

# RAK

## CERAMICS

### EARNINGS PRESENTATION Q2 2018 RESULTS

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AUGUST 2018

# Attendees



## **Abdallah Massaad**

### Group Chief Executive Officer

Abdallah Massaad is Group CEO of RAK Ceramics and has more than 25 years experience in ceramics manufacturing, sales management, product marketing and business leadership. Prior to RAK Ceramics, Mr. Massaad was General Manager of ICC SARL, Lebanon.

Mr. Massaad holds post graduate qualifications in Management (DEA in Business Administration) and an undergraduate degree (Maitrise in Business Administration - Marketing) from Université Saint-Esprit de Kaslik, Lebanon.



## **PK Chand**

### Group Chief Financial Officer

Pramod Kumar Chand is the Group Chief Financial Officer of RAK Ceramics. Mr. Chand has wide experience in dealing with corporate finance matters including treasury and working capital financing, project finance, venture capital, debt and equity capital market instruments, fund raising processes and general management.

Mr. Chand is a Member of the Institute of Chartered Accountants of India (CA) and has been a rank holder and winner of the A F Ferguson award.

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# Key business highlights

## **Core business growth**

Core business growth led by strong sales in UAE, India markets and tableware.

## **India turnaround**

Expansion in Morbi JV and a new greenfield project in Morbi underway, due for commercial production by the end of the year.  
Exploring export options.

## **Saudi Arabia integration**

Integration of recently acquired JV's in progress, focusing on workforce and warehousing rationalisation.

## **Robust tableware growth**

Robust growth and improved gross margins.

Tie-up with Hyatt Place hotels to supply Zing and Zoom models to 1000+ upcoming outlets.

US market growth in progress.

## **Margin enhancements**

Cost reduction with better production efficiencies.

Stable GP margins despite increased energy and material costs.

## **Non-core exits**

No new updates.

# Q2 2018 Key financial highlights

**Core revenues** increased by +2.6% to AED678.4m YoY.

**Total revenues** decreased by -0.3% to AED719.2m YoY due to a decrease in non-core revenues by -31.9%.

+2.6%

**Core gross profit margin**

increased by +50bps YoY to reach all-time high of 34.7% .

**Total gross profit margin**

increased by +110bps YoY to reach all-time high of 34.4%.

34.7%

**SG&A and finance cost (net)**

increased by +17.3% to AED201.9m. SG&A increased on consolidation of Saudi entities, India and Tableware. Finance cost increased due to FX loss and increased LIBOR.

+17.3%

**Core EBITDA decreased** by -16.9% to AED107.0m YoY, with margin of 15.8% a decrease of -370bps.

**Total EBITDA** decreased by 19.7% to AED117.9m YoY.

AED117.9M

**Reported net profit** decreased to AED55.1m from AED113.2m with margin of 7.7%. (Q2 17 net profit includes AED34.8m of net extraordinary gain on sale of RAK Warehouse)

AED55.1M

**Like for like net profit\***

decreased by 31.3% to AED58.5m with margin of 8.1% decreased by -370bps YoY.

AED58.5M

\*exc. provisions and gains

# H1 2018 Key financial highlights

**Core revenues** increased by +1.8% to AED1.30bn YoY.

**Total revenues** decreased by -1.5% to AED1.38bn YoY due to decrease in non-core revenues by -37.0%.

+1.8%

**Core gross profit margin** increased by +20bps to 33.4% compared to H1 2017.

**Total gross profit margin** increased by +70bps to 33.2%.

33.4%

**Core EBITDA** decreased by -8.4% to AED206.3m YoY, with margin of 15.8% a decrease of -180bps.

**Total EBITDA** decreased by -12.6% to AED228.8 YoY.

AED228.8M

**Reported net profit** decreased to AED120.5m from AED177.7m with margin of 8.7% -390bps YoY.

AED120.5M

**Like for like net profit\*** decreased by 20.5% to AED 108.3m with margin of 7.8% -190bps YoY.

AED108.3M

**Net Debt** increased by 7.7% to AED1.52bn compared to December 2017 and net debt to EBITDA increased from 2.64x to 3.03x for payment of dividends.

