Presentation

Operator
Ladies and gentlemen, welcome to RAK Ceramics Quarter Four and Full Year 2017 Earnings conference call. I will now hand over to your host, Mr Mohamad Haidar from Arqaam Capital. Sir, please go ahead.

Mohamad Haidar
Hello everyone and welcome to the RAK Ceramics Full Year 2017 earnings conference call hosted by Arqaam Capital. This is Mohamad Haidar from Arqaam Capital Research and we are very happy to have Abdallah Massaad, the Group CEO of RAK Ceramics and P.K. Chand, the Group CFO of RAK Ceramics with us today.

I will now turn over the call to Abdallah. Go ahead Abdallah.

Abdallah Massaad
Thank you, Mohamad. Good evening everyone and welcome to RAK Ceramics' fourth quarter and full year results conference call and webcast. I will walk you through the key business updates.

Before we dive into the numbers, I would like to take a moment to talk about significant achievements of your company.

2017 was a significant year in the RAK Ceramics transformation story. We started to see the benefits of our long-term strategies and the implementation of our value creation plan. As you all know, in 2016, there were many unfavourable conditions for the business and we entered 2017 facing many challenges. With the slow demand in the construction industry, many of our competitors were forced to reduce product pricing, which of course led to a higher level of competition. Faced with this challenge, we decided not to enter into a price war, but instead stayed through our longer term [audio] value creation plan and protect our brand and product pricing. We continued to invest in leveraging our brand identity. We have successfully rolled out our new identity in core markets, such as in UAE, Bangladesh, and India, and we continue to implement across value market in Europe and further afield.

As 2017 got underway, we continued to focus on the markets where we have the most control, strong market share, and high margins, such as the UAE, India, and Bangladesh and, for sure, continue focusing on business such as Iraq Porcelain and KLUDI, which is within our core business and we have a good margin in it. In 2017, revenue in the UAE grew considerably, which significantly contributed to our overall performance. To further maximise our performance in the UAE, we look at ways to optimise our production. We took measures to using these production facilities and by using our product development expertise, we launched a series of higher margin and design-oriented products, which were in demand in the market.

Bangladesh has a strong revenue also in 2017. I am pleased to say that the expansion which we had in 2016, we were able to absorb it and we were able to grow our market share in Bangladesh and maintain our margin.

India is an important growing market for us, and in 2017, we executed two acquisitions in Morbi in Gujarat. These acquisitions add approximately 10 million square metres of tile production capacity, and I am pleased to say that one plant is already producing about 3 million square metres, with the second expansion of 7 million square metres will be completed by end of 2018.

Saudi Arabia market remains challenging, however, expectations show the positive trend as Saudi Arabia planned to boost spending in this year and revive economic growth. In 2017, we successfully completed the acquisition of two remaining joint ventures, one in Riyadh and one in Jeddah, and now we are focusing on post acquisition integration with the head office.

As mentioned, as our tableware business continued to show growth, driven by the consolidation of our joint venture, Restofair RAK a catering supply company in UAE. In 2017, we have invested in expanding our business in Europe. We already started building of our logistics centre in Luxemburg, which hopefully by the beginning of 2019, we will move there. It is a much bigger capacity, logistics centre which we can cater and support our growth in Europe. Also, we entered the U.S. market by opening a flagship showroom in New York and also a logistics centre, and we are expecting to see the benefit from the investment in the U.S. by end of 2018, beginning of 2019.

In the margin enhancement, these initiatives alone did not provide the platform for performance, and in 2017, we focused on working hard to control our expenses and improve the cost effectiveness across the group, which I am pleased to say resulted in all-time high blended gross profit margin of 31.6.

Also, we continued to exit from our non-core business. We exited this year two non-core entities, which is RAK Warehouse Leasing and Electro Rak, which brought our non-core revenue contribution down to 8.5%, which is all-time low, which is only to put in perspective, in 2014 when we started our value creation plan, the non-core business was contributing approximately 15% of our total revenue.

Now, I will take you through the financial highlights of the full year 2017. Our core revenue grew to AED 2.6 billion, and an increase of 7.6% compared to 2016 as a result of strong growth in the UAE, India, Bangladesh and, as mentioned, in our tableware business. Total revenue grew to AED 2.8 billion, an increase of 2.2% compared to 2016. Non-core revenue at AED 240 million, decreased by 34%, which is in line with our strategy to divest non-core operations and delivering on the value creation plan. Core gross profit margin compared to last year improved by 200 basis points to 32.5%, thanks to our operations team contributing to our continuous improvement in the production efficiencies across all plants.

