

# RAK

## CERAMICS

EARNINGS PRESENTATION - Q2 & H1 2019 RESULTS

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AUGUST 2019

# Attendees



## **Abdallah Massaad**

### Group Chief Executive Officer

Abdallah Massaad is Group CEO of RAK Ceramics and has more than 22 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

## **Business performance**

Tiles revenues were impacted as June dispatches weakened due to EID holidays. However there has been growth in the sanitaryware business.

## **Margins improved**

Total and tiles gross profit margins increased with continued focus on cost reductions and operational efficiencies.

## **India turnaround**

Development of initial product ranges is complete in the Greenfield project, in Morbi. Production capacity utilisation reached 70%. Capacity utilisation reached 92% in another Morbi JV. Contribution of exports to total revenue increased year on year.

## **Saudi Arabia**

Merger of two Saudi entities in progress. Work force & warehouse rationalization is complete and benefits started accruing.

Discussions for expansion of tiles manufacturing are underway.

## **Tableware growth**

Growth in revenue supported by strong growth in USA, GCC and African markets.

## **Branding and positioning**

Revamping of own and dealer's showroom and shop-in-shop concept are in process.

# Q2 2019 Key financial highlights

**Total revenue** decreased by -7.2% YoY to AED667.4m. On constant currency as of Q2 2018, the total revenue decrease is -3.1% YoY.

AED 667.4M

**Total gross profit margin** increased by +110bps YoY to reach an all-time high of 35.5%, driven by an increase in tiles gross margins of +110bps YoY to 31.4%.

35.5%

**Reported net profit** increased by +33.1% YoY to AED73.4m with a margin of 11.0%.

Q2 2019 net profit includes the reversal of an AED 22.1mn receivables provision.

AED 73.4M

**Net profit after minority** increased by +36.6% YoY to AED61.2m with a margin increase of 290bps to 9.2% YoY.

AED 61.2M

**Like for like net profit\*** decreased by -10.5% YoY to AED 52.3mn, with a margin decrease of -30bps YoY to 7.8%, mainly due to lower revenue.

AED 52.3M

**Total EBITDA** increased by +23.9% YoY to AED 141.9mn, with a margin increase of 530bps YoY to 21.3%.

AED 141.9M

\*exc. provisions and gains

# H1 2019 Key financial highlights

**Total revenue** decreased by -6.8% YoY to AED 1.29bn. On constant currency as of H1 2018, the total revenue decrease is -2.6% YoY.

AED 1.29 BN

**Total gross profit margin** increased by +100bps YoY to 34.2%, driven by an increase in tiles gross margins of +130bps YoY to 29.9%.

34.2%

**Reported net profit** decreased by -8.5% YoY to AED110.3m with a margin of 8.6%. **Net profit after minority** decreased by -10.6% to AED90.2m.

AED 110.3 M

**Like for like net profit\*** decreased by 16.5% YoY to AED 90.4mn, with a margin decrease of -80bps YoY to 7.0%, mainly due to lower revenue.

AED 90.4 M

**Total EBITDA** increased by +8.0% YoY to AED 239.8mn, with a margin increase of +250bps YoY to 18.6%.

AED 239.8 M

**Net Debt** is reduced from AED 1.53bn in Mar'19 to AED1.43bn in June '19. Net Debt to EBITDA decreased from 3.54x in Mar'19 to 3.11x in June'19 (Dec '18, ND 1.43bn and ND to EBITDA 3.23x).

