

# RAK

## CERAMICS

EARNINGS PRESENTATION - 2018 Q4/FY RESULTS

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FEBRUARY 2018

# 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

## **Core business growth**

Core business remained stable supported by sales in UAE, India and growth in tableware and faucets businesses.

## **Margins at all time high**

Total, core and tile profit margins reached an all time high despite increases in energy and raw material costs.

Continued focus on cost reductions and operational efficiencies.

## **India turnaround**

Commercial production began in Morbi expansion in October 2018.

Production trials began in Morbi Greenfield project and commercial production is expected end of February 2019.

## **Saudi Arabia integration**

Workforce and warehouse rationalisation complete and legal entity consolidation is expected to complete in Q1 2019.

Plans for tiles manufacturing expansion in Saudi Arabia.

## **Robust tableware growth**

Robust growth and improved gross margin supported by strong growth in US and European markets.

## **Non-core business**

Non-core contribution reached an all-time low driven by the company's strategy to divest non-performing and non-core operations.

# Q4 2018 Key financial highlights

**Core revenue** increased by +0.9% to AED695.6m YoY.

**Total revenue** decreased by -2.9% to AED725.6m YoY due to a decrease of -48% in non-core revenue.

+0.9%

**Core gross profit margin** increased by +210bps YoY to 33.3%.

**Total gross profit margin** increased by +300bps YoY to 33.0%.

33.3%

**SG&A and finance cost (net)** increased by +9.8% to AED200.2m YoY due to increased costs in India and the tableware business. Finance cost is higher due to FX loss and increased LIBOR.

+9.8%

**Core EBITDA** increased by +12.2% to AED117.6m YoY with margin increasing by 170bps to 16.9%.

**Total EBITDA** increased by +1.5% to AED124.6m YoY with margin increasing by 70bps to 17.2%.

AED124.6M

**Reported net profit** increased to AED57.1m from AED53.2m with a margin of 7.9%.

**Owner's share of net profit** increased by +8.1% to AED43.4m.

AED57.1M

**Like for like net profit\*** increased by +0.5% to AED65.3m with a margin increase of +30bps to 9.0% YoY.

AED65.3M

\*exc. provisions and gains

# FY 2018 Key financial highlights

**Core revenue** increased by +1.0% to AED2.64bn YoY.

**Total revenue** decreased by -2.8% to AED2.78bn YoY due to a decrease in non-core revenue by -43.4%.

+1.0%

**Core gross profit margin** increased by +80bps to 33.3% YoY at an all-time high.

**Total gross profit margin** increased by +160bps to 33.2% YoY.

33.3%

**Core EBITDA** decreased by -8.1% YoY to AED421.8m, with a margin decrease of -160bps to 16.0%.

**Total EBITDA** decreased by -13.5% YoY to AED461.6m with a margin of 16.6%.

AED421.8M

**Reported net profit** decreased to AED225.1m from AED315.5m with margin of 8.1%.

**Owner's share of net profit** decreased by -32.5% to AED182.6m.

AED225.1M

**Like for like net profit\*** decreased by -21.7% to AED225.5m with margin decreasing -200bps to 8.1% YoY.

AED225.5M

**Net Debt** increased by +1.5% to AED1.43bn compared to December 2017 and net debt to EBITDA increased from 2.64x to 3.10x for payment of dividends.