3.03x

\*exc. provisions and gains

# Revenue highlights

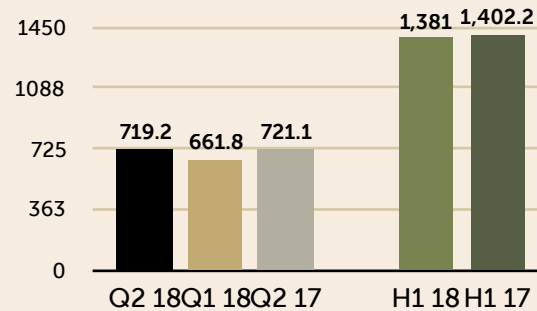
## MANAGEMENT COMMENTS

Total revenue in Q2 2018 decreased by -0.3% compared to Q2 2017.

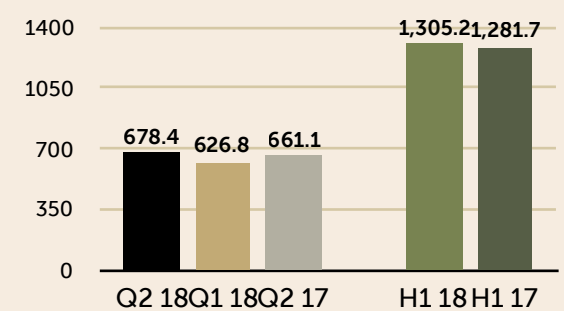
Core revenue increased by +2.6% YoY and +8.2% QoQ.

Tiles revenue increased by +1.1% compared to Q2 2017 and QoQ by +5.7% driven by UAE, KSA and India markets. Sanitaryware revenue is decreased by -2.9% in all markets except India and Europe, however increased by +1.0% QoQ. Tableware revenue is increased by +25.5% YoY due to growth in Europe and US markets.

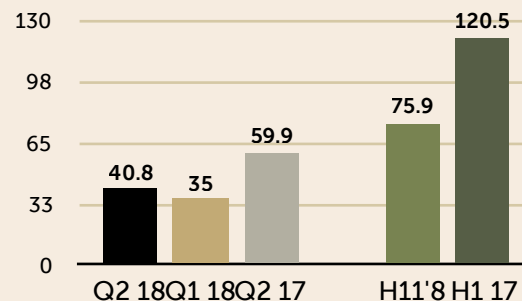
## TOTAL REVENUES (AED M)



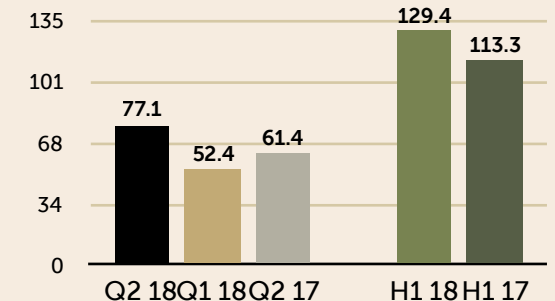
## CORE REVENUES (AED M)



## NON-CORE REVENUES (AED M)



## TABLEWARE REVENUE (AED M)



# Tiles revenue by end market

	QUARTERLY COMPARISON					YEARLY COMPARISON		
	Q2 18	Q1 18		Q2 17		H1 18	H1 17	
	Amount	Amount	Growth	Amount	Growth	Amount	Amount	Growth
<b>United Arab Emirates</b>	<b>155.9</b>	156.9	<b>-0.6%</b>	148.3	<b>5.1%</b>	<b>312.8</b>	280.2	<b>11.6%</b>
<b>Kingdom of Saudi Arabia*</b>	<b>71.1</b>	55.2	<b>28.9%</b>	59.5	<b>19.5%</b>	<b>126.3</b>	104.3	<b>21.1%</b>
<b>Middle East (Ex. UAE &amp; KSA)**</b>	<b>22.7</b>	28.6	<b>-20.5%</b>	29.8	<b>-23.8%</b>	<b>51.2</b>	62.2	<b>-17.7%</b>
<b>India</b>	<b>73.9</b>	80.2	<b>-7.9%</b>	72.7	<b>1.7%</b>	<b>154.2</b>	142.0	<b>8.6%</b>
<b>Europe</b>	<b>58.3</b>	45.2	<b>28.9%</b>	59.1	<b>-1.4%</b>	<b>103.5</b>	119.5	<b>-13.4%</b>
<b>Bangladesh</b>	<b>45.7</b>	49.2	<b>-7.2%</b>	52.0	<b>-12.1%</b>	<b>94.9</b>	99.3	<b>-4.4%</b>
<b>Africa</b>	<b>16.6</b>	16.4	<b>1.2%</b>	29.0	<b>-42.8%</b>	<b>33.0</b>	61.8	<b>-46.6%</b>
<b>Rest of the world</b>	<b>37.6</b>	24.0	<b>56.6%</b>	26.2	<b>43.5%</b>	<b>61.63</b>	53.8	<b>14.6%</b>
<b>Total</b>	<b>481.7</b>	<b>455.7</b>	<b>5.7%</b>	<b>476.6</b>	<b>1.1%</b>	<b>937.5</b>	<b>923.1</b>	<b>1.6%</b>