Total EBITDA increased to AED 533.4 million, an increase of 9.8% compared to 2016. Our EBITDA margin grew to 18.7% up by 130 basis points. Our core EBITDA grew by 37% year-on-year, to AED 459 million with a margin of 17.6%, which is up by 380 basis points.

Reported net profit has been impressive at AED 315.5 million with a margin of 11.1 compared to 30.8 million in 2016.

On a like-for-like basis, excluding provision and extraordinary gain, net profit for the year increased by 33.5% year-on-year to AED 288.2 million with a margin of 10.1%, an increase of 240 basis points. Return on equity reached an all-time high in 2017 at 11.4%, enhanced shareholders' return and driven by rebound in the core business, coupled with exit from non-core business. The board announced a cash dividend of 25 fils per share, and a 5% bonus share.

Now, I will turn to P.K. Chand, our CFO to brief on the financial and segment highlights.

P.K. Chand
Thank you, Mr Abdallah. Good evening everyone and thank you for joining us. Abdallah has already briefed on the financial performance for the full year of 2017. I will take you through the key financial highlights of the fourth quarter and details on revenue, profitability, and balance sheet.

The core revenue of 690 million for the fourth quarter is an increase of 23.2% compared to the fourth quarter of last year, is all-time high driven by strong growth in the UAE, Saudi, India, Bangladesh and tableware. Total revenue grew to 747.5 million, an increase of 14.1% compared to the fourth quarter of last year. Non-core revenue at 58 million decreased by 39.3% compared to the fourth quarter of last year. This is in line with the company's strategy to divest non-core operations and delivering on the value creation plan. The core gross profit margin for the fourth quarter is

31.2%, which is lower by 160 basis points compared to the same period of last year. We will discuss in detail on segment-wide margins on the coming slide.

Total EBITDA increased to 122.8 million, which is up by 19.3% year-on-year. EBITDA margin grew to 16.4%, up by 70 basis points compared to the fourth quarter of last year. Core EBITDA grew by 54.1% year-on-year to AED 105 million, with a margin of 15.2%, up by 300 basis points. Reported net profit is 53.2 million, with margin of 7.1%, compared to net loss of 118.6 million in the last quarter of 2016.

I would like to remind you that in the last quarter of 2016, we had taken one-time extraordinary provisions of 133 million. Like-for-like net profit, that is excluding provisions, increased to 64.9 million with margin of 8.7%.

Slides 9, 10, and 11 covers revenue highlights. In the financial highlights, we have already discussed on our core and non-core revenue detail, and now let me brief you how our end markets performed.

UAE, the largest market has shown robust growth in both tiles and sanitaryware segments during the fourth quarter and full year of 2017. The growth in tiles is all-time high at 48.3% in the fourth quarter of this year compared to last year, and yearly increase by 19.6% year-on-year. Sanitaryware revenue also grew by 36.3% in the fourth quarter of this year year-on-year, and 21.6% on yearly basis. As mentioned by Mr Abdallah, growth in UAE market is led by a [audio] [project] and wholesale. [Project] segment contributed 52% in 2017, compared to 47% in 2016.

In Saudi Arabia, which is the company's second largest tiles market, grew by 71.1% in the fourth quarter of this year year-on-year, while it decreased by 4% on a yearly basis. Sanitaryware revenue decreased by 10.7% in the fourth quarter of this year year-on-year, and 9% on yearly basis.

Middle East, excluding UAE and Saudi markets, the revenue continued to be under pressure due to continued macro and political situation. Continued blockage of trade to Qatar has also influenced the revenue. Bangladesh delivered strong tiles revenue growth and maintained high margins, following last year's capacity expansion with tile revenue increasing by 16.2% in the fourth quarter of this year year-on-year, and 32.6% on yearly basis. Sanitaryware revenue increased by 7.6% in the fourth quarter of this year year-on-year, and 3.3% on yearly basis.

In India after slow recovery due to GSCE impact, markets recovered and rebound in the fourth quarter, resulting in growth in tiles by 40.7% in the fourth quarter of this year compared to last quarter of 2016, and 13.2% on yearly basis. Sanitaryware revenue has been lower following shutdown of the plant since November 2016.

Lastly, in Europe, tiles revenue underperformed both in the quarter on a year basis at 6.5% and 20.5% respectively, due to competitive pressure. However, revenue from sanitaryware increased by 27.8% in the fourth quarter of this year year-on-year and 21.9% on yearly basis.