3.10x

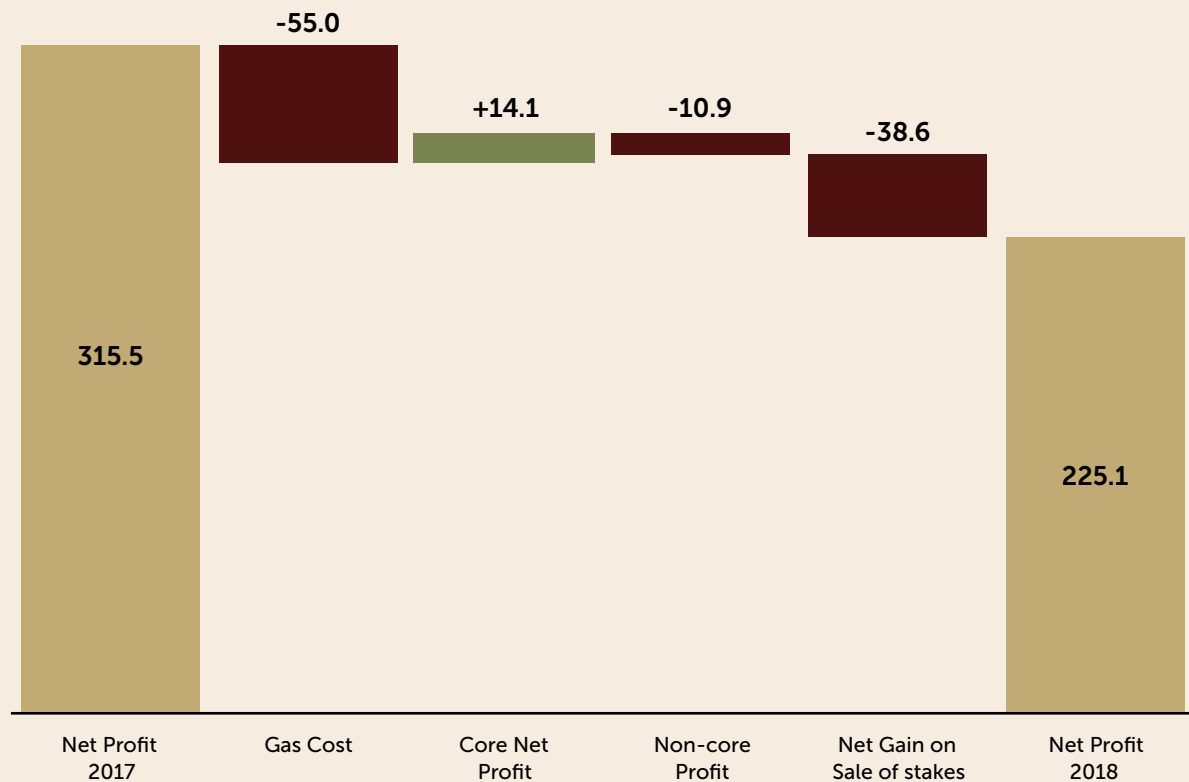
\*exc. provisions and gains

# 2018 Net Profit Bridge

## MANAGEMENT COMMENTS

Reported net profit was AED225.1 million, -28.7% year on year, however net profit in 2018 was impacted by increased of AED55m YoY in energy costs at an average gas price of \$10.9/MMbtu, a decline in non-core revenue contribution and an extraordinary net gain of AED38.6 million from the sale of non-core entities RAK Warehouse and Electro RAK.

## NET PROFIT BRIDGE (AED M)



# Revenue highlights

## MANAGEMENT COMMENTS

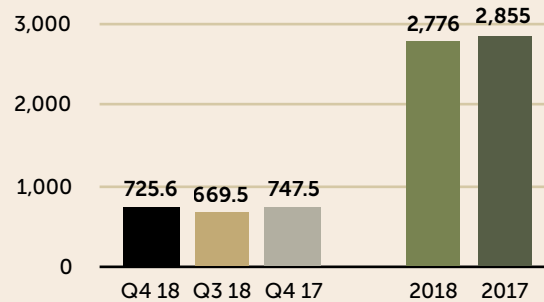
Total revenue in Q4 2018 decreased by -2.9% YoY while core revenue increased by +0.9% YoY and +8.8% QoQ.

Tiles revenue increased by +1.3% YoY and +7.6% QoQ due to an increase in revenue from UAE, India and Bangladesh markets.

