**Mohamad Haidar:** Thank you. Hello, everyone, and welcome to the RAK Ceramics second quarter and H1 2020 earnings conference call. This is hosted by Arqaam Capital. This is Mohamad Haidar, from Arqaam Capital Research and, as always, we are joined today by Mr Abdallah Massaad, Group CEO of RAK Ceramics, and Mr PK Chand, Group CFO of RAK Ceramics. Mr Abdallah, over to you.

**Abdallah Massaad:** Thank you, Mohamad, and good evening everyone. I’m Abdallah Massaad, CEO of RAK Ceramics, and I would like to welcome you all to the RAK Ceramics second quarter and half year 2020 earnings call and webcast.

Our second quarter performance was significantly impacted due to the COVID-19 pandemic on account of government-enforced lockdowns across all our major markets during April and May. To mitigate the impact of lockdowns across all our markets we have launched various alternative sales channels in markets where retail operations were closed.

In addition to these initiatives, we have also taken measures to manage liquidity, reduce discretionary expenses, and place all non-essential capex plans on hold. Presently, our liquidity position is at a comfortable level.

As a result of these initiatives and due to government lockdowns easing across all markets, I am pleased to say that we have seen early signs of recovery across all our global operations from June.

We have built a strong foundation at RAK Ceramics and I’m confident this will help us navigate the current challenging environment and enable us to deliver value to our shareholders in the long-term.

Now, please allow me to take you through our operational and financial highlights for the second quarter of 2020. Total revenue decreased by 37.3% year-on-year to AED 411 million, mainly due to COVID-19 lockdowns across all our major markets. Tiles revenue decreased by 32.7% year-on-year to AED 288 million. Our sanitary ware revenue decreased by 35.3% year-on-year to AED 81 million, while tableware revenue was severely impacted due to lockdowns in the hospitality and airline sector, resulting in a revenue decrease of 71% year-on-year to AED 21.4 million.

Our total gross profit margins were also impacted in the quarter, with a decrease of 580 basis points year-on-year to 28.5% due to lower productivity on account of plant shutdowns resulting in higher unabsorbed fixed costs of AED 25 million. To counter this impact, we have implemented initiatives which have resulted in significant savings of AED 31 million year-on-year in fixed SG&A expenses as a result of reduction in discretionary expenses and stringent control in overhead and manpower headcount across the group of companies.

The imposition on anti-dumping duty on imported tiles from China and India, effective 6th June 2020 in the GCC, has increased demand for our product. We are well-positioned to take advantage of this opportunity and meet the market demand.

We have positioned ourselves as a premium product supplier in Saudi Arabia, with many different differentiated products compared to the offers in the market. Last year, we opened two new showrooms in Riyadh and we have plans to open another two new showrooms in Jeddah.

In Saudi Arabia, borders were closed with sales and deliveries being affected during April and May. However, from June onwards, deliveries were managed even by incurring higher freight costs. However, effective from 1st August, the delivery to Saudi Arabia was opened.

Revenue was slightly lower by 2.2% year-on-year at AED 69 million, mainly due to lower sanitary ware sales by 12.1%, while tile sales were stable year-on-year. Revenue in April was AED 19 million, which decreased to AED 9.0 million in May. And, when the border opened, the revenue significantly improved to AED 41 million in June 2020, showing signs of positive post-lockdown recovery.

In the UAE, our production lines were optimised in Q2 to meet demand by reducing our average production of 4.3 million square metres to 3.1 million square metres during the quarter. However, in July 2020 our production line began running at an optimal capacity of 4.5 million square metres, due to increased demand especially from the Saudi market and other markets.

Revenue in the UAE end market was lower by 27.5% year-on-year at AED 138 million. Revenue in April 2020 was AED 47 million, which decreased to AED 39 million in May but improved to AED 52 million in June 2020.

Our website now includes a virtual reality showroom experience which allows customers to view and interact with our product virtually. We also opened a new showroom in Fujairah and a new showroom in Abu Dhabi.

In the Middle East, revenue decreased by 12.5% year-on-year to AED 19.7 million. In Europe, lockdowns continued across Europe in April and May, with Italy and the UK being severely impacted, however the impact on the German market was not as severe.

