciation of five million dirham on hyperinflated assets.

Higher provisions for trade receivables as per IFRS 9 requirements have also been taken, amounting to 18.1 million dirham versus 5.9 million dirham in the last year. Tableware profit swing has also impacted 41.5 million dirham in the nine months 2020 profitability. And we all know that nine months of 2019 net profit included 22.1 million of provision reversal towards contracting assets.

However, there was a saving of 44 million dirham in the fixed SGA expenses during the nine months due to various cost saving measures by avoiding discretionary expenses. Variable selling expenses, mainly freight, was higher by 24.3 million dirham in the nine months of 2020 due to higher volumes to Saudi Arabia of 15.3 million square meters compared to 10.7 million square metres last year and higher freight rates due to the switching over of the trucks at the border.

Like-for-like net profit is 69.8 million dirham in nine months compared to 139.5 million dirham in the last year. Net profit after minority decreased to 47.2 million dirham with a margin of 2.9% compared to 129.2 million dirham in the last year's nine months. Net debt increased from 1.37 billion on December 19 to 1.42 billion dirham in September 2020 due to dividend payments of 177 million dirham.

Net debt to EBITDA increased from 2.85 times in December 19 to 3.80 times in September 20 due to a lower trailing 12 months EBITDA. On the cash front, capital expenditure for nine months 2020 was 74.6 million dirham compared to 143 million dirham last year. Capex for 2020 is expected to be in the range of 100 million dirham as we are placing non-essential capex plans on hold and continue to take measures to manage liquidity.

Now we will turn to the operating cycle. In absolute terms, overall working capital is stable at 1.69 million quarter-on-quarter. Inventory days decreased from 287 days to 266 days quarter-on-quarter due to increased sales. Trade receivable days increased to 130 days due to increased sales in the third quarter, while trade payable days decreased from 77 days to 65 days quarter-on-quarter. Overall working capital days also decreased quarter-on-quarter from 333 days to 331 days.

Now I would like to turn back to Mr Abdallah for his final comments on the last quarter of 2020 priorities before we answer your questions.

Abdallah Massaad: Thank you, PK. I'm pleased with our third quarter results and our financial performance during the nine months of 2020 of this unprecedented year. RAK Ceramics has shown great resilience, given the disruptions that the pandemic has brought to our business. We have begun to see a return to pre-COVID-19 levels of operation across our global business.

While the sanitaryware and the tableware business remain impacted, our tile business has witnessed healthy growth in Europe and Saudi Arabia, leading to an increase in overall revenue. As we enter the final quarter of 2020, we will continue to implement initiatives to manage the impact of COVID-19. We plan to improve profitability in our export markets while focusing on improving operations in India and Europe.

There is no escaping that our business was heavily impacted earlier in the year, but we are confident in our ability to adapt, to recover, and to deliver value to our shareholders in the long term. Thank you for your time and now I would like to hand the call over to the operator to open the line for questions.

Operator: Thank you. As a reminder, it's star, one to ask a question, or if you're joining us online, please click the request to speak flag icon. When preparing to ask your questions, please ensure your headset is fully plugged in and unmuted locally. Our first question today comes from Belal Sabbah from Jadwa Investments. Belal, your line is now open.

Belal Sabbah: Thanks for the call and for the feedback. I have three questions, please. First of all, if you could give us a bit more feedback on the tariffs that were imposed on the UAE imported products. What was the range of these tariffs and to what extent do you believe this has helped you in the third quarter or is likely to help you going forward?

My second question is also directed to the UAE. We all understand the impact of the pandemic and the slowdown in the overall business requirements, but it seems like the UAE has still not fully recovered, in terms of maybe construction progress. Whereas what we see from some of the major developers is that they have a lot of their projects coming online in 2020 and also in 2021.