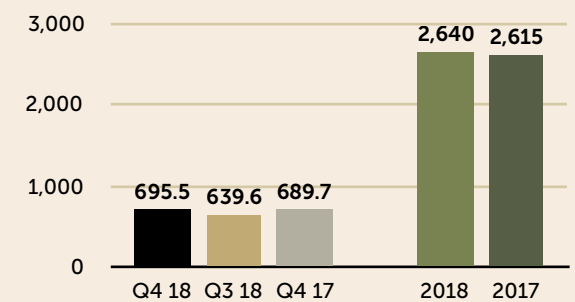
Sanitaryware revenue increased +5.2% QoQ, however decreased by -4.9% YoY due to lower sales in UAE, Middle East Bangladesh markets.

Tableware revenue increased by +10.0% YoY and +25.5% QoQ due to growth in European, US and Asian markets.

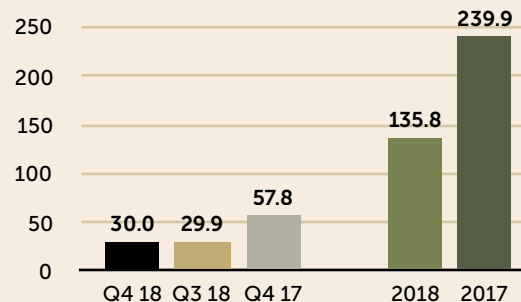
## TOTAL REVENUE (AED M)



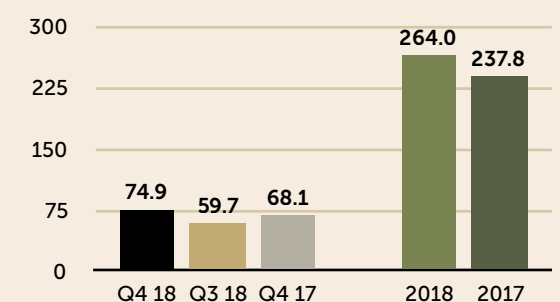
## CORE REVENUE (AED M)



## NON-CORE REVENUE (AED M)



## TABLEWARE REVENUE (AED M)





# Tiles revenue by end market

	QUARTERLY COMPARISON					YEARLY COMPARISON		
	Q4 18	Q3 18		Q4 17		2018	2017	
	Amount	Amount	Growth	Amount	Growth	Amount	Amount	Growth
<b>United Arab Emirates</b>	<b>171.4</b>	143.1	<b>19.8%</b>	170.4	<b>0.6%</b>	<b>627.4</b>	584.6	<b>7.3%</b>
<b>Kingdom of Saudi Arabia*</b>	<b>58.1</b>	56.7	<b>2.4%</b>	42.1	<b>38.1%</b>	<b>241.0</b>	207.1	<b>16.4%</b>
<b>Middle East (Ex. UAE and KSA)**</b>	<b>32.9</b>	31.2	<b>5.6%</b>	27.7	<b>18.9%</b>	<b>115.4</b>	119.2	<b>-3.3%</b>
<b>India***</b>	<b>69.4</b>	66.2	<b>4.7%</b>	82.1	<b>-15.5%</b>	<b>289.8</b>	305.7	<b>-5.2%</b>
<b>Europe***</b>	<b>41.0</b>	49.8	<b>-17.8%</b>	52.3	<b>-21.6%</b>	<b>194.3</b>	222.9	<b>-12.8%</b>
<b>Bangladesh***</b>	<b>50.9</b>	47.3	<b>7.7%</b>	58.4	<b>-12.9%</b>	<b>193.1</b>	210.5	<b>-8.3%</b>
<b>Africa</b>	<b>24.9</b>	21.0	<b>18.4%</b>	21.2	<b>17.3%</b>	<b>78.8</b>	114.5	<b>-31.1%</b>
<b>Rest of the world</b>	<b>39.3</b>	38.2	<b>2.8%</b>	27.6	<b>42.3%</b>	<b>139.1</b>	106.9	<b>30.1%</b>
<b>Total</b>	<b>487.8</b>	<b>453.5</b>	<b>7.6%</b>	<b>481.7</b>	<b>1.3%</b>	<b>1,878.9</b>	<b>1,871.3</b>	<b>0.4%</b>

\*Excluding consolidation of Saudi JV's, tiles growth is -2.1% in Q4 18 YoY and -4.9% in 2018 YoY \*\* 2017 includes sales to Qatar AED9.0mn

\*\*\* In Local currency, revenue growth in India, Europe and Bangladesh for Q4'18 YoY is -3.8%, -18.0%, and -11.8% while in 2018 YoY +2.2%, -16.9% and -5.1% respectively.