Slide 12 shows the non-core business highlights for 2017. In the fourth quarter of 2017, non-core contribution to total revenue has steadily declined to an all-time low of 7.7% to AED 58 million. As we said earlier, we exited two non-core entities, Rak Warehouse Leasing and Electro Rak and recorded net extraordinary gain of 39 million in the year 2017. Non-core net profit for 2017 was 52 million, a drop of 36.2% year-on-year.

We would also like to highlight that our RAK trading business contract, which was one of our major contributors for the non-core revenues and profits has been terminated, effective 1st January 2018, and this will have impact on 2018 revenues and profits. We anticipate that 2018 revenue from non-core operations will decline by close to 60% compared to 2017, and will have significant impact on net profit from non-core.

In 2018, Ceramin is supplier of raw material for ceramics business will remain the major revenue contributor with estimated revenue of close to 80 million. We do not expect any significant effect in non-core in the year 2018.

Now, I turn to slide 13, which shows the gross profit margins. The core gross margin for the fourth quarter 2017 has been 31.2%, a decrease of 160 basis points year-on-year. However, it increased by 200 basis points in 2017 at 32.5%, which was supported by an investment in improvement in tiles margins. Total gross margin for the fourth quarter has been 30%, a decrease of 300 basis points, however, yearly gross margin is higher by 110 basis points year-on-year at 31.6%, which is an all-time high. Tiles gross margin for the fourth quarter has been 26.3%, a decrease of 300 basis points year-on-year. However it increased by 320 basis points to 28%, considering the full year of 2017. Improvements were driven by improved production efficiencies across all our tiles plants. Sanitaryware margins remained stable at around 40% as pressure on ASP continues.

As far as tableware is concerned, margins declined mainly due to consolidation of Restofair effective 1st January 2018. Restofair is engaged in distribution of supplies and equipment for [inaudible] industry.

In slide 14, we show the summarised financial highlights with details of performance on core operations. These have already been briefed and, therefore, I will not repeat the same.

On the cash front, CapEx has been relatively light in 2017 at 98 million, as majority of projects are scheduled in 2018. In 2017, we spent around 83 million on maintenance and 15 million on growth. The net debt fell on absolute basis by 15.2% to 1.41 billion and net debt to EBITDA has reduced to 2.64 times in December 2017, from 3 times in September 2017. In the beginning of the year, the level was 3.42x.

In slide 15 on the balance sheet side, return on equity reached an all-time high of 11.4% in 2017. However, operating cycle increased compared to 2016 due to increase in inventory days on consolidation of distribution entity in Saudi Arabia and Restofair. Excluding the impact of consolidation, the inventory days remained at 214 days. Trade receivables has also increased due to consolidation of distribution entities, increasing receivables by 38 million. The reason for the increase in receivables is higher sales in the fourth quarter of this year by 92 million compared to the fourth quarter of 2016, and third reason being the translation of receivables in dirham currency also impacted reporting receivables to go up by AED 12 million due to strengthening of Indian rupee, euro and [EGP].

In slide 16, coming to the market valuation slide, share price increased by 18.3% on the close of 7th February 2018 to 2.9 per share. The chart shows the share performance on the [resurgence] of different events in the business since inception when Samena Capital entered in the company. The stocks trade attractively at a P/E ratio of 9.2x EV/EBITDA ratio of 7.7x and dividend yield of more than 9%.

Now, I will turn back to Mr Abdallah for his final comments before we answer your questions.

Abdallah Massaad

Thank you, P.K. Looking ahead to 2018, there are a number of external factors like increased competition, gas and oil volatility and geopolitical headwinds which might affect our business. However, we see growth in all our core markets and the UAE and Saudi Arabia have higher Government infrastructure budgets this year, which are positive strengths for growth in the construction industry. We have set certain priorities in 2018, which I will take you through.

First, we have already invested in India, and our recent acquisition in Morbi, Gujarat, will help us to transfer our Indian first – grow our market share in India, and India is very big market and important market for us. We are well positioned, but our market share is still low vis-à-vis the growth happened, yes, after we delayed several years. Now, we started the joint venture and growing our capacity will support us this year.

Also, in India we have a cost base in some products which is lower than our UAE plants, where the main export happens, so our plan this year is use India also for export to support our exports from the UAE market.