So, any feedback you can give us on what's happening on the ground in terms of construction pace and delivery of projects and what this means for your revenue projections. And finally, with regards to Saudi Arabia, if you could repeat how much the increase was in both the prices. Thank you.

Abdallah Massaad: Thank you for your questions. I'll start with the anti-dumping. As you know, on the 6th June the anti-dumping on Chinese and Indian products was implemented across the GCC. It was started, initially, in Saudi, but now it's Saudi, UAE, and Oman already, and Bahrain implemented. Valuing depends on the factory. It goes up to 106% and the minimum is 44%, so it depends. There are three buckets of manufacture.

Before I go to the UAE, I will continue. As you see, the growth in Saudi was basically, you know that two or three years back, we announced that we were doing a restructuring. We acquired two companies in Saudi, one in Riyadh and one in Jeddah. And as we've done earlier in the UAE, we did a total rebranding and opening showrooms.

We have 11 showrooms operating in the UAE, dividing the market into wholesale projects. And we did rollout in Saudi. We've already opened the two showrooms in Riyadh. One big showroom, which will be opened before the end of the year. In Jeddah, we have already supported distributors. In Makka, we opened last month the showroom and also this month, we will open in Medina and we have several showrooms in place.

So, by also investing in differentiated products, bigger sizes, different finishes that are not available in local factories, we were able to gain market share. And no doubt, also the implementation of anti-dumping, we were well positioned to benefit from it. But for sure, it helped in a big way, but also, I cannot quote the whole income growth. You can see we grew almost 100% in tiles or 95% year-on-year. We did not see this growth in our peers in Saudi. There is an impact coming from the anti-dumping, but also, impact from the restructuring we've done.

If we go to your second question, UAE. In the UAE, if we look, our sales are down by almost 18%. If we look at the project sector, we are down by almost 36% and from some markets' restrictions in the showrooms also. But our strategy was to open more showrooms, so we had a new opening of showrooms. We had a wholesale business, which mainly, these works go into the renovation business because we cannot only keep following the projects.

The new projects will continue and sometimes, it will be a decline, it is a cyclical factor. We are also putting effort into the renovation business, which will offset any decline in projects. Now, internal projects, we are not saying that the projects have ended. We saw some delay in execution. It will continue. I don't think it will drop in a big way, but the slow pace will continue for some months. I hope I've answered your three questions.

Belal Sabbah: Yes, thank you. But do you have an indication on how much the price has increased in Saudi?

Abdallah Massaad: Yes. If we see ourselves, we took around 10% to 12% and we got an increase. But this this increase, for us, was also based on a mix of products. You cannot go and suddenly increase 10% or 15% the same sizes. So, some sizes came, we increased our prices, but also, we launched a new product at a higher margin, so blended, it's well above 10%.

Operator: As a reminder, that's star, one to ask a question or the request to speak flag icon, if you're joining us online. We have a question from Divye Arora from Daman Investments. Divye, your line is now open.

Divye Arora: Hi. The first question is linked to Saudi Arabia. Right now, you're exporting to Saudi Arabia from the UAE. I think you have been discussing about setting up a factory over there within Saudi Arabia. Can you just tell us how far you've progressed on those plants? And I think the key hurdle was also getting the gas allocation or there could be an acquisition of a small company over there that can give you a foothold within Saudi Arabia.

The second is regarding Bangladesh. We have seen, year-on-year, there is a drop in revenue. So, was the third quarter a full operating quarter for Bangladesh or was there still an impact of COVID-19? And do you think that by the fourth quarter, we will normalise or will there always be some impact in the market because of COVID, so the normalisation will come by the end of next year? Also, in India, can you comment on what you're seeing on the ground in terms of the housing market.

Abdallah Massaad: Thank you for your questions. Again, three questions. The Saudi plant, we are continuing. We said that we have already identified a place to set up the factory. We are in touch. We have had many rounds of discussions. According to the information we got last week, it is in the depths of the minister, our gas allocation. We are still in touch and in discussions. We are not mentioning anything because it's already a long time. So, we hope that we receive an answer very soon.