# Sanitaryware revenue by end market

	QUARTERLY COMPARISON					YEARLY COMPARISON		
	Q4 18	Q3 18		Q4 17		2018	2017	
	Amount	Amount	Growth	Amount	Growth	Amount	Amount	Growth
<b>United Arab Emirates</b>	<b>45.3</b>	42.0	<b>7.8%</b>	54.1	<b>-16.3%</b>	<b>165.4</b>	169.9	<b>-2.6%</b>
<b>Kingdom of Saudi Arabia*</b>	<b>3.9</b>	2.8	<b>41.0%</b>	2.7	<b>46.8%</b>	<b>17.1</b>	18.2	<b>-6.2%</b>
<b>Middle East (Ex. UAE and KSA)**</b>	<b>2.6</b>	2.5	<b>6.2%</b>	4.0	<b>-34.8%</b>	<b>9.5</b>	19.3	<b>-51.0%</b>
<b>India***</b>	<b>4.5</b>	4.0	<b>12.0%</b>	4.4	<b>0.9%</b>	<b>17.4</b>	17.0	<b>2.4%</b>
<b>Europe***</b>	<b>41.2</b>	41.1	<b>0.3%</b>	38.9	<b>5.9%</b>	<b>157.8</b>	146.0	<b>8.0%</b>
<b>Bangladesh***</b>	<b>28.8</b>	26.8	<b>7.6%</b>	30.2	<b>-4.5%</b>	<b>104.7</b>	106.1	<b>-1.4%</b>
<b>Africa</b>	<b>2.7</b>	2.7	<b>1.1%</b>	1.6	<b>64.0%</b>	<b>8.3</b>	10.5	<b>-21.0%</b>
<b>Rest of the world</b>	<b>4.0</b>	4.8	<b>-17.6%</b>	3.9	<b>1.3%</b>	<b>17.4</b>	18.7	<b>-7.3%</b>
<b>Total</b>	<b>133.0</b>	<b>126.6</b>	<b>5.0%</b>	<b>139.9</b>	<b>-4.9%</b>	<b>497.5</b>	<b>505.9</b>	<b>-1.6%</b>

\*Excluding consolidation of Saudi JV's, Sanitaryware growth is -56.7% in 2018 YoY. \*\* 2017 Includes AED2.9mn sales to Qatar

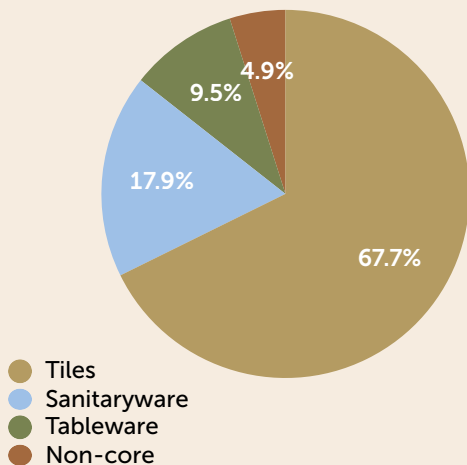
\*\*\* In Local currency, revenue growth in India, Europe and Bangladesh for Q4\*18 YoY is +7.4%, +9.5%, and +2.0% while in 2018 YoY +8.5%, +3.1% and +6.7% respectively.