The UAE is an important market for us, and as you can see in 2017, we already increased our sales by almost 20% in the UAE, for sure, this increase didn't happen only from natural demand growth, but with our nine flagship showrooms across the Emirates, which we have been upgrading, and we also upgraded and renovated the showrooms of our distributors. We have closed a lot of corporate deals in the UAE. We are also planning to open our flagship showroom in Sheikh Zayed Road in Dubai by end of Q1. This will support us to continue our growing market share in the country.

In Bangladesh, which is also one of our core markets and very important market for us, we are continuously focusing on strategy to improve our B2B sales, optimising the dealer network and promoting the products in the premium segment. Whilst it is still very early stage, but also we are evaluating to prepare our infrastructure for the next growth in the future.

In Saudi Arabia, as we mentioned, we already gained control of the two joint ventures we have in the country. Our strategy is to access into our key markets, open up the new channels and customers, and integrate with the head office in UAE. Branding in dealer showroom has already been initiated and what we mentioned, this shop-in-shop concept, we will roll it out in Saudi. This year, in 2017, we can see we have – the project phase was under pressure, but we grew in our wholesale business. This strategy will allow us to grow further in the wholesale and retail business, and we are well positioned to whenever the projects which we are expecting the projects this year will be in a better position, where we are well positioned to compete and the project sector.

The products is the most important aspect of our business, and we continue to invest in product development and innovation which supports our brand, which provides a higher margin and differentiated us in our markets. This year, again, the strategy which is always, we have the experience in more than 25 years, we are well prepared in having our mould shop, and the factory is equipped with the latest technology. We will continue to launch products which are differentiated than the markets, and we will cancel products which we have a lower margin. By this exercise, we will continue as what we did in 2017, working on improving our margin.

We will continue, also, to roll out the shop-in-shop branding in the UAE, India, Bangladesh. We will increase, enlarge it this year in the GCC and the Middle East and some African countries in order to boost the sales. We will continue exploring ways to reduce our cost of production, and for sure, energy is an important element in our cost structure. We will also continue working on energy saving and finding ways to reduce the components of energy cost in the total costs.

We will also continue to keep control and monitor our overheads and improve further production efficiency during this year.

Lastly, to grow in core business, we are also looking for opportunistic acquisition in both our core and focused markets. I am please dot say that we are privileged to be in a strong financial position and I am confident that we can achieve our goals.

With this, I would like to turn the call over to the operator and open the line for discussion. Thank you for taking the time today.

Question and Answer Session

Operator
[Operator instructions]

Our first question comes from Sameer Kattiparambil, EFG Hermes. Please go ahead.

Sameer Kattiparambil
I have a couple of questions. First, I will start with your Indian operation. Since you mentioned that you are looking at India as a major growing market and planning to improve that market, but I can see that your tiles volume has picked up significantly in the last year, but your average selling price has come down significantly by almost 16% year over year, and that decline was gradual. Could you explain why such a big erosion and will this kind of price pressure going to stay in the short to medium-term.

Could you give also some update on your Iran – about the second line you plan for… has it started operations or when you are planning for.

I have a couple of other questions I can come back to later.

P.K. Chand

Your first question is in relation to the average selling price in tiles, I fi understood you correctly.

You mentioned about a decline of 16%, I could not understand from where you got this figure. Now, if you have the deck in front of you, on page 10 we have given the details of the tiles revenue and the average selling price has gone down by around 2% not 16%.

Sameer Kattiparambil
The number is from the analyst tool pack you sent last week. But I can mail you more details about that. Are you seeing any kind of pressure in terms of average selling prices?

Abdallah Massaad
You see that during this year our gross profit margin improved, and you see it is showing in our results. The ceramics, we have thousands of series and we have series with different cost. We have normal wall tile, ceramics, red body, white body, porcelain, vitrified, so it is a mix of product, but while you see the improvement in gross profit margin, it depends every market where we're selling. I also couldn't follow where our average selling price has gone down by 16%, and how this increased. But I can see that, as mentioned, RAK Ceramics is the only company or, at least you can say in the region, where we are well positioned and well respected and we are able to grow our sales and… I am happy to say that in the UAE 70% of our total sales is from projects which initially specified by us.

P.K. Chand
I have just checked the analyst tool, which we have sent, and in 2016, if you see the average selling price is AED 23.8, while in 2017 it is AED 23.2, which is a drop of 2.7%.