Regarding Bangladesh, I can that in September, we came back to normal. So, July, it kept some time, August was improved, September is improved. I can see and what I saw from the team, and here, I can also answer for India, that despite COVID, business came back to normal and our revenue in India and in Bangladesh came back to normal.

So, I can see that the fourth quarter should be normalised, unless, as for all of us on the call, we won't know what will happen tomorrow. But as I said, from what we're seeing, it is not happening like what happened when initially the first wave came and panicking and closing everything. So, we can see that every government is trying to protect the businesses and hopefully, if we will not have any surprise things, the business will come back to the pre-COVID situation. I hope I've answered you.

Divye Arora: Just a question on the UAE, maybe you've already answered it. The revenues have dropped a lot in the third quarter. We understand the hit to the economy. What is your expectation for the UAE next year, let's say, if not this year?

Abdallah Massaad: I'll tell you, if you go into our production in the UAE, we have mainly three focus markets. The UAE local market, Saudi, and Europe. These are the main markets that we rely on as a focus market on running the operation from UAE. We predicted from last year that the UAE is not going to grow, the real estate prices are not growing. So, that's why we invested and we focused on Saudi to develop it, because it's naturally connected by trucks.

We can load by trucks, it is a neighbouring country, and we are there, as well as Europe. And you see that we saw, in Europe, as well as in Saudi, a jump in trade. In the UAE, I do not see that the market is… Our sales, as I said, it was an 18% drop this year, but I see that some recovery will happen, especially now all our showrooms are operating. We are looking to open two more showrooms.

We are focusing on renovation and this is happening. Projects will continue. We saw the announcement of 20,000 houses in Abu Dhabi, where Aldar won it. So, we have projects in the pipeline and I cannot predict for next year how the COVID impact or when any vaccine solution will come. This will give us, for sure, more visibility, but I'm not concerned about our market share in the UAE. I'm pretty sure that we will gain market share, even the market will drop while we base here plus all that we've done in product innovation, we will be able to sustain our level in the UAE.

Divye Arora: And you're talking about Saudi also. So, Saudi, the numbers that you've got in this quarter, are these sustainable going forward?

Abdallah Massaad: I believe if nothing major happens from closing borders, it is a sustainable level, yes.

Operator: Our next question comes from Nora Subeie from Hassana Investments. Nora, your line is now open.

Nora Subeie: Thank you for the call. I have two questions. The first is can you tell me your current tile capacity and your installed capacity utilisation at the moment for ceramic tiles? The second question, from your production on tiles, can you give me a rough idea, by construction type, which is new houses from the production and which is the innovation, your production by construction type? Which is more, basically?

Abdallah Massaad: If you'll allow me, if you want the details, we can send you them. You can write to us any time and we can send you exactly.

Nora Subeie: No. Just a rough…

Abdallah Massaad: The production per square metre depends on the sizes we are producing. If we are producing 60 by 120, which we are doing now in ceramics, you produce 6,000 square metres per kiln. On the same kiln, if you produce 30 by 30, we produce 9,000. So, in this case, the capacity can be plus or minus 30% in square metres. So, if I can tell you, in UAE today, in the installed capacity, we came back to approximately 100% capacity utilisation in the UAE.

If we go to Bangladesh, we are 100% capacity utilisation and in India, we have, in our Samalkot plant, one kiln means one third of our capacity shut. Other than this, we are all operational. Now, if we go to where our products are going, is it for projects or is it for retail? If we look at the UAE, historically, 50% goes to the projects directly and 50% gets distributed in our showroom and wholesale. But even some projects can buy from our wholesalers, so we cannot track them exactly.

If we go to Saudi, most of our sales in Saudi happened this year. It's not relative to projects, it is basically going through traders or in our showrooms. So, honestly speaking, if I will go how much is going to projects in each country, say, Europe, we cannot track it exactly, so we always look at the blending of it. If you want more details, if you tell us which country, we can give you the details on this.