3.11x

\*exc. provisions and gains

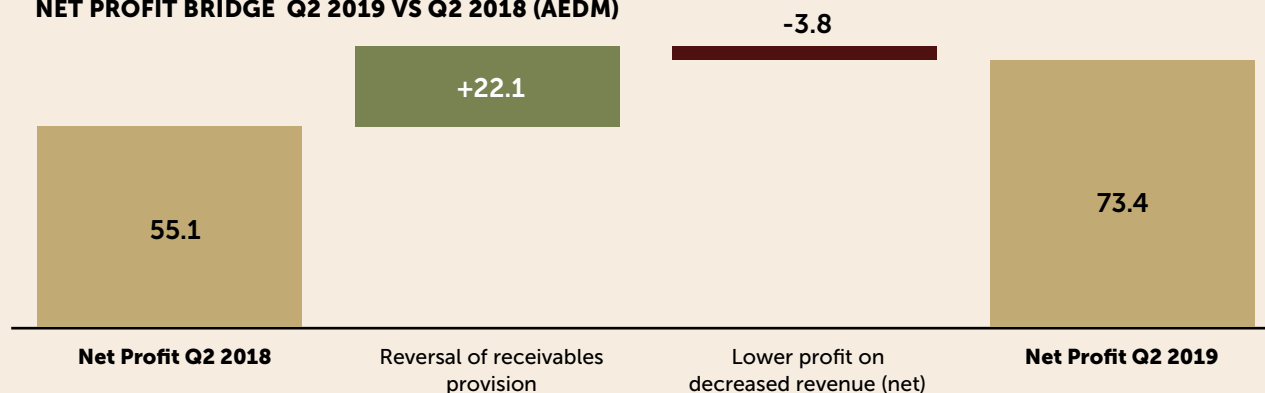
# Q2 & H1 2019 Net Profit Bridge

## MANAGEMENT COMMENTS

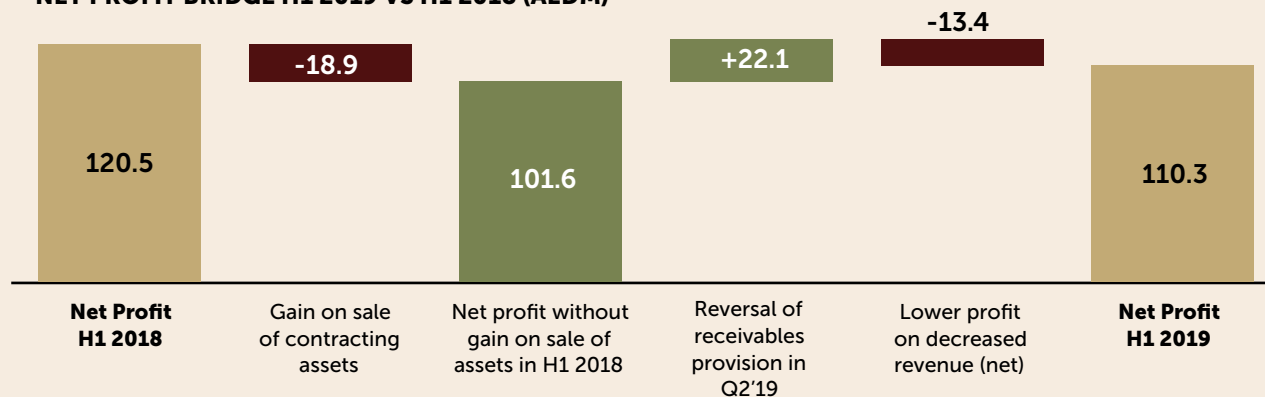
Reported net profit increased by +33.1% YoY to AED73.4 million.

Q2 2019 net profit includes the reversal of an AED 22.1mn receivables provision.

NET PROFIT BRIDGE Q2 2019 VS Q2 2018 (AEDM)



NET PROFIT BRIDGE H1 2019 VS H1 2018 (AEDM)



# Revenue highlights

## MANAGEMENT COMMENTS

Due to EID holidays total revenue in Q2 2019 decreased by -7.2% YoY. On constant currency of Q2 2018, the total revenue decrease is -3.1% YoY.

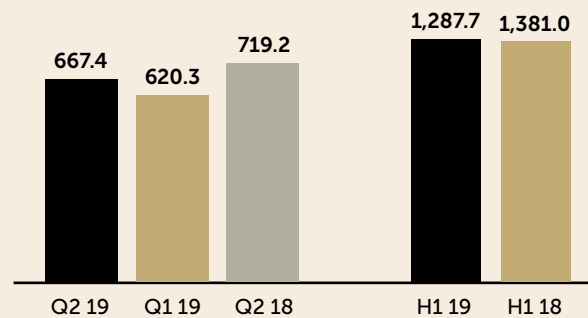
Tiles revenue decreased by -9.3% YoY due to a decrease in revenue in all markets except African markets.

Sanitaryware revenue increased by +7.0% YoY driven by UAE, Saudi, Rest of Middle East & European markets.