Sameer Kattiparambil
I asked on the Indian operation only, because in the India operation, your average selling price is 20.5, while in 2016 it is 24…

Abdallah Massaad
India is different. India, as you know, we had only one plant in the south, which we were producing only vitrified tiles. Vitrified tiles is a price totally different than the ceramics. Two years back, we started our sourcing from Morbi where we started the ceramics side. The price here in ceramics side is

already low. That is why today we sell approximately 50% from our tiles from Morbi, where the price of this product is much lower from the products we sell there. So we did not drop in price sold from our manufacturing by 16%, but the average is lower by 16%.

P.K. Chand
Actually, it is the product mix which is making the difference, not the price.

Abdallah Massaad
Regarding the other part of the question in Iran, we already started the second line of production. We are selling in Iran and the countries around. We see a pick up in sales, which will come in 2018.

Operator
[Operator instructions]

Our next question comes from Anoop Fernandes, SICO. Please go ahead.

Anoop Fernandes
I have three questions. What is your CapEx guidance for FY18? Your guidance for FY17 was around 200 million, so would you maintain that for 2018 as well?

Secondly, you have mentioned that the Saudi JVs have been consolidated, so would that result in an increase in your selling expenses. We saw that with Europe as well, there was an increase in the salaries component of your selling and marketing expenses. So can we expect that with this consolidation of Saudi JVs as well?

The last question is regarding the cost advantage that you mentioned in India over UAE. Could you please give us some more colour on what elements of cost advantage that you see in India over UAE? Thank you, that is it from my side.

Abdallah Massaad
First, let me start with the last one in India. We mentioned always that raw material of ceramics tile is available in UAE and we are using majority of the raw material for the ceramics tiles from the UAE. For the vitrified tiles, we import raw material, so therefore, in India the raw material for vitrified is available and also the cluster of industry consolidated in Morbi has many

advantages, mainly, especially the vitrified tiles is more manpower required. So the cost of production is very favourable and, therefore, by this combination, having for the entry level vitrified tiles sourcing from India, clubbing with the ceramics where we have an advantage in UAE, adding on top of it this slabs [inaudible] and technology in a high end vitrified in UAE, will give us mix of products with more advantage where we can support our growth and operation in Europe, Asia and export [inaudible]. So this is from India regarding the cost.

Anoop Fernandes
Just to follow-up on this point, is there any advantage on the energy side as well, energy cost side, or they are broadly comparable?

Abdallah Massaad
In energy, it is comparable to the energy which we are paying here. The cost is raw material, energy, and manpower, so while the energy is at the same level, manpower is cheaper in India and raw material is cheaper as it is available. So this will give us for the entry level vitrified tile, a good source for us as we already have our joint venture and the expertise in India, to cater to our export markets.

P.K. Chand
As far as CapEx for 2018 is concerned, you are right that it is going to be… in 2017, we had estimated spending 265 million, but our actual spending was only about 100 million, so 2018 will definitely include the carried over items and it will also include some of the items for which the company had committed in 2017. So we are still in the process of finalising the whole CapEx budget, but obviously it is going to have in 2017, exact figures we will let you maybe in the next call.

Anoop Fernandes
But it will be pretty much in line with what we were expecting for 2017, right, somewhere around 250-260 million, that is what we can assume, no?

P.K. Chand
We don’t give guidance, so maybe we are able to better answer you in the next call.

Now, you asked about the Saudi JVs selling expenses. Yes, you are right, the selling expenses of Saudi JVs will get consolidated, but to that extent, the revenue will also get consolidated. Whatever price we sell to Saudi JVs and then they add the margins there, and t hen only the revenue will get generated. It is not right to say that there will be impact by consolidation of selling expenses, because to that extent, the extra revenue will also come in.

Anoop Fernandes
Just one last question, the "other income" component has been quite lumpy this year, and that has influenced earnings quite a bit, forex gains, then the sale of – divestment etc. How do we see this number moving in 2018? Do you see this same lumpiness there as well, or this number will sort of normalise? If you can give us some sort of guidance on what this recurring number could be, what we should be building in.

P.K. Chand
As far as forex gain is concerned, we were fortunate to have a forex gain in this year, but nobody can predict the volatility and, therefore, it will be very difficult for us to say whether the same thing will happen in 2018 or not.

As far as the "other income" is concerned, we do not give any guidance, but whatever extraordinary gains we had in 2017, obviously, these will not be reported in 2018 as well.

Like-for-like, obviously, because of the non-core profits, the profitability will be on the lower side for non-core operations.