# Revenue contribution

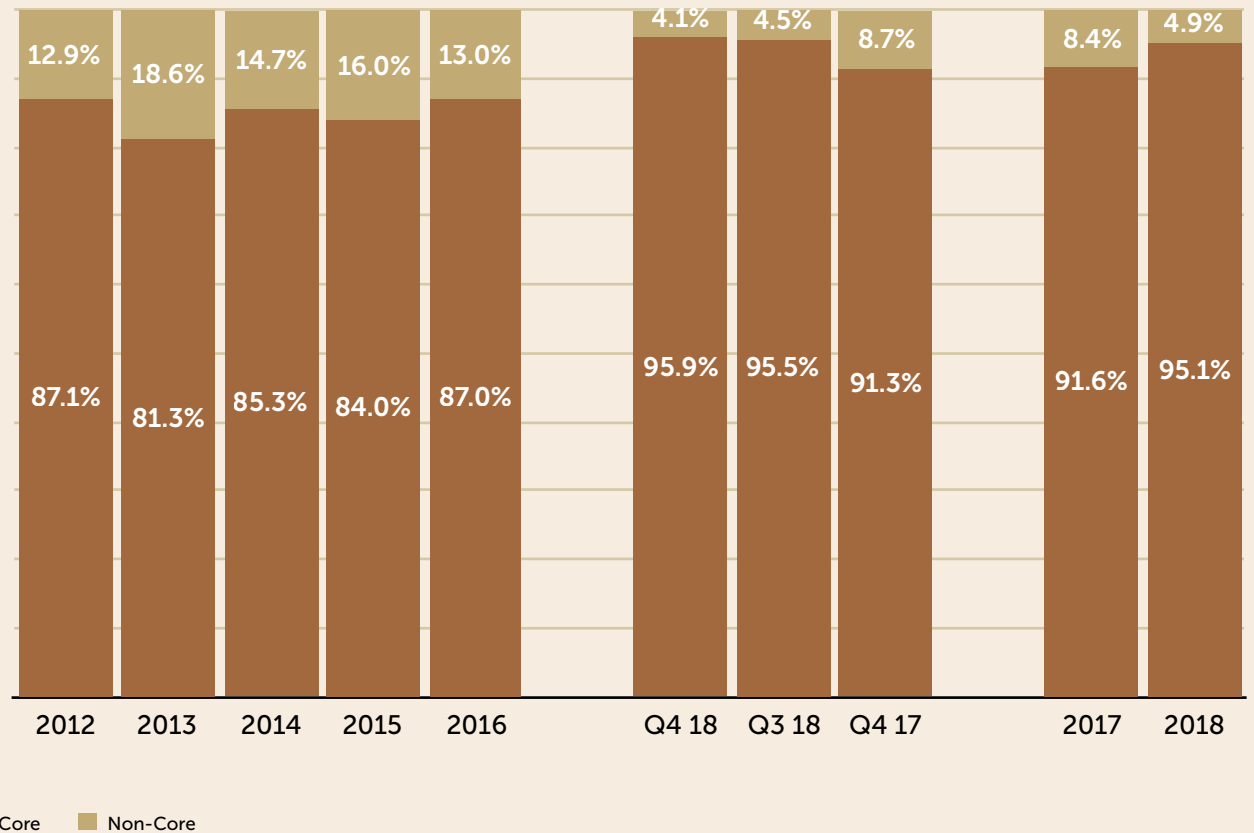
## MANAGEMENT COMMENTS

Non-core revenue contribution reached an all time low of 4.1% in Q4 2018 driven by our strategic focus on divesting non-core operations. Including the discontinuation of the rough grading business.

### 2018 SEGMENT CONTRIBUTION (%)



## CORE AND NON-CORE REVENUE (%)



# Gross profit margins

## MANAGEMENT COMMENTS

Total gross margin increased by +300bps YoY to an all time high of 33.2%

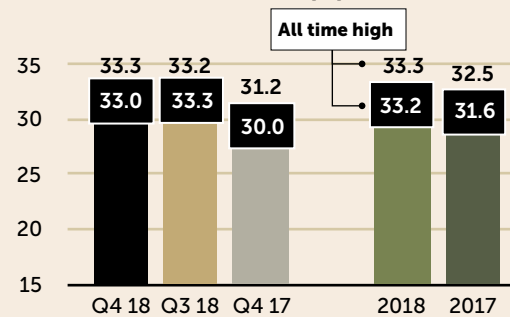
Core margin increased by +210bps YoY to 33.3% driven by improvements in operational efficiencies, higher gross profits in UAE, Bangladesh and tableware.