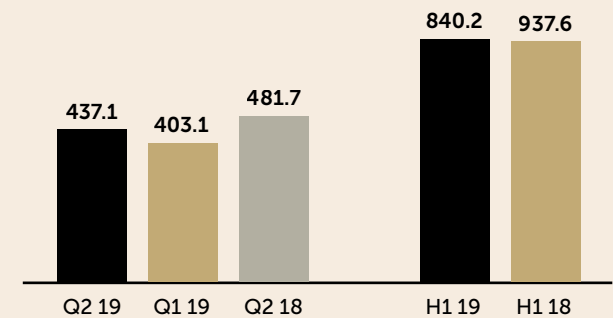
Tableware revenue decreased by -3.9% (+0.5% on constant currency) YoY due to lower sales in all markets except the USA.

Others (Non core) revenue decreased by -30.8% YoY to AED28.3mn mainly due to a decrease in the ceramic raw material trading business.

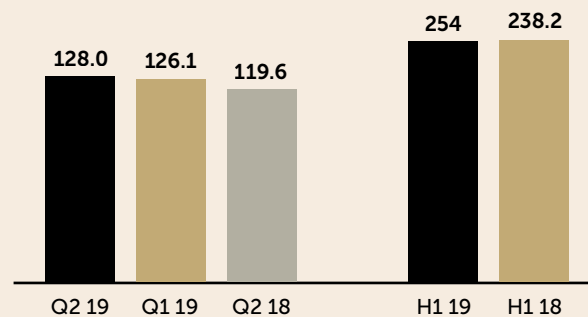
## TOTAL REVENUE (AEDM)



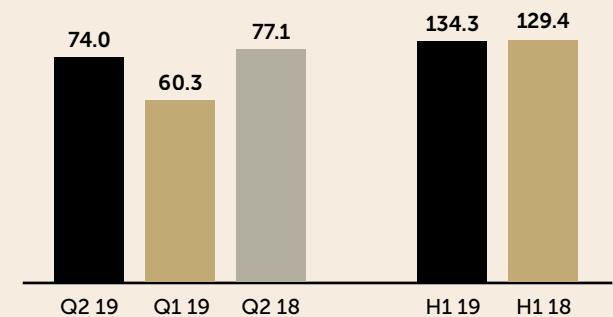
## TILES REVENUE (AEDM)



## SANITARYWARE REVENUE (AEDM)



## TABLEWARE REVENUE (AEDM)





# Tiles revenues by end market

	QUARTERLY COMPARISON					YEARLY COMPARISON		
	Q2 19	Q1 19		Q2 18		H1 19	H1 18	
	Amount	Amount	Growth	Amount	Growth	Amount	Amount	Growth
<b>United Arab Emirates</b>	<b>151.4</b>	141.9	<b>6.7%</b>	155.9	<b>-2.9%</b>	<b>293.3</b>	312.8	<b>-6.2%</b>
<b>Kingdom of Saudi Arabia</b>	<b>66.8</b>	49.0	<b>36.3%</b>	71.1	<b>-6.0%</b>	<b>115.8</b>	126.2	<b>-8.2%</b>
<b>Middle East (Ex. UAE and KSA)</b>	<b>19.6</b>	18.2	<b>7.7%</b>	22.7	<b>-13.7%</b>	<b>37.9</b>	51.2	<b>-26.0%</b>
<b>India</b>	<b>63.2</b>	69.4	<b>-8.9%</b>	73.9	<b>-14.5%</b> *	<b>132.6</b>	154.2	<b>-14.0%</b> *
<b>Europe</b>	<b>46.7</b>	44.8	<b>4.2%</b>	58.3	<b>-19.9%</b> *	<b>91.5</b>	103.5	<b>-11.6%</b> *
<b>Bangladesh</b>	<b>45.7</b>	44.3	<b>3.1%</b>	45.7	0.0% *	<b>90.0</b>	94.9	<b>-5.2%</b> *
<b>Africa</b>	<b>22.4</b>	16.6	<b>34.9%</b>	16.6	<b>34.9%</b>	<b>39.0</b>	33.0	<b>18.2%</b>
<b>Rest of the world</b>	<b>21.2</b>	18.8	<b>12.6%</b>	37.5	<b>-43.5%</b>	<b>40.0</b>	61.8	<b>-35.3%</b>
<b>Total</b>	<b>437.0</b>	<b>403.1</b>	<b>8.4%</b>	<b>481.7</b>	<b>-9.3%</b>	<b>840.1</b>	<b>937.6</b>	<b>-10.4%</b>