\*Excluding consolidation of Saudi JV's, tiles growth is +11.2% in Q2 18 YoY and 13.1% in H1 18 YoY \*\* H1'17 includes sales to Qatar AED 9.0mn



# Sanitaryware revenue by end market

	QUARTERLY COMPARISON					YEARLY COMPARISON		
	Q2 18	Q1 18		Q2 17		H1 18	H1 17	
	Amount	Amount	Growth	Amount	Growth	Amount	Amount	Growth
<b>United Arab Emirates</b>	<b>36.1</b>	42.1	<b>-14.3%</b>	38.6	<b>-6.6%</b>	<b>78.2</b>	77.2	<b>1.3%</b>
<b>Kingdom of Saudi Arabia*</b>	<b>4.6</b>	5.8	<b>-19.9%</b>	5.1	<b>-9.4%</b>	<b>10.4</b>	11.3	<b>-8.0%</b>
<b>Middle East (Ex. UAE &amp; KSA)**</b>	<b>2.1</b>	2.3	<b>-6.6%</b>	6.1	<b>-65.2%</b>	<b>4.4</b>	12.3	<b>-64.1%</b>
<b>India</b>	<b>4.3</b>	4.6	<b>-5.9%</b>	3.8	<b>12.9%</b>	<b>8.9</b>	7.9	<b>12.3%</b>
<b>Europe</b>	<b>43.4</b>	32.1	<b>35.4%</b>	36.9	<b>17.8%</b>	<b>75.5</b>	71.5	<b>5.6%</b>
<b>Bangladesh</b>	<b>23.2</b>	25.8	<b>-10.0%</b>	24.2	<b>-4.2%</b>	<b>49.0</b>	48.7	<b>0.5%</b>
<b>Africa</b>	<b>1.5</b>	1.5	<b>5.0%</b>	2.8	<b>-46.2%</b>	<b>3.0</b>	6.8	<b>-56.1%</b>
<b>Rest of the world</b>	<b>4.3</b>	4.5	<b>-4.4%</b>	5.5	<b>-21.1%</b>	<b>8.9</b>	9.6	<b>-7.3%</b>
<b>Total</b>	<b>119.7</b>	<b>118.6</b>	<b>0.9%</b>	<b>123.1</b>	<b>-2.8%</b>	<b>238.2</b>	<b>245.3</b>	<b>-2.9%</b>

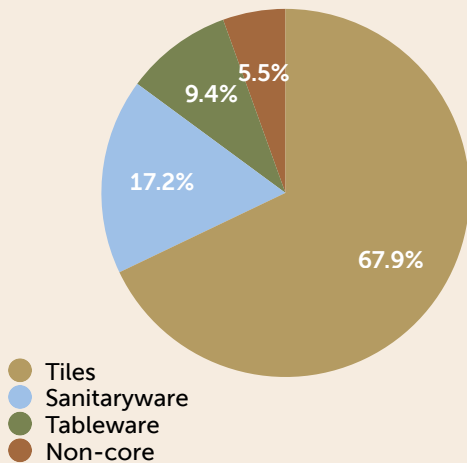
\*Excluding consolidation of Saudi JV's, Sanitaryware growth is -34.8% in Q2 18 YoY and -19.4% in H1 18 YoY. \*\* H1'17 Includes AED 2.9mn sales to Qatar