Revenue from the Europe market decrease by 26.8% year-on-year. Tiles revenue was lower by 21.7% and sanitary ware revenue was lower by 31.7% year-on-year. Revenue in April was AED 19 million, which improved to AED 21 million in May and further improved to AED 25 million in June 2020.

Our Bangladesh operations were started production on 10th June following a shutdown on 26th March. Presently, all tile lines and sanitary ware lines have restarted operating in phases. The Bangladesh market has shown signs of recovery following an easing of lockdown measures and an increase in sales.

Revenue in the second quarter was lower by 66.1% year-on-year at AED 21.2 million. Revenue in April was AED 1.0 million, which improved to AED 4.0 million and further improved significantly to AED 16 million in June.

Our production in our Samalkot plant in India restarted on 3rd June following a shutdown on 24th March. Currently, one tile line is operating to meet demand. Our Gris plant in Morbi restarted on the 4th June and our GRYPHON plant in Morbi has restarted on 16th July 2020.

Domestic revenue in the second quarter 2020 was lower at 56.8% year-on-year, at AED 29 million. Revenue in April was nil due to a complete lockdown and in May was AED 13 million, which further improved to AED 16 million in June 2020.

Cost-saving measures initiated in Q2 2020 to limit discretionary expenses resulted in fixed SG&A expenses of AED 4.9 million compared to last year. Additional initiatives have been implemented to further reduce costs going forwards.

Our tableware was severely impacted during this period in the hospitality and airline sector in all major markets, resulting in a revenue decrease by 71% year-on-year to AED 21.4 million. Revenue in April was AED 4.6 million, which improved to AED 5.5 million in May and further improved to AED 11.3 million in June 2020.

Now, I would like to take you through the main financial highlights of the second quarter of 2020. Total revenue was lower at AED 411 million, a decrease of 37.3% when compared to the same period in 2019, mainly due to COVID-19 lockdowns across all major markets.

On a constant currency rate of the second quarter of 2019, the revenue decreased by 36.4% year-on-year. Our total gross profit margin decreased by 580 basis points year-on-year to 28.5% due to a decrease in revenue and plant shutdowns, which results in unabsorbed fixed cost of AED 25 million during the second quarter.

Tiles GP margin decreased by 230 basis points year-on-year to 27.9%. Our reported net loss was AED 19.8 million compared to a net profit of AED 73.4 million year-on-year. Last year, net profit included a AED 22.1 million provision reversal. Net loss after minority was AED 11.6 million, compared to a profit of AED 61.2 million in the second quarter 2019.

Like-for-like net loss was AED 13.7 million compared to a profit of AED 52.3 million on the second quarter 2019, mainly due to a revenue decrease of AED 245 million year-on-year.

Our total EBITDA was positive at AED 40.5 million, compared to AED 141 million in the second quarter 2019. Margin was 9.9%, compared to 21.5% in the second quarter 2019. Thank you for listening. I will now hand over to our CFO, PK Chand. PK, please.

**PK Chand:** Thank you, Mr Abdallah. Good evening, everyone, and thank you for joining us. Mr Abdallah has already briefed summarised financial highlights and regional performance for the second quarter of 2020. I will take you through the half-yearly results and segmental highlights with details on revenue, profitability and the balance sheet.

Let us start on slide eight. Reported total revenue for the first half of 2020 decreased by 20.6% year-on-year to AED 1.0 billion due to lower revenue in the second quarter on account of COVID-19 lockdowns.

On a constant currency basis of first half of 2019, the total revenue decrease is 19.8% year-on-year. Tiles revenue is lower by 17.1% year-on-year at AED 682.5 million due to lower sales in all markets, except Saudi Arabia market in the second quarter. Sanitary ware revenue decreased by 21.4% year-on-year to AED 195.3 due to a decrease in revenue in all markets except Middle East market.

Tableware revenue decreased by 45.8% year-on-year to AED 72.8 million due to COVID-19 impact in the hospitality and airline sector. Revenue from other business also decreased by 9.6% year-on-year to AED 53.5 million due to lower sales in ceramic raw material trading and paints businesses. Of the total revenue in the first quarter of 2020, tiles revenue contributed 68%, sanitary ware 19.5%, tableware 7.2% and others 5.3%.

