Transcript

RAK Ceramics Q1 2025 Earnings Call and Webcast

Thursday, May 15, 2025

Operator Hello, everybody, and welcome to the RAK Ceramics Q1 2025 Earnings Call and Webcast. My name is Elliot, and I'll be your coordinator for today. If you would like to register a question for today's event, please press star one on your telephone keypad, or alternatively, you can submit your written questions via the Q&A box found on your screen. I'd now like to hand over to Mohamad Haidar with Arqaam Capital. Please go ahead.

Mohamad Haidar Thank you, Elliot. Hello, everyone, and welcome to the RAK Ceramics First Quarter 2025 Earnings Call and Webcast. This is Mohamad Haidar from Arqaam Capital. And from RAK Ceramics, we are joined today by Mr Abdallah Massaad, Group CEO, and Mr PK Chand, Group CFO. Abdallah, over to you.

Abdallah Massaad Thank you, Mohamad. Good afternoon, everyone, and welcome to the RAK Ceramics First Quarter 2025 Earnings Conference Call and Webcast. We appreciate you joining us today. Our first quarter 2025 performance has shown resilience in the face of macroeconomic challenges. Total revenue was largely stable, showing a marginal decrease of 0.7%, which was mainly due to forex headwinds from a weaker euro, Bangladesh taka and Indian rupee against the US dollar. However, if we look at a constant currency basis, revenue was up by 0.7% year-on-year. Kludi Group's transformation initiatives have impacted profitability by 8.4 million dirhams. Excluding this impact, profit before tax was 74.4 million dirhams, marginally down by 1.4% year-on-year.

Let me now give you a brief overview of our consolidated revenue by market and segment standpoint. The UAE continues to be our largest market, delivering strong topline growth and healthy margins. This is followed by Europe, which contributed 23% of our consolidated revenue, with India and Saudi Arabia also playing key roles. In terms of our segments, tiles continued to be the primary driver of revenue, followed by sanitaryware, faucets and tableware. At the bottom, you will see our production capabilities, where we remain committed to continuous investment to enhance capacity and operational efficiency.

Now let me walk you through our financial performance across our key markets and product lines. In the UAE, we witnessed strong demand, driven by the real estate and construction sector. Operational efficiencies in our tiles plants also helped us achieve higher gross profit margins, strengthening our leadership in the local market. In Saudi Arabia, the market faced a liquidity crunch, increased competition, and an oversupply of tiles from local players. However, we are encouraged by the recent customs duty relief, which improves our cost position.

Moving to Europe and the UK, we saw a decline in consumer demand, largely due to inflation and a weakening euro and recessionary concerns. Higher freight costs also impacted our pricing competitiveness. That said, we are actively working on business recovery through a new operating model aimed at restoring profitability. In India, I'm pleased to report moderate growth despite global headwinds. However, a decline in exports has created oversupply in the domestic market, which is highly price sensitive. We are moving ahead with turnaround measures to regain profitability.

In Bangladesh, ongoing political instability, low demand and operational constraints, including gas shortages and currency devaluation, continue to pose serious challenges. However, we are taking steps to improve efficiency and manage costs. From a segment standpoint, our tiles division recorded growth in both volume and value, primarily driven by strong performance in the UAE and India. The sanitaryware division experienced a drop in both volume and value, with performance weaker across most markets, except the KSA and the broader Middle East.

The faucets division saw a decline in revenue due to the weaker euro, economic pressures in Europe, challenges in China's real estate market, and the impact of ongoing Kludi transformation. The tableware division reported a decline, impacted mainly by slower demand in the US and a weaker euro.

Looking ahead, I want to highlight some of the key challenges we are facing and how we are navigating them. In the UAE, we are seeing increased competition due to lower cost imports under free trade agreements. In response, we are strengthening partnerships with reputed developers and supplying our tiles and sanitaryware for largescale projects.

In Saudi Arabia, market oversupply and liquidity issues have triggered a price war, particularly in residential and commercial segments. However, customs duty exemptions are helping to improve our competitiveness. We are also focusing more on premium and differentiated offerings to boost margins, especially in retail and project channels.

In Europe, consumer sentiment is weak, but we are taking proactive steps by engaging with architects and designers through our design hubs. This will help us tap into higher value segments with our new collections.

In India, the reduction in exports has created domestic oversupply. We are actively working on enhancing our retail presence and instore experiences to better connect with customers.

And in Bangladesh, we continue to face macroeconomic hurdles. Our focus remains on building a strong distribution network and leveraging product innovation to differentiate ourselves in the market.

Across all these markets, we are also prioritising brand enhancement through showroom expansions and strengthening our dealer network.