# Revenue contribution

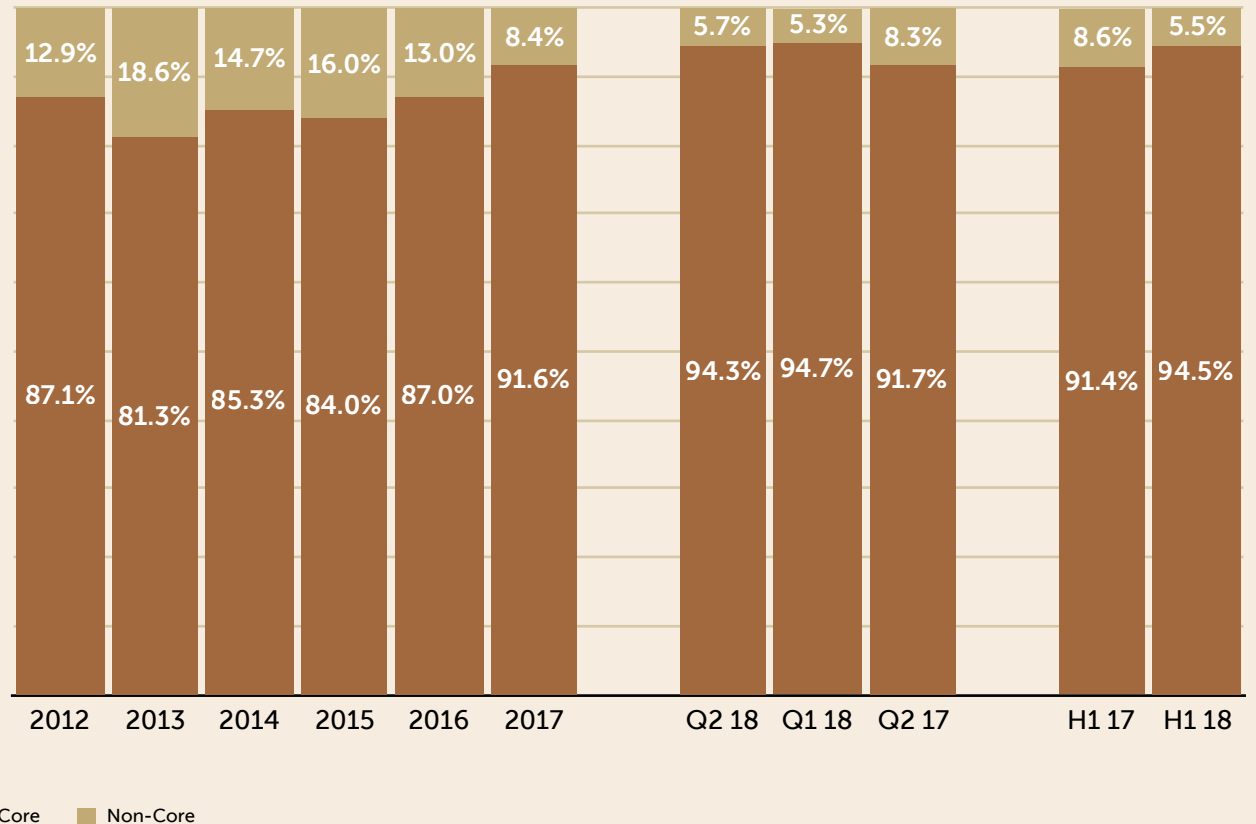
## MANAGEMENT COMMENTS

Non-core revenue contribution at 5.7% in Q2 2018 driven by our strategic focus on divesting non-core operations. During the quarter the rough grading business has been discontinued.

## H1 2018 SEGMENT CONTRIBUTION (%)



## CORE AND NON-CORE REVENUE (%)



# Gross profit margins

## MANAGEMENT COMMENTS

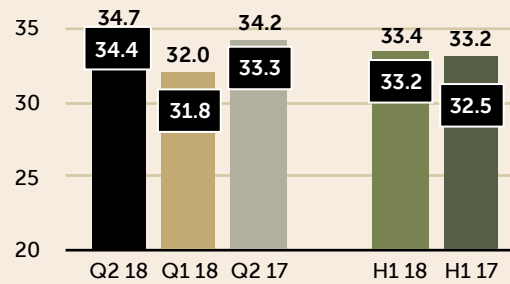
Total gross margin increased by +110bps compared to Q2 2017.

