Transcript

ArqaamCA RAK Ceramics Q2 H1 2025 Earnings Call and Webcast

Wednesday, August 13, 2025

Operator Hello, everyone, and welcome to the RAK Ceramics Second Quarter and First Half 2025 Earnings Call. My name is Ezra, and I will be your coordinator today. If you would like to ask a question, please press star, followed by one on your telephone keypad, and if you change your mind, please press star, followed by two. If you have joined us online, you can submit a text question via the Q&A button on your browser. I will now hand over to Mohamad Haidar from Arqaam Capital to begin. Please go ahead.

Mohamad Haidar Thank you. Hello, everyone, and welcome to RAK Ceramics' Second Quarter/First Half 2025 Earnings Call and Webcast. This is Mohamad Haidar from Arqaam Capital, and as always, we are joined today by Mr Abdallah Massaad, Group CEO, and Mr PK Chan, Group CFO, from RAK Ceramics. Over to you, Abdallah.

Abdallah Massaad Thank you, Mohamad. Good afternoon, everyone, and welcome to RAK Ceramics' Second Quarter 2025 Earnings Conference Call and Webcast. Our Q2 performance was strong, demonstrating the resilience of our business despite challenging macroeconomic backdrop. Total revenue increased by 6.4%, year on year, reaching AED 826 million, driven by robust demand in the UAE and across the Middle East, coupled with effective cost management. For the first half 2025, our revenue rose by 2.9% to AED 1.6 billion. Gross profit margin improved by 110 basis points, year on year, in Q2 to 40.6% and by 70 basis points in the first half, to 40.2%.

Supported by enhanced operational efficiencies, this margin expansion reinforces our market leadership and reflects our continued focus on high-end, differentiated products. Profit before tax surged to 45%, year on year, to AED 86.7 million, and the net profit after tax rose 30.1% to AED 66.4 million. 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 contributes 23% of our consolidated revenue, with India and Saudi Arabia also playing key roles.

In terms of our segments, Tiles continues to be the primary driver of revenue, followed by Sanitaryware, Faucet and Tableware. At the bottom, you will see our production capabilities, where we remain committed to continuous investment to enhance capacity and operational efficiencies. 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 Tile plan also helped us achieve higher gross profit margin, strengthening our leadership in the local markets.

In Saudi Arabia, revenue decline due to the liquidity crunch intensified competition and oversupply from local tile manufacturers. However, our margin improved by 300 basis points, due to a favourable product mix. Moving to Europe, revenue declined by 3.3%, year on year, reflecting weak demand in the UK and Italy amid challenging macro conditions and continued recessionary concerns. In India, I am pleased to report moderate growth in local currency, supported by strong infrastructure development, reduced interest rate and growing disposable income. We are moving ahead with a turnaround measure to regain profitability. In Bangladesh, ongoing political instability, low demand and operational constraints continue to pose challenges.

Our revenue grew by 15.6%, year on year, in local currency, indicating signs of market recovery. Also, we are taking steps to improve efficiency and manage costs. From a segment standpoint, our Tile division recorded growth in both volume and value, primarily driven by robust performance in the UAE, India, Bangladesh and Germany. The

Sanitaryware Division experienced a modest revenue growth supported by strong demand in the UAE. Faucet Division, revenue grew by 11.7%, mainly driven by performance in Europe, Saudi and Africa. We are progressing towards our plan for cost optimisation by shifting major Europe faucet production facilities to the UAE.

The Tableware Division reported a decline, impacted mainly by slower demand in the US. However, UAE, Europe and African markets have performed well, driven by expansion of distributors. Looking ahead, our diversified footprint continues to provide resilience. We are focused on capturing opportunities in high-growth regions, particularly in the UAE and wider Middle East, whilst taking corrective measures in more challenging markets. In the UAE, we are seeing increased competition due to the lower-cost imports under free trade agreements. In response, we are strengthening partnerships with reputed developers and supplying our tiles and sanitaryware for large-scale projects.

In Saudi Arabia, market oversupply and liquidity issues have triggered a price war, particularly in residential and commercial segments. However, custom duty exemptions are helping to improve our competitiveness. We are also focusing more on premium and differentiated offerings to boost margin, 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 in-store experiences to better connect with customers.