Operator: Our next question comes from Sameer Kattiparambil of EFG-Hermes. Sameer, your line is now open.

Sameer Kattiparambil: Hi. Thank you for your presentation. I have a couple of questions. First, on your cost saving of 19 million in the third quarter. How sustainable is this number? Or are there any further cost savings you're anticipating over the coming quarter?

Abdallah Massaad: PK?

PK Chand: As far as the cost savings are concerned, in India, there is going to be a significant cost saving and in the UAE, on a sustainable basis, we are going to save money because there has been some rationalisation of manpower. On a rough estimate, I tried to work out the number and it is working out to about 17 or 18 million dirham on a sustainable basis.

On a full year basis, because let us say, this year, we did not lose some expenditure relating to market, but once the market opened. So, clearly, we will have to do those expenditures. But on an aggressive side, I'm saying that yes, definitely 17, 18 million, we should be able to say.

Sameer Kattiparambil: Per year, 17 to 18 million per year?

PK Chand: Yes.

Sameer Kattiparambil: What are your capex plans? Why are you planning to go back to your 200 million number you have early indicated?

PK Chand: It will all depend on the situation because it is very difficult to predict, as Mr Abdallah said, what is going to really happen in 2021. But obviously, the profitability jumps. Like Mr Abdallah mentioned, tableware might take a little time. So, depending on the liquidity situation, we will decide on this.

Sameer Kattiparambil: Understood. If you look at some of your regional peers, they have taken down their working capital cycle to a much lower level than their last three or four years. Is there any reason why it's been higher for you? The number is 300 less.

PK Chand: If you see our four, five year history, in fact, I have tracked that number since 2014, and even in 2017, I can see that it was at 241 days level. We continue to do 240 days to 260 days total, I'm talking. So, it is in that vein. I'm talking the total working capital, not only the inventory, the receivables and payables difference. So, that remains in that range. Now, this particular quarter, the inventories have gone down.

The receivables are also in control. But I agree with you that yes, some more reduction is required, for which, we are taking the required actions that at least inventories should not go up compared to the previous month. So, this, we are tracking very, very minutely.

Sameer Kattiparambil: One last question on your provisioning. You mentioned 7.1 million hyperinflation provision on Iran. Also, on a nine month basis, there's a 22 million provision on the Iraq project. Could you give us some colour on these two?

PK Chand: This 22 million is not a provision in this year. What I said was in 2019, there was a provision reversal of 22 million in the last year. And therefore, this reversal is not there in this year. So, if I try to reconcile the profit of last year, what is this year's? That is where I mentioned about this 22 million. As far as hyperinflation, that year supports nine months, the impact is 7.1 million, which include five million of depreciation on the hyperinflated asset.

Sameer Kattiparambil: Understood. Thanks a lot, Mr Chand, and good luck for your fourth quarter numbers.

Operator: As a reminder, that's star, one or the request to speak flag icon. I'll now hand over to Mohamad Haidar.

Mohamad Haidar: Thank you. Mr Abdallah, on the land, are you in discussions with developers for a masterplan to it or are you planning to develop it yourselves?

Abdallah Massaad: Honestly, Mohamad, none of it. That's what I mentioned, because we took a stand that we don't want to go into a non-core business, we kept the plan. The land is a big land. So, they asked us to make a masterplan, dividing it, infrastructure, but honestly speaking, we did not do anything. We are trying to sell the land, but while it is a big land and needs a big development, and you see the real estate market the last few years, so we were not able to find a buyer until now.

And that's why we are saying that, as with the COVID situation, we don't know how the valuation is, if a revaluation will happen. Every year, we had to test the impairment. And as you know, the whole real estate market valuation is not at its best. This is what we mentioned, but we are not going to develop it now or do a masterplan, but we'll do a revaluation of this property.