Core margin increased by +50bps at 34.7% despite of an increase in energy and raw material costs.

Continued improvement in operational efficiencies has offset the increased costs. Tile gross margin increased by +20bps to 30.3%, whilst sanitaryware margin decreased by -230bps to 37.9% due to change in product mix.

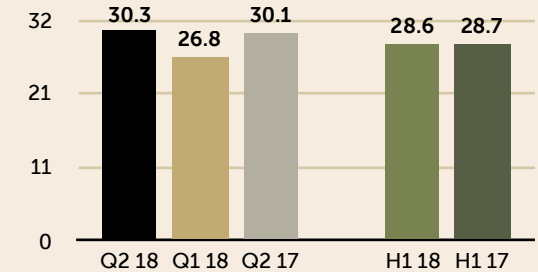
Tableware margin increased by +290bps to 56.8% YoY due to growth in US market.

## CORE GROSS MARGINS (%)

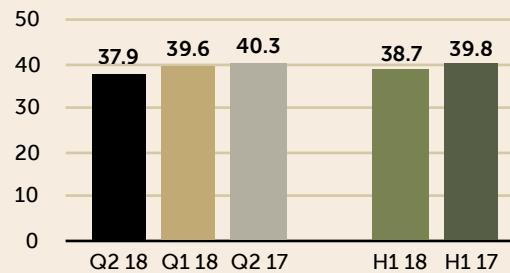


Total gross profit margin

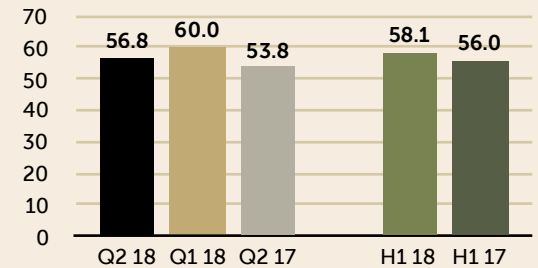
## TILES GROSS MARGINS (%)