Now to our strategic initiatives. In the UAE, we are investing in upgrading our tile division with advanced technology to produce large format high-end tiles. Our sanitaryware facility is also being modernised with energy efficiency systems that align with our sustainability goal. In Saudi Arabia, plans for our new tile production facility are in progress, and this will strengthen our local presence and drive efficiencies.

We recently showcased our latest innovation at ISH in Frankfurt, connecting with key industry stakeholders and reinforcing our design leadership. This exhibition is focussed mainly on sanitaryware and faucets, where we had a stand for Kludi and Rak Ceramics. Kludi, after all the turnaround and the launch of the new Kludi with the latest designs, were taken positively in the market. As part of the Kludi transformation, we are moving forward with our cost optimisation strategy, including relocating major EU production to the UAE to improve operational leverage. I will now hand over to our CFO, PK.

PK Chand Thank you, Abdallah. Good afternoon, everyone, and thank you for joining us. Mr Abdallah has already covered the key market performance highlights, challenges, and the strategy updates for the first quarter of 2025. I will walk you through the financial highlights for the first quarter of 2025, including details on revenue, gross profit margin and the balance sheet.

We will start from slide 11. Total revenue in the first quarter of 2025 marginally decreased by 0.7% year-on-year to 776.5 million dirhams, primarily attributable to the weaker euro, Bangladeshi taka and Indian rupee versus the US dollar. On currency rates of last year, however, the revenue is higher by 0.7% year-on-year. Tiles and sanitaryware revenue remained resilient, with a marginal decrease of 0.4% at 554.4 million dirhams, led by strong performance in the United Arab Emirates, Saudi Arabia, and the rest of DCC [? 00:10:24] markets.

Tiles revenue grew by 1.2%, at 449 million dirhams, led by robust performance in the United Arab Emirates, rest of DCC, India and Asia-Pacific. Sanitaryware revenue witnessed a decline of 6.5% year-on-year to 105.5 million dirhams, mainly due to a strong US dollar and weaker demand in Bangladesh, India and other markets. Tableware revenue declined by 4.5% year-on-year to 85.9 million dirhams, impacted by lower demand particularly in the US market. Currency depreciation has further impacted performance, mainly in Egypt, Asia and African markets.

Faucets revenue declined by 4.4% year-on-year, at 111.7 million dirhams, due to lower revenue in the Middle East, Europe, Africa and other markets. The decline in revenue has also been influenced by the slowdown in China's real estate sector and continued sanctions in Russia.

Revenue from other units increased by 33.5%, at 24.5 million dirhams, driven by ceramic raw materials trading business. Mr Abdallah has already covered the regional performance, so I will move to slide 14 onwards, covering the segmental gross profit margin in the first quarter of 2025. Total gross profit margin increased by 33 basis points year-on-year to 39.7%, supported by strong margin improvements in the tiles and sanitaryware segments. However, faucets margin decreased significantly. Tiles margin in the first quarter of 2025 increased by 160 basis points compared to the first quarter of 2024 at 41%, driven by improvement in efficiencies and higher sales of porcelain tiles over ceramics.

Sanitaryware margin improved by 440 basis points year-on-year, at 34.1% in the first quarter of 2025, backed by improvement in UAE and Indian operations. Tableware margin remained stable year-on-year at 53.9%. Faucets margin decreased by 764 basis points year-on-year, at 23.4% in the first quarter of 2025, due to lower margins in the European market on account of the transformation activities in Europe.

Profit before tax for the first quarter of 2025 is 64.5 million dirhams, compared to 73.9 million dirhams in the last year. As mentioned by Mr Abdallah, Kludi Group's transformation initiatives have impacted profitability by 8.4 million dirhams. Excluding this impact, profit before tax was 74.4 million dirhams, which is marginally lower by 1.4% year-on-year. Profit margin is 8.3%, compared to 9.5% last year. Net profit after tax for the first quarter of 2025 is 48.9 million dirhams, compared to 62.9 million dirhams in the last year. This decrease is attributable to Kludi Group's transformation impact and the newly introduced domestic minimum top-up tax under GLoBE Pillar Two rules.

Effective tax rate of UAE-based entities is 13.5%, up from 9% last year, impacting tax of 5.1 million dirhams in the quarter. Net profit margin is 6.3%, compared to 8% last year. EBITDA decreased to 135.6 million dirhams in the first quarter, compared to 151.1 million dirhams in the first quarter of last year. The EBITDA margin decreased to 17.5% from 19.3% last year.