Total gross margin in the first half of 2020 decreased by 210 basis points year-on-year to 31.0% due to lower revenue and lower productivity which resulted in unabsolved fixed costs of AED 28 million.

Tiles margin improved by 60 basis points to 29.1% year-on-year, despite a decrease of 200 basis points in the second quarter due to plants shutdowns during the second quarter of 2020.

Sanitary ware margin was lower by 4.7% year-on-year to 32.4% due to lower sales and lower productivity on account of lockdowns. Tableware margin decreased by 6.5% year-on-year due to lower revenue and lower productivity.

Second quarter of 2020, the gross margin was impacted due to shutdown of plants in India, Bangladesh and optimisation of plants in UAE during April and May. Total EBITDA decreased by 43.4% to AED 135.7 million year-on-year with margin decreased to 13.5%.

Reported net profit has decreased to AED 10.5 million with a margin of 1% compared to AED 110.3 million in the first half of 2019, mainly due to lower revenue by AED 261 million impacting gross profit of AED 107 million, including plant shutdown costs of AED 28 million.

The first half of 2019 net profit included AED 22.1 million towards provision reversal, towards contracting assets. However, there has been a saving of AED 24.3 million in the fixed SG&A expenses during the first half of 2020 due to various cost saving measures by avoiding discretionary expenses.

Like-for-like net profit, that is excluding provisions and extraordinary gains, decreased by AED 68 million year-on-year to AED 22.6 million and margin decreased by 4.9% to 2.2%, mainly due to lower revenue by AED 261 million year-on-year.

Net profit after minority also decreased to AED 14.1 million with a margin of 1.4% compared to AED 90.2 million in the first half of 2019. Net debt increased from AED 1.37 billion on December ’19 to AED 1.47 billion in June 2020 due to dividend payments AED 177 million. Net debt to EBITDA increased from 2.85x at the end of December ’19 to 3.88x in June 2020 due to lower trailing 12-month EBITDA of AED 379 million.

On the cash front, capital expenditure for the first half of 2020 was AED 52.3 million compared to AED 109.4 million in the first half of last year. Majority spending has been AED 37 million in UAE plant upgradation and new showroom and some upgradation in India and other maintenance capex.

Capex for 2020 is expected to be in the range of AED 100-125 million, as we are placing all non-essential capex plans on hold and continue to take measures to manage liquidity.

Now, turning to operating cycle. In absolute terms, the overall working capital has reduced by AED 39 million quarter-on-quarter. However, in terms of number of days, inventory days increased from 261 days to 287 days quarter-on-quarter due to decreased revenue.

Trade receivable days also increased from 119 days to 123 days quarter-on-quarter due to decreased last 12 months revenue, while trade payable days increased from 70 days to 77 days quarter-on-quarter.

Overall working capital days have also increased quarter-on-quarter from 310 days to 333 days, mainly due to reduction in last 12 months sales. Now, I will turn back to Mr Abdallah for final comments on the remaining quarters of 2020 priorities before we answer your questions.

**Abdallah Massaad:** Thank you, PK. There is no escaping the fact that our business was significantly affected by the government-imposed lockdowns during the second quarter 2020. Our tiles and sanitary ware business are closely linked to the construction sector and our tableware business is heavily dependent upon the airline and hospitality industries.

We enter the second half of the year with a cautious optimism. We are working hard to not only protect but strengthen our business and we are already seeing early signs of recovery across our global operations.

We are focused on protecting the UAE, Bangladesh market share and limit the impact of COVID-19 on our tableware and faucet businesses. We will continue to seek a growth in Saudi Arabia and to turn around operations in Europe and in India.

We will also look to diversify and improve profitability in key export markets. We will continue to manage the impact of COVID-19 through cost-efficiency measures across all our operations and prioritising the health and safety of our workforce.

Our contingency plans are in place and are being constantly updated to reflect the evolving situation. We will continue to take the necessary measures to ensure our liquidity is managed with an alternative strategic contingency plan in place.

It is these measures and our strong foundation which will help the business to navigate the current challenging environment and enable us to deliver value to our shareholders in the long-term. Now, I’d like to thank you for listening and for your time. Now, I would like to hand the call over to the operator and open the line to questions. Thanks, again.