We are working on a plan to introduce product offerings from the UAE. 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 expansion and strengthening our dealer network. Now, moving to our strategic initiatives, in the UAE, we have completed the upgrade of our next generation of Continua+ technology, reinforcing our innovation leadership in large-format surface, equipped with the latest advanced Continua, which can take us to a 1.8 m X 3.6 m from a 6 mm to 2 cm.

And we also put the longest European kiln, which we have at 300 m, and equipped with IoT-enabled system, with full automated quality inspection. Our Sanitaryware facility is also being modernised with energy-efficient system that aligns with our sustainability goals, and the Saudi Arabia plans of our new tile production facilities are progressing well. This will strengthen our local presence and drive efficiencies. Now, we are hopeful to get the gas installed in the land, which we took, by the fourth quarter of 2026. In the first half of 2025, RAK Ceramics intensified its transformation into a global lifestyle solution provider. At Milan Design Week, we have opened our fourth international Design Hub.

It was also a moment of immense pride to receive the ICV Excellence Award at the Make in the Emirates Awards 2025, underscoring our steadfast commitment to local values, talent, and manufacturing in the UAE. Now, as part of the Kludi transformation, we are moving forward with our cost optimisation strategy, including relocation, major EU production to the UAE and improved operational leverage. I will now hand over to our CFO, PK.

PK Chand Thank you, Abdallah, And good afternoon, everyone. I appreciate you joining us today.

Abdallah has already covered the strategic and operational highlights of the second quarter. I will now walk you through the financial performance for first half of 2025, focusing on revenue, gross profit margins, and key balance sheet highlights. Let's begin with slide 11. We are pleased to share that the second quarter of 2025 delivered a strong performance and demonstrated the resilience of our business. Total revenue for the second quarter of 2025 increased by 6.4% to AED 826.8 million, primarily driven by robust performance in our Tile, Sanitaryware, and Faucet segments.

Tile and Sanitaryware revenue increased by 7.5%, year on year, to AED 595.7 million in the second quarter of 2025, while in the first half of 2025, it increased by 4.2%, year on year, to AED 1.15 billion. This was supported by strong performances in the United Arab Emirates, Middle East, Bangladesh and Indian markets. Tile's revenue increased by 10.2% at AED 474.3 million, led by robust performance in the UAE, India, Bangladesh and German markets. In first half of 2025, revenue increased by 5.6%, year on year, to AED 923.2 million. Sanitaryware revenue recorded growth of 3.6%, year on year, to AED 121.4 million, supported by demand in the UAE.

In first half of 2025, revenue decreased by 1.3%, year on year, at AED 226.9 million, due to lower revenue in India, Europe and Bangladesh markets. Tableware revenue declined by 7.9%, year on year, to AED 84.9 million, impacted by slower demand in US. In first half of 2025, revenue declined by 6.2%, year on year, to AED 170.8 million. However, UAE, Europe and African markets have performed well, driven by expansion of distributors. Faucet's revenue grew by 11.7%, mainly driven by performance in Europe, Kingdom of Saudi Arabia and Africa, reaching AED 122.3 million. In first half of 2025, revenue increased by 3.4%, year on year, to AED 234 million.

We continue to progress towards our plan for cost optimisation by shifting major EU faucet production facilities to United Arab Emirates. Other revenue increased by 5%, year on year, to AED 48.4 million in first half of 2025, driven by increase in our Ceramic trading business. We will now turn to slide 14. Overall gross profit margin for the second quarter of 2025 improved by 110 basis points, year on year, to 40.6% and 70 basis points in the first half of 2025, supported by improvement in efficiencies and higher sales in UAE market. Tile's margin in the second quarter of 2025 increased by 330 basis points, year on year, at 42.5%, and in the first half of 2025, it increased by 250 basis points, at 41.8%, driven by improvement in efficiencies and higher sales in UAE market.