Now we will turn to balance sheet highlights on slide 15. Overall working capital remained stable at 1.43 billion dirhams in the first quarter of 2025, compared to December 2024. Trade receivables decreased from 87 days to 86 days. Inventory days increased from 252 days to 260 days quarter-on-quarter, due to increases in finished goods stock. Rate payable increased from 67 days to 73 days quarter-on-quarter, mainly due to CapEx procurement. CapEx spending has been 97 million in the first quarter of 2025 out of 68 million related to upgradation of large format tiles in tiles manufacturing plants. CapEx guidance for 2025 remains at 350 million dirhams.

Net debt increased by 41 million dirhams, at 1.43 billion dirhams compared to December 2024, due to higher CapEx spend. Net debt to EBITDA also increased from 2.35 times in December 2024 to 2.49 times in March 2025. We continued to maintain an adequate liquidity position during the year.

Slide 17 shows the share price movement during the last 12 months. The shares are currently trading at a P/E multiple of 11.9 times. Now I will turn back to Mr Abdallah for his final comments before we answer your questions.

Abdallah Massaad Thank you, PK. As we've discussed, geopolitical and economic uncertainties continue to affect many industries globally, especially export reliant sectors like ours. Yet, our ability to deliver a stable result in the first quarter highlights the strength of our business model. We saw strong momentum in the UAE, supported by real estate and tourism tailwinds. While challenges persist in other regions, we have been able to safeguard our margins and remain agile in our execution.

Looking ahead, we will continue to focus on quality, innovation and sustainability. In a world where low-cost manufacturers are gaining ground, we are committed to staying ahead as the preferred global supplier of high-quality differentiated products. Thank you again for your attention and continued support. I will now hand over the call back to the operator for the Q&A session.

Operator Thank you. If you would like to ask a question, please press star followed by one on your telephone keypad. If you would like to withdraw your question, please press star followed by two. When preparing to ask your question, please ensure your device is unmuted locally, and alternatively, you can submit your written questions via the Q&A box found on your screen. Our first question comes from Anoop Fernandez with SICO. Your line is open. Please go ahead.

Anoop Fernandez Yes. Good afternoon, gentlemen, and thanks for the opportunity to ask questions. I broadly have three. First is on your intention to create a brand to compete with Indian and Chinese tiles. Just wondering, RAK has always been known as a premium producer. Why is it that you want to compete in such a low margin business? How do you see that strategy playing out? Can you really compete with them on cost? Why don't you stick to your own turf? Why do you want to get into that segment?

The second one is on the status of duties on Indian and Chinese tiles. So, I believe it was due to expire last year. What is the status now? Because, apparently, Oman recently made some announcement that they were planning to levy these duties on Indian and Chinese tiles. How is that implementation happening in the other markets? Is there a duty is still in place?

And the third question is on the impairment of receivables. In your financials, there are two components. One is on trade receivables, and other receivables. If you could please clarify what these other receivables are, where you have taken the 4.6 million impairment. Thank you.

Abdallah Massaad Thank you for the questions. Again, we never said that we are going to compete with Indian and Chinese, because it's all the business model. And what we are following, and this proven to be successful, is building the brand in order to avoid the competition. But still, what is happening in the UAE or other markets, the difference, the delta is very big. It's the issue. And this goes down to the next question, and I will go back and link it. If you know that today, especially on India, and it basically started with China, most of the places are applying anti-dumping because of the low cost of production, and they're dumping in a big volume. Saudi is still having the anti-dumping, Qatar reinstated their anti-dumping, and now Oman restarted the anti-dumping. You have anti-dumping in Europe, now in US, even if you go to South America, and so on and so forth.

So it's a matter of dumping in a big volume with multiple different brands tying up with the local distributor, and reducing the prices where the delta is big. But we are not into any intent to compete. But again, some project where they say, okay, if I go to a value engineering, then this is the tiles, and when I fix the price, the brand will not show, kind of these things. But if you understood that, I have to clarify that we are not in an intention, but also to make sure that we have the quality assurance over there. In terms of receivables, I believe, PK, you can clarify this.

PK Chand This residual provision of 4.6 million, actually, we had some exposure in our books on account of the Sudan plant that had been sold. And considering the situation in Sudan, we thought it prudent to provide for it, and therefore, that provision has been made. So, it may be that as and when we receive the money, yes, that will go to the income statement.

Anoop Fernandez Clear. Just a follow-up. The duties, as you said, Qatar and Oman and so on, is it the same level as it was when they were first imposed in 2020, or has the duty structure changed? Is this a rollover of the duty structure, or is there a new structure itself in place in terms of the quantum of duties?

Abdallah Massaad To be honest with you, I cannot answer you because I don't know the detail of this. But I believe it goes back from 40% to 120%, depending on which factories and which level of prices they are dumping.

Operator Our next question is a text question. What is Q1 25 utilisation for every segment countrywide? Could you please reconfirm how much capacities are going to add to every segment in the coming time slash years?