**Operator:** Ladies and gentlemen, if you wish to ask a question, please press \* followed by 1 on your telephone keypad. The first question comes Michel Said, from CI Capital. Please, go ahead. Your line is now open.

**Michel Said:** Hi. Good afternoon, gentlemen. Thanks for the presentation. I had a question regarding the outlook of the business. I know it’s not easy to comment on but now we are almost at mid-August, so how July has been delivering and August, so far. This would be my first question.

The second one, in terms of liquidity, you mentioned that your position is fairly liquid. What would be your ceiling debt level that you consider alarming, either in relation to debt to EBITDA or the gross amount of debt, given that your trading EBITDA is impacted by COVID for now?

And, also, if you can give us more colour on the full year, if you see signs of recovery by the end of the year. When you say signs of recovery, do we talk that by fourth quarter we can reach the same level of revenue we did for 4Q ’19 or still we have to wait to 2021, given the current circumstances and the current measures we have, either in UAE and other countries, because we know that there are a lot of variables in the current period? Thank you very much.

**Abdallah Massaad:** Thank you for your call. I will start. I will answer you the outlook and PK will go into the details of the liquidity. As I mentioned, April and May were very difficult months due to lockdowns everywhere. We started seeing a lifting in lockdowns in June where signs of recovery were there. July was much better than June and, till now, August is even better.

I can tell you that in the UAE we are back to a norm of production where it was, even more than we were before COVID, due to mainly higher demand in Saudi Arabia. In Bangladesh, we came back to the same level. In Europe, the sales are also recovering and we reach back at the same level before COVID.

We still have mainly two businesses affected. One is India, which India is still affected through the COVID threat still in place. It is better than April/May and even June/July was better but still affected and not recovered.

Also, our tableware business, which since inception was a very good contributor in the company still, as you know, the airline and hospitality business is picking up but not really recovered.

So, from this perspective I can tell you that we are seeing, if hopefully there will not be a second wave or any further lockdowns, which I don’t think there will be a major lockdown like what happened, we are going into a smooth recovery. PK, please, on the liquidity side.

**PK Chand:** As far as the net debt is concerned, we started the year with a net debt of AED 1.37 billion and on 30th June it is AED 1.47 billion, which is after paying a dividend of AED 177 million. Now, this absolute figure of net debt, I don’t think it will increase beyond this level, so 1.47, maybe a maximum of 1.5.

As far as the net debt to EBITDA level is concerned, it will be definitely below 4.0x, because now we have started performing and the EBITDA will remain almost at that level.

**Michel Said:** Okay. Thank you very much.

**Operator:** The next question we have comes from Sameer Kattiparambil, from EFG Hermes. Please, go ahead.

**Sameer Kattiparambil:** Hi. Thank you, Abdallah and Chand for your presentations. I have a couple of questions. First, on your cost savings. How sustainable are the cost savings at SG&A level, as the cost cut seems to be substantial?

Then, on the Saudi operations. In the June sales we have seen a significant pick-up. Is there any pre-VAT consumption happened or is it fully implied by anti-dumping duties? And, the third one is on your Indian market operation. With the GCC anti-dumping duty going to impact its export business significantly, most of the Indian producers might try to sell it locally. So, are you expecting a scenario of increased competition and net price erosion over the short-term in the Indian market? That’s it from my side.

**Abdallah Massaad:** Thank you, Sameer, for your questions. I’ll start with the Saudi operations and India and I will ask PK to answer on the details of the cost cutting. Saudi, in June we saw a pick-up from the implementation of VAT but, honestly, July was also a great month and we see the outlook going, demand is growing up.

As we said, we positioned ourself as a premium producer. We have different sizes and we were able to offer to the market something different than available in the market. So, no doubt, it will continue and the anti-dumping on India and China gave us or opened for us more market share and our team were ready.

We opened the showroom last year and we are continuing now. We are opening the big showroom, our main showroom in Jeddah, so this demand is going on and we expect this continue in the next few months.

In India, I believe India in the near future, as you can see from all the operations, it is tough. It is severely impacted locally. We took measures by also reducing our SG&A. We reduced our costs. We are working on improving our margin. We increased our prices last month. We expect reduce our losses in India.