\*Tiles revenue growth rates in local currency:

- India: -11.0% YoY in Q2'19 and -8.0% YoY in H1'19
- Europe: -14.3% YoY in Q2'19 and -5.0% YoY in H1'19
- Bangladesh: +0.2% YoY in Q2'19 and -4.8% YoY in H1'19

# Sanitaryware revenues by end market

	QUARTERLY COMPARISON					YEARLY COMPARISON		
	Q2 19	Q1 19		Q2 18		H1 19	H1 18	
	Amount	Amount	Growth	Amount	Growth	Amount	Amount	Growth
<b>United Arab Emirates</b>	<b>39.5</b>	38.6	<b>2.3%</b>	36.1	<b>9.4%</b>	<b>78.2</b>	78.2	0.0%
<b>Kingdom of Saudi Arabia</b>	<b>6.0</b>	6.0	0.0%	4.6	<b>30.4%</b>	<b>12.0</b>	10.4	<b>15.4%</b>
<b>Middle East</b> (Ex. UAE and KSA)	<b>2.7</b>	1.7	<b>58.8%</b>	2.1	<b>28.6%</b>	<b>4.4</b>	4.4	0.0%
<b>India</b>	<b>4.0</b>	5.4	<b>-25.9%</b>	4.3	<b>-7.0%</b> *	<b>9.5</b>	8.9	<b>6.7%</b> *
<b>Europe</b>	<b>46.0</b>	40.9	<b>12.5%</b>	43.4	<b>6.0%</b> *	<b>86.9</b>	75.5	<b>15.1%</b> *
<b>Bangladesh</b>	<b>22.2</b>	25.7	<b>-13.6%</b>	23.2	<b>-4.4%</b> *	<b>47.9</b>	49.0	<b>-2.2%</b> *
<b>Africa</b>	<b>4.3</b>	3.2	<b>34.1%</b>	1.5	<b>183.0%</b>	<b>7.5</b>	3.0	<b>148.5%</b>
<b>Rest of the world</b>	<b>3.2</b>	4.5	<b>-28.7%</b>	4.3	<b>-25.4%</b>	<b>7.7</b>	8.8	<b>-12.5%</b>
<b>Total</b>	<b>128.0</b>	<b>126.1</b>	<b>1.5%</b>	<b>119.6</b>	<b>7.0%</b>	<b>254.0</b>	<b>238.2</b>	<b>6.7%</b>

\*Sanitary ware revenue growth rates in local currency:

- India: +0.8% YoY in Q2'19 and +17.0% YoY in H1'19
- Europe: +12.9% YoY in Q2'19 and +24.2% YoY in H1'19
- Bangladesh: -4.3% YoY in Q2'19 and -1.9% YoY in H1'19

# Gross profit margins

## MANAGEMENT COMMENTS

Total gross margin increased by +110bps YoY to an all-time high of 35.5%.

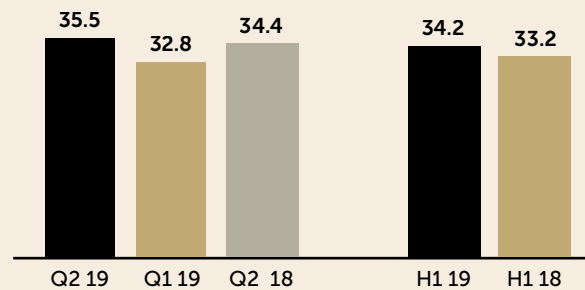
Tiles margin increased by +110bps YoY to 31.4% driven by continued cost reductions and operational efficiencies.

Sanitaryware margins are stable at 37%. Tableware margins increased by +60bps YoY to 57.4% due to a change in the product mix.