Margins improved despite an increase of AED55m YoY in energy costs at an average gas price of \$10.9/MMbtu.

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

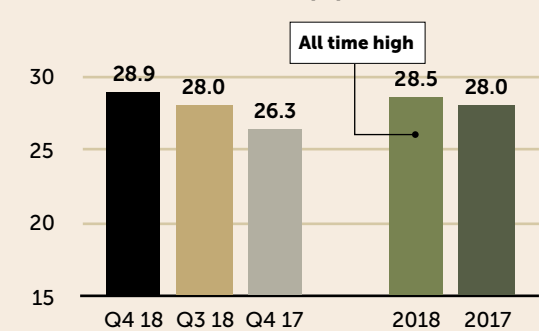
RAKC would deliver higher core income growth if gas costs were competitive; management are developing a strategy to address the situation.

### CORE GROSS MARGINS (%)

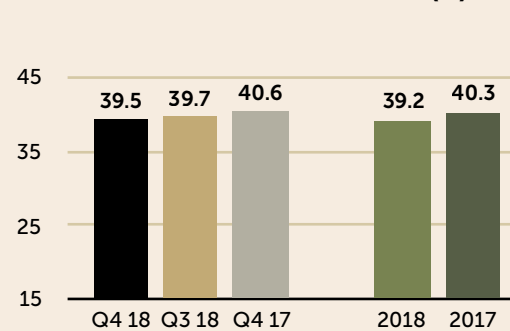


Total gross profit margin

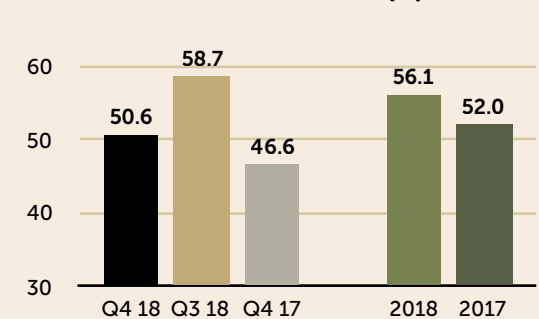
### TILES GROSS MARGINS (%)