Mohamad Haidar: Understood. Do you, by any chance, have an exposure to Arabtec liquidation happening?

Abdallah Massaad: In Arabtec, it's a big group. We have some receivables, but the receivables in total between Arabtec and all the other related companies, contractors and so on, does not cross the seven million dirham. And we have taken 50% provision on this amount.

PK Chand: It is actually four million dirham.

Abdallah Massaad: Four million dirham, but we have more than 50% already in provision.

Mohamad Haidar: Understood. Any chance you can share any guidance on dividends for this year?

Abdallah Massaad: Let us see. In the second quarter, we didn't know we'd have such a rebound in sales and the revenue came back. Honestly speaking, this is a decision of the board. As for our decision or earlier days, we already said that we would be distributing at least 60% of our profit. I can say, let's see how the quarter will move. The company, despite all that's happened around us, we are profitable and the last few months were really going to a pre-COVID scenario. Let us see and this is a decision of the board. But I hope that we will have a good quarter, if nothing happens.

Operator: We have a follow-up question from Divye Arora from Daman Investments. Divye, your line is now open.

Divye Arora: Hi. The impairment losses that we see on the income statement, these are mainly linked to the receivables, right? So, we are seeing six million every quarter for the last three quarters now.

PK Chand: Yes. This six million includes, in this quarter, actually, I was hoping that the impairment would be lower, but unfortunately, this Arab matter came up and we had to take 50% provision, as Mr Abdallah said. So, the six million in this quarter is including this two million for Arabtec. But obviously, the ECL model, you must know that for IFRS 9, you have to follow and expected credit loss model.

And based on that model, we have to determine, even though we have showed that the money will come, but it's still based on the GDP of that country, whatever has been the payment scenario, payment track record of that particular party, we need to take some provision. So, the model was revised in the second quarter of this year, based on the COVID-19 impact. And therefore, the provision levels are a little on the high side. It is not necessary that the actual back debt will be so much, but based on the model, this much provision has been taken.

Divye Arora: So, in Dubai, or let's say in UAE, because your model takes into account macroeconomic factors, you won't be putting a negative GDP this year and that's showing on the overall impairments.

PK Chand: That's right. You're absolutely right.

Divye Arora: But if you look at it, there might be certain developers over here, given the market conditions that we're seeing right now, who might be facing a lot of cash issues. I'm not even talking about the lower level developers, but even the mid-level. So, right now, this looks like ECM based losses, but you think they might become a real loss for you in the next six months or so?

PK Chand: No. That way, we have a system that we very closely monitor our receivables on a continuous basis and there is a full credit control committee that works. So, if it goes beyond a particular level, we'll stop dispatches and we'll start following up very, very closely. So, based on the information that I have received, I do not think that there should be undue or bad debt, which we have not provided.

Divye Arora: And how about the inventories? Last time we spoke, you were telling us that there's a system nowadays in place with you, which automatically impairs the inventory based on how long you have kept it. Are you following the same system now? And if that is true, why are we not seeing any impairment on the inventory side in the income?

K Chand: No. If you see our financials, we have taken provision of 23, in fact, 24 million dirham compared to 14 million in the last year, nine months. So, that is given in our financial. If you go to the cost of sales, break up of cost of sales, you'll find the inventory provision for obsolescence. So, this year nine months, there is a provision of 24 million, while in last year nine months, there was a provision of 14 million.

Divye Arora: Got it. But still, the level of inventories are very high, 261 days. And the normalised level is around 200 days. So, you're still far off.

PK Chand: What happens is that every time we keep on monitoring at different ageing brackets, we have a full analysis of how much inventory we have got, which was produced in which particular year. And then, based on this provisioning policy, we keep on providing. Obviously, the provisioning, much higher provisioning is required as the ageing goes higher.