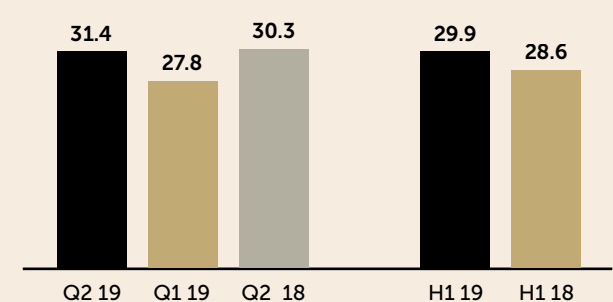
RAKC is at a significant disadvantage to its peers as it pays a higher gas price, however RAKC remains profitable.

RAKC would deliver higher income growth if gas costs were competitive. As a strategy, gas cost has been partially hedged by hedging the crude effective April 2019 (Gain of AED 0.7 mn recorded in Q2 2019).

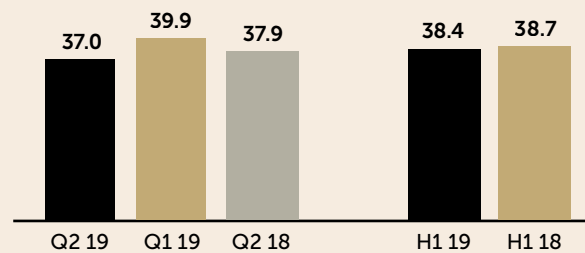
**TOTAL GROSS MARGINS (%)**



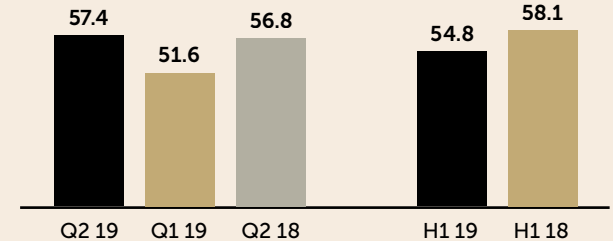
**TILES GROSS MARGINS (%)**



**SANITARYWARE GROSS MARGINS (%)**



**TABLEWARE GROSS MARGINS (%)**



# Financial highlights

## FINANCIAL HIGHLIGHTS (AEDM)

	QUARTERLY COMPARISON		YEARLY COMPARISON		YEARLY COMPARISON			
	Q2 19	Q1 19		Q2 18		H1 19	H1 18	
	Amount	Amount	Growth	Amount	Growth	Amount	Amount	Growth
<b>Revenue</b>	<b>667.4</b>	620.3	<b>7.6%</b>	719.2	<b>-7.2%</b>	<b>1,287.7</b>	1,381.0	<b>-6.8%</b>
<b>Gross margin (%)</b>	<b>35.5%</b>	32.8%	<b>2.7%</b>	34.4%	<b>1.1%</b>	<b>34.2%</b>	33.2%	<b>1.0%</b>
<b>EBITDA</b>	<b>141.9</b>	97.9	<b>44.9%</b>	114.5	<b>23.9%</b>	<b>239.8</b>	222.1	<b>8.0%</b>
<b>Reported net profit</b>	<b>73.4</b>	36.9	<b>98.9%</b>	55.1	<b>33.2%</b>	<b>110.3</b>	120.5	<b>-8.5%</b>
<b>Adjustments for Like for Like net profit (net)*</b>	<b>-21.1</b>	1.2	n/a	3.3	n/a	<b>-19.9</b>	-12.2	n/a
<b>Like for like net profit</b>	<b>52.3</b>	38.1	<b>37.3%</b>	58.4	<b>-10.4%</b>	<b>90.4</b>	108.3	<b>-16.5%</b>
<b>Capital expenditure</b>	<b>41.9</b>	67.5	<b>-37.9%</b>	53.5	<b>-21.7%</b>	<b>109.4</b>	84.6	<b>29.3%</b>
<b>Net debt</b>	<b>1,432.5</b>	1,530.4	<b>-6.4%</b>	1,516	<b>-5.5%</b>	<b>1,432.5</b>	1,516.9	<b>-5.6%</b>
<b>Net debt / EBITDA</b>	<b>3.11x</b>	3.54x	<b>13.8%</b>	3.07x	<b>-1.3%</b>	<b>3.11x</b>	<b>3.07x</b>	<b>-1.3%</b>

\* Q2'19 & H1'19 includes the reversal of an AED 22.1mn receivables provision. H1'18 includes a gain on sale of contracting assets of AED 18.9 less provisions for receivables created of AED 6.7mn.