## SANITARYWARE GROSS MARGINS (%)



## TABLEWARE GROSS MARGINS (%)



# Financial highlights

## FINANCIAL HIGHLIGHTS (AED M)

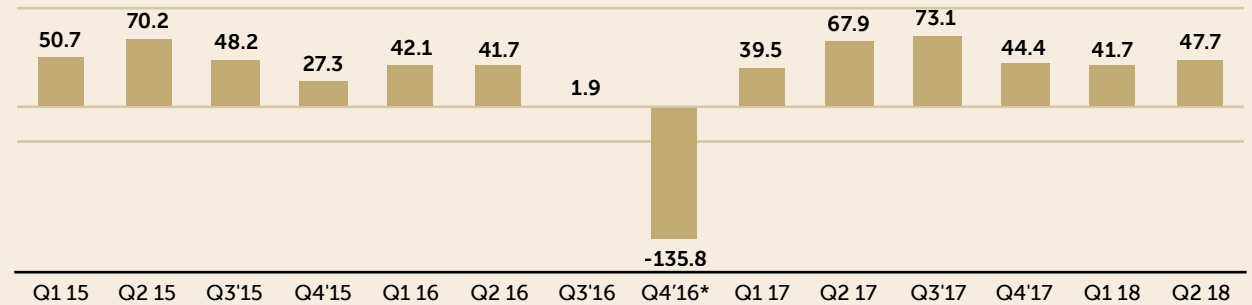
	Quarterly Comparison					Yearly Comparison		
	Q2 18	Q1 18		Q2 17		H1 18	H1 17	
	Amount	Amount	Growth	Amount	Growth	Amount	Amount	Growth
<b>Revenue</b>	<b>719.2</b>	661.8	<b>8.7%</b>	721.1	<b>-0.3%</b>	<b>1,381.0</b>	1,402.2	<b>-1.5%</b>
<b>Core revenue</b>	<b>678.4</b>	626.8	<b>8.2%</b>	661.1	<b>2.6%</b>	<b>1,305.2</b>	1,281.7	<b>1.8%</b>
<b>Gross margin (%)</b>	<b>34.4%</b>	31.8%	<b>2.6%</b>	33.3%	<b>1.1%</b>	<b>33.2%</b>	32.5%	<b>0.7%</b>
<b>Core gross margin</b>	<b>34.7%</b>	32.0%	<b>2.7%</b>	34.2%	<b>0.5%</b>	<b>33.4%</b>	33.2%	<b>0.2%</b>
<b>EBITDA</b>	<b>117.9</b>	110.9	<b>6.3%</b>	146.8	<b>-19.7%</b>	<b>228.8</b>	261.6	<b>-12.5%</b>
<b>Core EBITDA</b>	<b>107</b>	99.3	<b>7.8%</b>	128.8	<b>-16.9%</b>	<b>206.3</b>	225.1	<b>-8.4%</b>
<b>Reported net profit</b>	<b>55.1</b>	65.4	<b>-15.7%</b>	113.2	<b>-51.3%</b>	<b>120.5</b>	177.7	<b>-32.2%</b>
<b>Extraordinary gain (net)</b>	<b>3.4</b>	-15.5	n/a	-28.1	n/a	<b>-12.1</b>	-41.4	n/a
<b>Like for like net profit</b>	<b>58.5</b>	49.9	<b>17.2%</b>	85.1	<b>-31.3%</b>	<b>108.3</b>	136.3	<b>-20.5%</b>
<b>Capital expenditure</b>	<b>53.5</b>	31.1	<b>72.0%</b>	21.1	<b>153.6%</b>	<b>84.6</b>	40.8	<b>107.4%</b>
<b>Net debt</b>	<b>1,517.0</b>	1,555.0	<b>-2.4%</b>	1,665.7	<b>-8.9%</b>	<b>1,517.0</b>	1,665.7	<b>-8.9%</b>
<b>Net debt / EBITDA</b>	<b>3.03X</b>	2.94X	<b>3.2%</b>	3.58X	<b>-15.4%</b>	<b>3.03X</b>	3.58X	<b>-15.4%</b>

# Core net profit and shareholder return

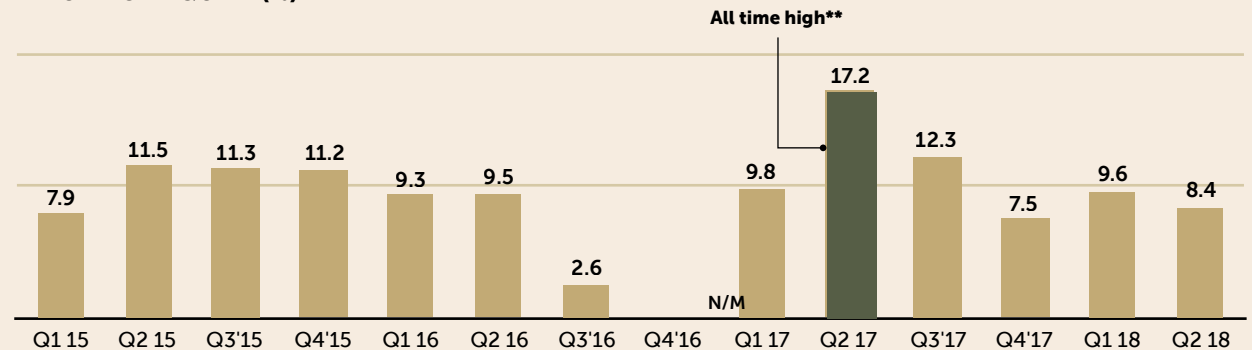
## MANAGEMENT COMMENTS

Core net profit increased by +14.3% compared to Q1 2018 with a margin improvement of +40bps QoQ.

## CORE NET PROFIT (AED MN)



## RETURN ON EQUITY (%)



\* Includes extraordinary provision of AED131.8m \*\*Includes extraordinary Net Gain of AED34.8m towards sale of RAK Warehouse Leasing stake. Impact was 5.3%.