Apart from that, wherever we've seen that, apart from the provisioning, there is also an [unclear] provision. So, that means if, let's say, a particular item type, we have sold at a lower value, compared to the book value, the system automatically takes care of the [unclear] provision. So, this 24 million that I told you, that is not including the [unclear].

An [unclear] provision is a separate 21 million. If you go through the notes in the financials, it is clearly mentioned. So, they're also, compared to last year, there is an extra [unclear] provision, which has been taken. So, from the accounting side, we are quite sure that there should not be heavy impairment.

Divye Arora: Where is that extra provision being reflected in the financials?

PK Chand: Obviously, it is going to the P&L accounts. So, an [unclear] provision is, when you value the finished goods as stock. Actually, stock is, let us say, 100, you have taken an [unclear] provision of five million. So, the finished goods, the stock will be considered as 95, so it is automatically charged to the profit and loss account. As far as the obsolescence is concerned, that is a direct hit in the profit and loss account, which comes to the cost of sales.

Divye Arora: The things on this is because historically, your inventory days were 190 to 200 days, but now you're getting them around 260, 270, in that range. So, we always feel that will there be a big risk in front of us, in terms of taking a big provision in one particular quarter or end of a year.

PK Chand: Frankly speaking, we are aware of the whole situation. The inventory days are on the higher side and we are trying to monitor it very, very closely. But yes, you are right, to that extent, the inventory days remain at the level of around, like in March 19, it was 244 days then 256 days, and if there are 250 to 260 days, it is moving in that range.

Operator: Our final question today comes from Imad from ACP. Imad, your line is now open.

Imad Chukrallah: Thank you. Hello, Mr Abdallah and PK, thank you for the call. This is Imad from Amwal Capital Partners. I have a follow-up question on the exposure to some of the contractors that are getting into trouble. With regards to the bulk of the receivables today, if I understand correctly, that is, I would assume, to the projects, which are to similar types of contractors. Is that the case?

And if so, are you comfortable with the inventory days, considering that maybe half of your sales today are directly to retail, which are probably most on cash and not on receivables? That is one. And the other point, do you expect any material increase in product prices now as, let's say, the inventory in the system flushes out? I'm sure there are still a lot of products that are imported that did not hit the tariffs yet. Do you think that once that is done, we could see an increase in prices? Thank you.

Abdallah Massaad: PK, could you please answer on the receivables side and I will continue on the other?

PK Chand: Yes. As far as the receivables position is concerned, as I have already mentioned, we have a credit control committee. And where we keep on discussing with the concerned vice president and we have a very, very close follow-up. Wherever we see that, the payment is not forthcoming, we closely monitor it. And that is why if you see even though the sales have increased, the receivables have not increased much.

And even if you see our track record, I will say that it is at an acceptable level. Because in the UAE market, this market is like this, that if the pure payment term is, let's say, 120 days or 90 days, the customer has paid you after one month. And we understand this very well that the customer will take some more time and that is factored into our cost itself. Because the margin is good from the UAE market.

So, in the overall situation, unless something like Arabtec happens that is under nobody's control, but otherwise, from the system perspective, we do not see that there should be any big provision coming.

Abdallah Massaad: Imad, to do a follow-up on what PK was saying, it is not our receivables coming from contractors. For sure, it is coming from wholesaler, our distributors, and for sure, we have from developers and contracting companies. But we do, as PK mentioned, a very stringent control. Regarding the prices and the retail, you are right and that's why in the UAE, we did not yet see the impact. And I said I'm not worried on the sales because we did not yet see the impact of anti-dumping.

Because we have, or traders will have, stock and this stock will dry in a few months and then we will be able to get more market share, not only in the UAE, but all over the GCC. I do expect a relaxation from the anti-dumping and this will give us better margin and more volume here.

Operator: There are no more questions, so I will now hand you back to the management team for closing.

Abdallah Massaad: Thank you very much for your time and stay safe.