# Operating cycle

## MANAGEMENT COMMENTS

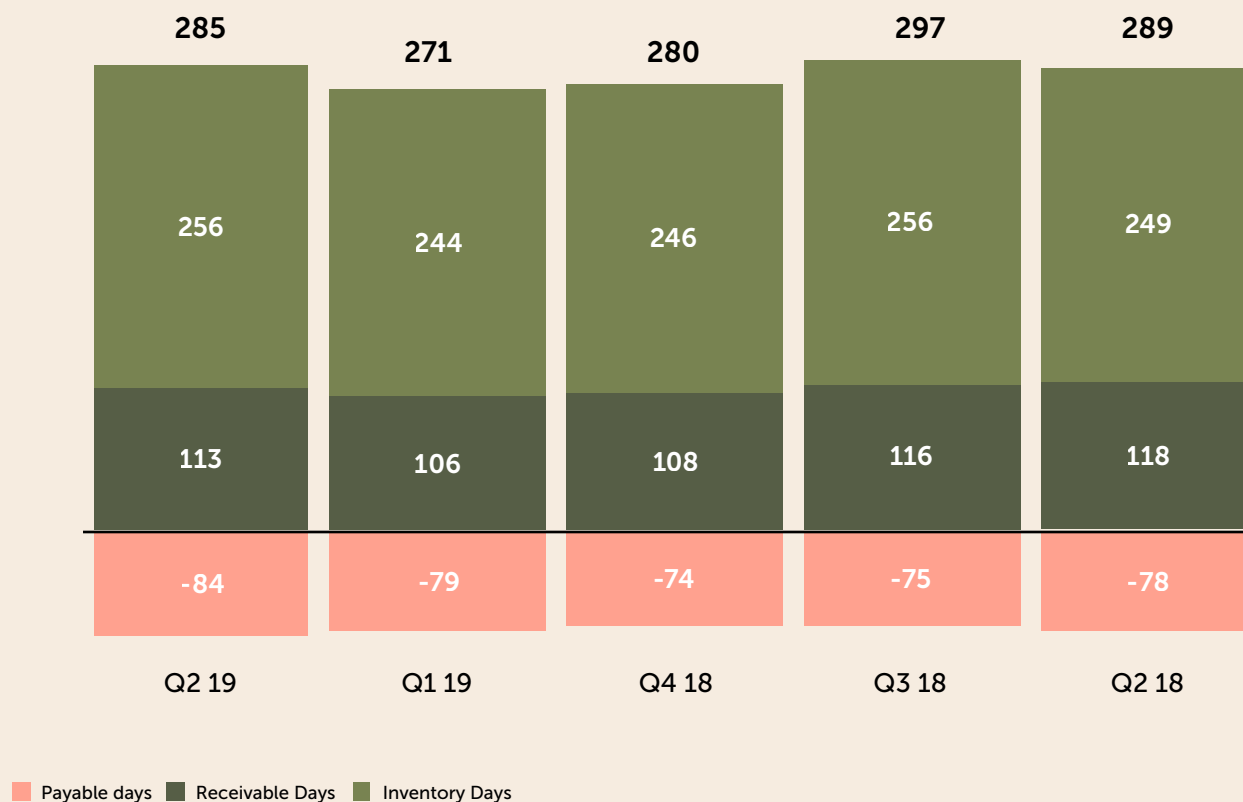
Inventory days increased from 244 days to 256 days QoQ mainly due to an increase in raw materials stock by AED 22mn.

Trade receivable days increased from 106 days to 113 days QoQ due to higher sales by AED 47mn in Q2'19.

Trade payable days increased from 79 days to 84 days.

Overall operating capital cycle increased by 14 days to 285 days QoQ due to Ramadan and EID holidays.

## OPERATING CYCLE (LTM DAYS)



# 2019 Priorities

Protect growth in UAE, India, Bangladesh, RAK Porcelain and Kludi-RAK

Turnaround India and establish hub for exports

Improve profitability in Europe and Saudi Arabia

Optimise production

Develop strategy to counter increased gas price

Continue cost efficiencies manage margins

Continue focus on branding supported by shop in shop concept

Reduce finished goods inventory

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.

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# RAK

## CERAMICS