# Operating cycle

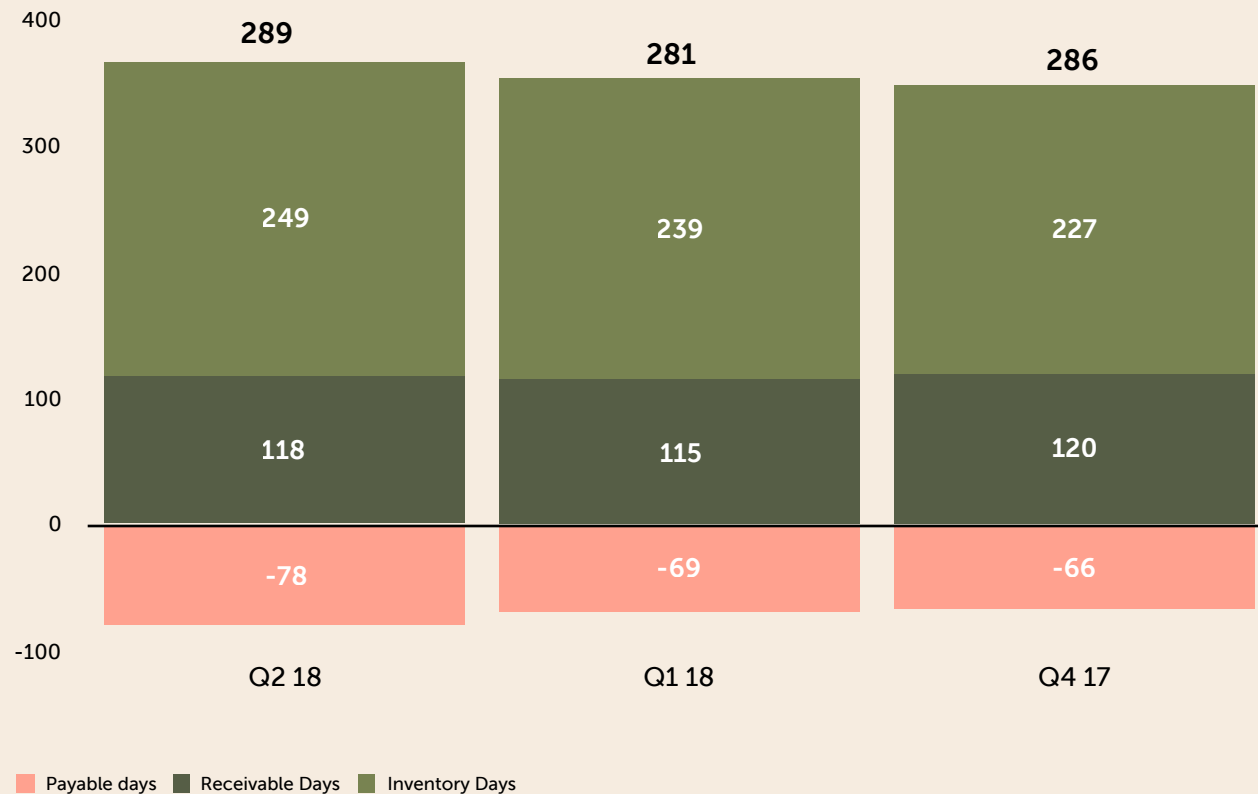
## MANAGEMENT COMMENTS

Inventory days has increased from 239 days in Q1 2018 to 249 days in Q2 2018 due to building raw materials and spare stocks.

FG inventory increased by 2 days from 155 to 157 days QoQ.

Payable days has also increased from 69 days in Q1 2018 to 78 days in Q2 2018

## OPERATING CYCLE (LTM DAYS)



# 2018 Priorities

Maintain/increase market share and profitability of UAE, India, Bangladesh, Porcelain and Kludi-RAK

Europe profitability improvement

Continue product portfolio optimisation

Optimised production

India turnaround and hub for exports

Continue focus on branding roll out supported by shop in shop concept

Continue cost efficiencies and manage margins

Finalise post acquisition integration in Saudi Arabia

Identify opportunistic acquisitions

# Contacts

## **INVESTOR RELATIONS**

If you have any questions or require further information, please do not hesitate to contact our investor relations department.

### **Investor Relations**

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# RAK

CERAMICS