Anoop Fernandes
One last thing, this year's dividend payment was pretty close to recurring earnings. Do we expect the payout to sustain into 2018 or will that CapEx requirement sort of influence our dividend payout next year?

Abdallah Massaad
If you see since many years, we have a good track record in dividend, and dividend is a decision of the board, which we cannot expect anything for what will happen next year. At least you can see the last three, four years, which we have good payout ratio. Also, we have a policy which is clear to pay 60%, at least 60% of our net profit unless we have any extraordinary requirement.

Operator

We have a follow-up question from Sameer Kattiparambil, EFG Hermes. Please go ahead.

Sameer Kattiparambil
I have one more question on the energy prices. How do you see the rising energy prices to impact the margins? And any chance that you can pass it onto customers, if at all? You also mentioned in the presentation that you are exploring alternative energy sources, so what kind of source are you looking for and any kind of impact you are expecting?

Abdallah Massaad
Always we follow energy saving methods, having some burners which will reduce the consumption of energy. So we will always try to reduce or at least optimise our cost of production. So, therefore, last year we invested in cogeneration, cogeneration where we take the heat from the kiln and we produce our electricity, which the blended energy cost per square metre will reduce. Also, we made a test last year, we got successful, we are hopeful by 2018 another two cogeneration plants will also be commissioned in UAE, which will give us benefit, for sure. The full year benefit will be in 2019, but we will have some benefit in 2018.

Regarding the prices of energy increasing, passing to the customers, as mentioned, always we launch new products, with the new products we will try to always position it in a different level where we take the consideration of increasing of cost in these products.

Operator
Our next question comes from Metehan Mete, Waha. Please go ahead.

Metehan Mete
My question is similar to the previous question, but in a more detailed note, I guess. I just wanted to learn what percentage of your energy costs are linked to the oil price and is there a lag on that. What type of profit impact should we expect in 2018, assuming current prices of oil? Thanks.

Abdallah Massaad
There is no doubt that the energy cost is linked to the crude, so last month we had a crude oil which started at 70, this week it is down, so it is very difficult to expect. There is no doubt if the crude oil will increase, then we will have an impact, but no one can expect the impact from now in the

coming years, but we always mention that it depends on the cost. If there will be an increase of cost, means there will be an increase for everyone, which will reflect in a price increase on the end to the customers.

Operator
Our next question comes from Divye Arora, Daman Securities. Please go ahead.

Divye Arora
My question is linked to impairment provisions on inventories and on the side of receivables, because last year you took a big amount, which was around 185 million, in 2016 I am saying. In 2017, this amount was around 67 million. We were expecting it to be lower, around 40 million. So we still see that this number continues to be on the higher side. If you take out the gains which you booked on the sale of the assets, I think your earnings would be much more lower than what you have reported. We just want to get a sense of what is a more recurring number on the inventory and receivable provisioning side, because your base is still on the higher side for both of them, for receivables and for inventories. Thank you.

P.K. Chand
If you go through our financials, as far as the inventories are concerned, the write-offs in this year is around 22 million, compared to 88 million in the last year. And impairment losses for receivables is 45 million, which in the second quarter we had informed that we had taken a provision of around 24 million on receivables from a construction contract. So we had considered that a provision, because we had an extraordinary gain, so we felt conservative to take that provision. These are not the recurring numbers, but we are a little cautious from the inventory as well as from the receivables side.

However, if you see the total provision that we are creating every year compared to the total revenue, in terms of percentage it is not big, so the same trend should continue.

Divye Arora
So we can expect around 50-60 million, this number to be in total, or we should rather go with the…

P.K. Chand
It should be lower, in fact.

Operator
Our next question comes from Mohamad Haidar, Arqaam Capital. Please go ahead.

Mohamad Haidar
I have a quick question on the energy cost in the UAE. If I recall right, you were paying above market rates in the UAE due to a certain fixed contract. Is this contract still in place and when will it expire?

Abdallah Massaad
We never said we have a fixed contract, that is why we are paying higher. We source our gas from RAK Gas, which they source and they sell to us, so our price is linked to crude oil, so it depends how the crude moved, our price moves accordingly.

Operator
We have no further questions. Dear speakers, back to you for the conclusion.

Mohamad Haidar
Thank you everyone for joining the call. Thank you Abdallah and P.K. Chand and we look forward to having you all with us next quarter. Thank you.

Abdallah Massaad
Thank you, Mohamad. Thank you all for taking the time today, thank you.