In terms of exports, look, Sameer, there is, for sure, anti-dumping in the GCC but if you see the improvement in sales happen to US, because US imposed anti-dumping on Chinese products, so the Indian exporters benefitted and will benefit from this anti-dumping further. It depends on the COVID scenario. I believe the exports from India to US will cover the anti-dumping Saudi. PK, please, on the details of costs.

**PK Chand:** As far that SG&A cost is concerned, you must have seen from the presentation that in the second quarter we have been able to save AED 31 million. Of course, this cannot be taken as a run rate because practically all the costs were stopped. I’d just like to give an example, even traveling was not happening.

So, all the costs were stopped but this cannot be considered as the run rate. As far as the run rate is concerned, it is very difficult to give you a number but I personally feel that around AED 4.0-5.0 million could be a run rate per month, so that could be achieved.

**Sameer Kattiparambil:** Okay, understood. Just a follow-up question on operations in the other GCC markets like UAE, which is one of your major markets. How do you see in that market, this anti-dumping duty? Is it still impacting? The demand is coming in that market?

**Abdallah Massaad:**  Sameer, look, till now and, to be honest, if you see our sales this year in the UAE are down around 20% and this is explainable through the project delay and the workforce. Till now it’s 50% working. We can see less impact on our showrooms, with the rebranding, with the products, with the opening of showrooms and the virtual showroom and the call centre. The showrooms were less impacted than the wholesale and projects.

In terms of the anti-dumping, to be honest, no, we did not see that. Look, Saudi, they had an issue in the market for the last two years and the market reacted fast on the anti-dumping. In UAE, we will see it in the next few months, no doubt, and other GCC due to the COVID impact as well as the available stock but, no doubt, it will be seen in the next few months.

**Sameer Kattiparambil:** Okay, great. Again, it was great talking to you, Abdallah and Chand. All the best for the rest of the year.

**Abdallah Massaad:**  Thank you, Sameer.

**PK Chand:**  Thank you.

**Operator:** The next question comes from Mohamad Haidar, from Arqaam Capital. Please, go ahead Mohamad.

**Mohamad Haidar:** Abdallah, given that Saudi is growing fast, when will you consider to make Saudi a production hub instead of importing it from UAE, bearing all the cost? Do you have plans to introduce plants in Saudi?

**Abdallah Massaad:**  Thank you for your call. To be honest, not now. It’s already more than one year. We did our application and we are in constant contact with the governmental body in Saudi on it. We are waiting for gas allocation. We announced that we are going to because we were seeing and we have a lot of hope and a positive view on the outlook, especially with our differentiated product and our offer. We will continue and we are awaiting any positive news from the authorities in Saudi. Then, we’ll take it from there.

**Mohamad Haidar:**  Understood. And, for UAE, when you say optimal capacity, what would that be in terms of utilisation rate to total capacity in UAE?

**Abdallah Massaad:** We were producing around 4.3 million square metres. For us, we have an installed capacity of 6.0 million square metres but it depends which sizes. In ceramics, if you produce different sizes in each kiln and you can produce 12,000, it will be 9,000 or 10,000.

We changed the sizes which are running in the market and we moved to bigger size, that’s why our production came down to an average of 4.3, but now with the Saudi demand and we have with the volume, you go also to normal sizes. I can tell you that this month, in August, we even crossed 5.0 million square metres. We will be crossing 5.0 million square metres production or around 5.0 million. So, the optimal depends on the mix of product today. We can say that it is 4.5-5.0 million square metres.

**Mohamad Haidar:** Understood. So, this potentially can go up to 6.0 million?

**Abdallah Massaad:** It depends on the sizes we are running. When we run a 3.0 metre size you take an outcome of 2,000-3,000 square metres per day. On the same kiln, if you run 60x60, you get 12,000. So, it depends on the mix of the products.

**Mohamad Haidar:** Understood. Thank you, Abdallah.

**Abdallah Massaad:**  Thanks.

**Operator:** As a reminder, ladies and gentlemen, to ask any further questions please press \* followed by 1 on your telephone keypad. A follow-up question now from Michel Saeed, from CI Capital. Please, go ahead Michel.