Abdallah Massaad Look, honestly speaking, it will be unfair to answer this question from a level. So, our installed capacity, we had a big capacity in the UAE producing the red body tiles, where the material was coming out of the Ras

Al Khaimar here. And these mainly were products sold to wall tiles and indoor floor tiles. But with worldwide, the shifts happening in the porcelain tiles, which were the first in the region to start the porcelain, but honestly, at the time we had 30% capacity of porcelain and 70% capacity in ceramics. This shift happened, and it's happening, and therefore even now in the UAE, we are shifting part of our installed capacity in ceramics to produce porcelain.

So, if we go to the installed capacity and we go into what we are producing, you will get around 70.8%. But this is not accurate because, yes, the capacity in ceramics is 13,000, but when you produce porcelain, it goes down to 8,000. So, therefore, installed capacity divided between ceramics and porcelain, where today the majority of what we are producing is big slabs and bigger products, bigger sizes, so this goes into it.

Operator Our next question is from Preeti Periwal with ABI Analytics. It reads, can you elaborate on the Kludi Group transformation and when you expect this business to start generating profit? Revenue from Bangladesh dropped 25.7% year-over-year in Q1 25. What are the company's long-term plans for this country, and is there any visibility for the turnaround of the operations in the country?

Abdallah Massaad Look, regarding Kludi, we acquired Kludi almost two years back. Unfortunately, the month after, the war between Russia and Ukraine started. In Kludi, we had a factory in Austria, Hungary and Germany. Then we had the capacity of 500,000 million pieces in the UAE. We started increasing the capacity in UAE, where today we have a capacity of 1.5 million pieces. So, the market gone down because Kludi was stronger, actually, in Eastern Europe, where Poland, Ukraine, Russia and the region was an important market for them. So, we started shutting down. We closed down capacity in Austria. And now we started the closing of the Hungarian plant, whereby by July, the factory will be closed. We'll be shifting all production to Germany.

And again, we are, with the condition, Europe in recession, as well as the environmental issues, as well as the lower demand in Eastern Europe, mainly we are even reducing the capacity to the minimum in Europe, keeping the R&D, engineering, as well as special production in there. In my opinion, by next year, where most capacity will be shifted to the UAE. And today we don't know, because every time things are changing. Now the euro improved, actually appreciated in dollars, where if we produce in UAE, we will have even extra margin by selling in Europe.

So, I believe by next year we will see a good improvement and good visibility in the transformation of Kludi, especially that we already enhanced the product mix. We put all our effort to tie up with designers, looking at the overall product mix and the product portfolio, renovated it. And by next month, we are opening the first showroom in Sheikh Zayed, specifically designed for Kludi, as well as we opened the design hubs in Milan and Frankfurt and in the UK, where we displayed also there the Kludi. And we are preparing now two showrooms in Saudi specifically for Kludi. So I believe by next year, Kludi will have a good visibility. As well, you will see that we launched not only the faucets, but we added the sanitaryware into it, where we will get a good exposure into the high-end products.

Now, going to Bangladesh, Bangladesh was a jewel within the group. It was always performing. I believe we started in 2000 in Bangladesh, and since then, it was really doing well till last year, where the gas supply, the instability and political instability, the revenue went down by 25%. Basically, we are not getting gas in the area where we are. And if we don't get gas, we cannot produce, and therefore, the impact happened. We are monitoring the situation. It's not easy to decide to do anything, because installing a factory, it's not easy to move it to some other place. We are monitoring the situation. They promised us that the gas supply will be improved next month, and we are hopeful. Meanwhile, we are even connecting a separate line where we can compress CNG, where at least we can run it.

Operator As a reminder, if you'd like to ask a question, please press star one on your telephone keypad, or alternatively, submit your written questions via the Q&A box found on your screen. Our next question is, what's the latest on the KSA production facility?

Abdallah Massaad Honestly, thank you for asking this question, but I can say that it's very positive news. To be honest, we did not yet get the paper documents, but in a call actually this week with Marafiq, it looks like Marafiq will be able to supply the gas to our acquired land by Q4 2026. We are waiting the agreement to reach, but it's very good news. We are keeping ourselves very positive in order to take it from there.

Operator We have no further questions. I'll now hand back to Abdallah Massaad for any final remarks.

Abdallah Massaad Thank you very much. Thank you for all your support.

Mohamad Haidar Thank you, Abdallah, for your time today. And thank you to everyone who joined. We look forward to having you with us next quarter.

Abdallah Massaad Thank you, Mohamad. Thank you.

Operator Ladies and gentlemen, today's call is now concluded. We'd like to thank you for your participation. You may now disconnect your lines.