### SANITARYWARE GROSS MARGINS (%)



### TABLEWARE GROSS MARGINS (%)



# Financial highlights

## FINANCIAL HIGHLIGHTS (AED M)

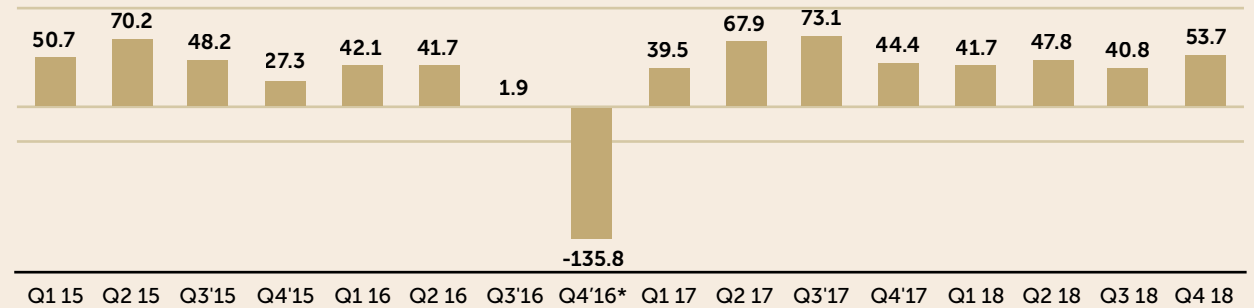
	QUARTERLY COMPARISON					YEARLY COMPARISON		
	Q4 18	Q3 18		Q4 17		2018	2017	
	Amount	Amount	Growth	Amount	Growth	Amount	Amount	Growth
<b>Revenue</b>	<b>725.6</b>	669.5	<b>8.4%</b>	747.5	<b>-2.9%</b>	<b>2,776.0</b>	2,854.9	<b>-2.8%</b>
<b>Core revenue</b>	<b>695.6</b>	639.6	<b>8.8%</b>	689.7	<b>0.9%</b>	<b>2,640.4</b>	2,615.0	<b>1.0%</b>
<b>Gross margin (%)</b>	<b>33.0%</b>	33.3%	<b>-0.3%</b>	30.0%	<b>3.0%</b>	<b>33.2%</b>	31.6%	<b>1.6%</b>
<b>Core gross margin</b>	<b>33.3%</b>	33.2%	<b>0.1%</b>	31.2%	<b>2.1%</b>	<b>33.3%</b>	32.5%	<b>0.8%</b>
<b>EBITDA</b>	<b>124.6</b>	108.3	<b>15.1%</b>	122.8	<b>1.5%</b>	<b>461.6</b>	533.4	<b>-13.5%</b>
<b>Core EBITDA</b>	<b>117.6</b>	97.8	<b>20.2%</b>	104.9	<b>12.1%</b>	<b>421.8</b>	459.2	<b>-8.1%</b>
<b>Reported net profit</b>	<b>57.1</b>	47.4	<b>20.5%</b>	53.2	<b>7.3%</b>	<b>225.1</b>	315.5	<b>-28.7%</b>
<b>Adjustments for Like for Like net profit (net)</b>	<b>8.2</b>	4.5	n/a	11.8	n/a	<b>0.4</b>	-27.4	n/a
<b>Like for like net profit</b>	<b>65.3</b>	51.9	<b>25.8%</b>	64.9	<b>0.6%</b>	<b>225.5</b>	288.2	<b>-21.8%</b>
<b>Capital expenditure</b>	<b>96.4</b>	63.0	<b>53.0%</b>	21.4	<b>350.5%</b>	<b>243.9</b>	98.2	<b>148.4%</b>
<b>Net debt</b>	<b>1,428.9</b>	1,485.5	<b>-3.8%</b>	1,407.9	<b>1.5%</b>	<b>1,428.9</b>	1,407.9	<b>1.5%</b>
<b>Net debt / EBITDA</b>	<b>3.1x</b>	3.23x	<b>4.1%</b>	2.64x	<b>-17.4%</b>	<b>3.1x</b>	2.64x	<b>-17.4%</b>

# Core net profit and shareholder return

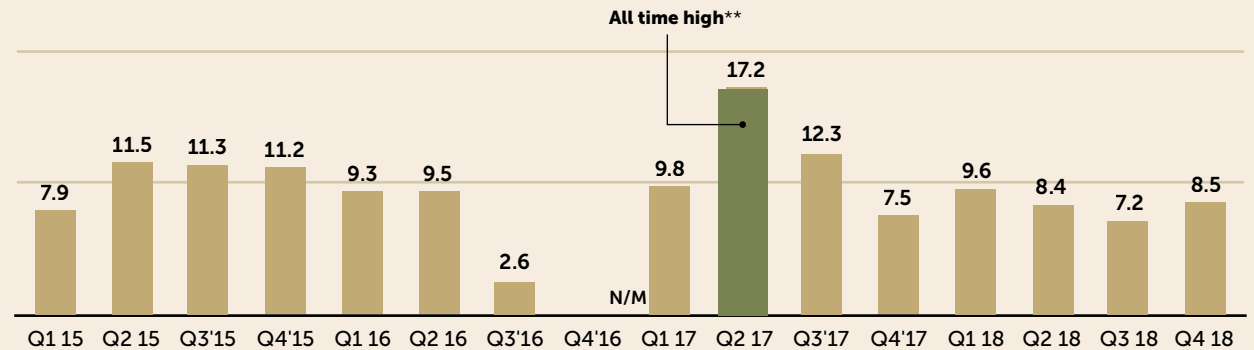
## MANAGEMENT COMMENTS

Core net profit increased by +31.5% QoQ with a margin increased by +130 bps due to increase in revenue and better efficiencies.