**Michel Said:** Hi. I just want to follow-up on the discussion on Saudi and the licence of the gas allocation. Is it normal that we have been waiting for the over one year? Is this taking too long? I’m trying to understand why it has been delayed and what are really the obstacles for this to happen.

**Abdallah Massaad:** Thank you, Michel, for your question. The answer is the Saudi market, before the anti-dumping, all local players were suffering and the authorities were making sure that it will not create overcapacity in the market and therefore we requested in a specific region where, for us, the main impact will come from transportation costs and mainly, for us, it is the west or south area.

It took long, so they are not refusing but they are always telling let us wait, let us wait. I believe, now, with market, with the anti-dumping, the demand will rise and we’ll have an answer, hopefully a positive answer, from them.

**Michel Said:**  Yes, makes sense. Another quick question. Would you consider the anti-dumping impact on the group positively or negatively, net-net?

**Abdallah Massaad:**  For us, no doubt, it will be a positive because we have our factory in the GCC. We are able to export easily. So, honestly, it is a positive net-net on the group.

**Michel Said:** Okay, great. Thank you very much. Nice talking to you.

**Abdallah Massaad:** Thank you.

**Operator:** And, another follow-up question from Sameer Kattiparambil. Please go ahead, Sameer.

**Sameer Kattiparambil:**  Just one follow-up question. On your receivables side, are you expecting any risks to any specific accounts due to the weak economy?

**PK Chand:** Sameer, if you see our financials, in this six months we have taken a provision of AED 12.1 million compared to last year’s provision we had taken AED 2.3 million. Last year, in six months we had taken a provision of AED 2.3 million, while this year we have taken AED 12.1. This is based on IFRS 9 which goes on the expected credit loss model, and we do not foresee a significant deviation. We have been aggressive on taking provision and that’s why you see a much higher provision in these six months.

**Sameer Kattiparambil:**  I really appreciate it. Thank you very much.

**Operator:** We have another question now from Mohammed Hadhrami, from FALCOM. Please, go ahead.

**Mohammed Al-Hadhrami:** Yes, everyone. Thank you for arranging this call. Just a question about the market landscape in Saudi Arabia. How do you see now, after the anti-dumping, your market share? Are you gaining market share from this anti-dumping after the government applies it?

**Abdallah Massaad:** Thank you, Mohammed. Yes, for sure. As you see, the only market we grew this year, if you take the six months, we grew almost 30%. Yes, we are gaining market share on all fronts here.

**Mohammed Al-Hadhrami:** So, for you, you increased the prices or you kept the prices the same in the market?

**Abdallah Massaad:** We increased the prices and we launched new sizes which are not available within the local manufacturer. I can tell you that we have a good margin and good volume in Saudi.

**Mohammed Al-Hadhrami:** Okay. Now, after the government applied the VAT, etc, and cut some subsidies, is there a slowdown in the demand after 1st July?

**Abdallah Massaad:** For us, I told you June was a good month, July was great and, as for our demand for August, it is even better. So, till now we see positiveness and the orders are coming regularly.

**Mohammed Al-Hadhrami:** Okay. Thank you very much.

**Abdallah Massaad:** Thank you.

**Operator:** We have another question now from Dushyant Karam, from Decimal Point. Please, go ahead.

**Dushyant Karamchandani:** Thank you for the call. I would like to understand what is the increase in the selling price of tiles per square metre after the implementation of the GCC…? Hello?

**Abdallah Massaad:** Yes, please. This is very difficult to answer because we have many sizes and some sizes in which we are already well-positioned were fine. Some sizes were only for production or for volume and when the local market increased, we also increased our prices.

And, there, we have somewhere between a 5-10% increase in some sizes but some sizes which were already at a high level, we kept it as it is. So, we cannot say generally, it depends on the sizes and the models, itself.

**Dushyant Karamchandani:** Thank you.

**Abdallah Massaad:** Thank you.

**Operator:** It seems there are no further questions on the phone line.

**Mohamad Haidar:** Okay, everyone. Thank you for joining the call. Abdallah and PK Chand, thank you. Abdallah, do you have any final remarks?

**Abdallah Massaad:** Thank you, Mohamad. Thank you, everyone, and please stay safe.

**PK Chand:** Thank you.