## 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%.

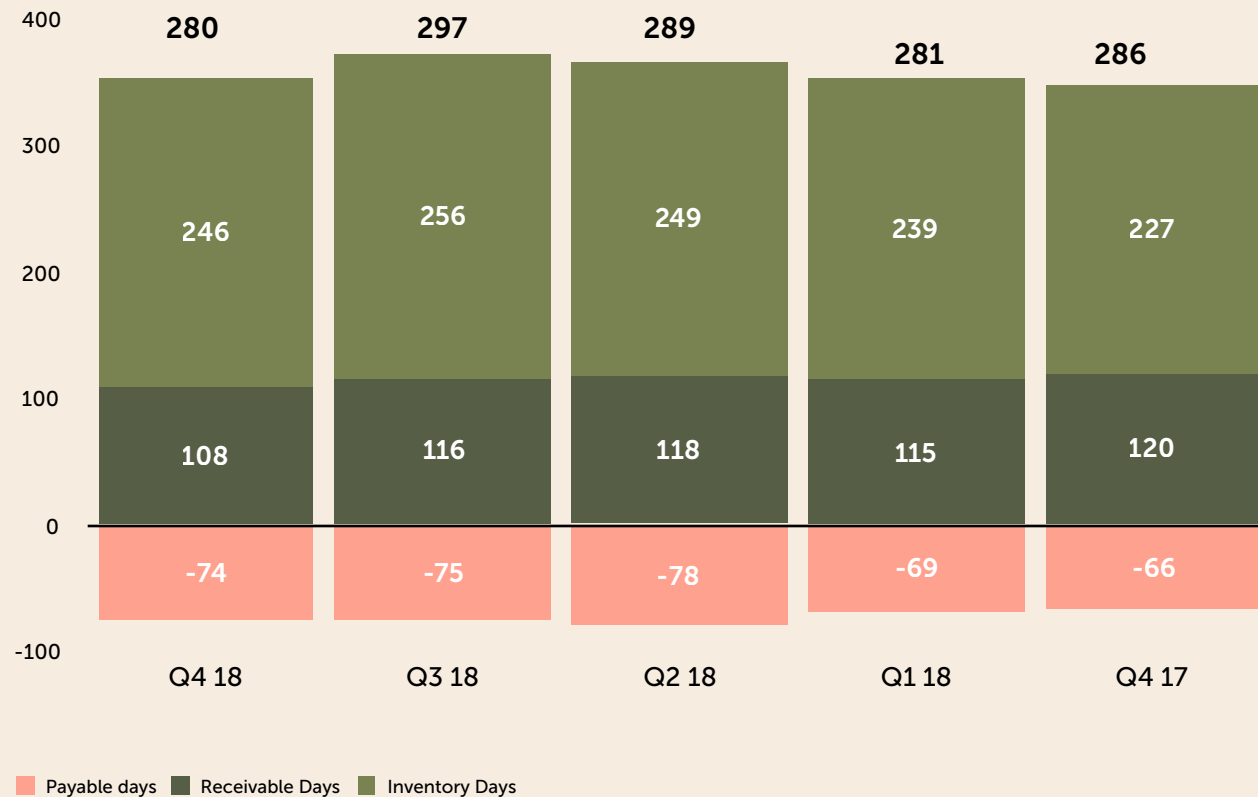
# Operating cycle

## MANAGEMENT COMMENTS

Inventory days decreased from 256 days to 246 days QoQ.

Finished goods inventory decreased by 5 days from 164 to 159 days QoQ.

## 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

Reduction in FG 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.

### **Investor Relations**

RAK Ceramics  
Al Jazeera Al Hamra  
PO Box 4714  
Ras Al Khaimah  
United Arab Emirates

T: +971 7 246 7000  
[ir@rakceramics.com](mailto:ir@rakceramics.com)  
[rakceramics.com](http://rakceramics.com)

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