Sanitaryware margin in the second quarter of 2025 decreased by 30 basis points, year on year, at 32.5%, due to ongoing challenges in Bangladesh, while in the first half of 2025, it increased by 200 basis points, year on year, at 33.3%. Tableware margin in the second quarter of 2025 improved by 380 basis points, year on year, at 56%, while in first half of 2025, it improved by 190 basis points at 55%, supported by higher sales to the airline industry and premium hospitality projects. Faucet's gross profit margin decreased by 640 basis points, year on year, at 27% in the second quarter of 2025, and in the first half of 2025, by 690 basis points at 25.3%, due to lower margins in European market, on account of continued transformation activities in Europe.

Profit before tax for the second quarter of 2025 was AED 86.7 million, compared to AED 59.8 million in the same period last year. That is higher by 45%. In first half of 2025, profit before tax increased by 13.1% to reach AED 151.2 million. The increase is largely attributable to growth in revenue and gross profit margin. The margin increased to 9.4% in first half of 2025, compared to 8.6% in the same period last year. Net profit after tax increased by 30.1%, year on year, to reach AED 66.4 million in the second quarter of 2025. In the first half of 2025, profit after tax is AED 115.2 million, an increase of 1.2%, year on year. The increase is despite implementation of new domestic minimum top-up tax under the OECD Global Pillar Two rules effective from 1st January 2025.

The effective tax rate for UAE-based entities increased from 9% to 14.1%, resulting in an incremental tax impact of AED 15.1 million during the first half of 2025. Net profit margin for the first half of 2025 is 7.2%, compared to 7.3% in the first half of last year. EBITDA for the second quarter of 2025 increased by 17.5%, year on year, to AED 160.8 million, and in the first half of 2025, it increased by 2.9% to AED 296.4 million. The EBITDA margin remained stable, year on year, at 18.5% in the first half of 2025. Overall working capital increased by AED 34 million to AED 1.47 billion in June 2025, compared to March 2025.

Trade receivables increased from 86 days in March 2025 to 88 days in June, due to Eid or holidays. Inventory days also increased from 260 days in March 2025 to 265 days in June, due to increase in finished goods stock. Rate payables decreased from 73 days in March 2025 to 68 days in June, mainly due to capex payments. Net debt increased by AED 120.6 million at AED 1.56 billion in June 2025, compared to March, due to higher capex and working capital. Net debt/EBITDA also increased from 2.49 times in March 2025 to 2.59 times in June 2025. Capex spending has been AED 156.1 million in the first half of 2025.

Capex guidance for 2025 is revised to AED 300 to 325 million. We continue to maintain comfortable liquidity and remain well positioned to meet our financial obligations. We move to slide 19 now. Over the last 12 months, the company's share price has remained stable. The stock is currently trading at a P/E multiple of 11.4 times, reflecting investors' confidence and long-term value. The Board has approved to distribute interim cash dividend of ten fils per share, representing AED 99.4 million to be paid to the shareholders. The current dividend policy, as approved by the shareholders, is to place a minimum dividend payout of 20 fils per share for the year 2025, to be paid on a semi-annual basis.

This concludes the financial overview for the quarter. I will now hand over the call back to Mr Abdallah for his closing remarks before we open for questions.

Abdallah Massaad Thank you, PK. As we've discussed, our second quarter performance shows strong revenue growth, better margin and solid execution, even in markets facing economic headwinds. 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 margin and remain agile in our execution. Looking ahead, we will continue to focus on quality, innovation and sustainability. In a world where lower-cost manufacturers are gaining ground, we are committed to staying ahead as the preferred global suppliers 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 very much. If you would like to ask a question, please press star, followed by one on your telephone keypad, and please ensure your device is unmuted locally. If you change your mind, or your question has already been answered, press star, followed by two. We kindly ask to limit yourself to one question and one follow-up, to give a chance for everyone to ask their questions. If you have joined us online, you can submit a text question via the Q&A button on your browser. We will now pause momentarily to get any questions registered. Just as a reminder, if you would like to ask a question, please press star, followed by one on your telephone keypad now.

And if you have joined us online, you can submit a text question via the Q&A button on your browser. We currently have no questions. I will now hand back over to Mohamad for any closing remarks. A question has just come in from Richa Kumari with SICO. Congrats for the solid results. My first question is on other income. Could you please provide some details on provisions, writeback, gain on disposal of investment properties, discount earned on purchases and gain on the disposal of PPE?

PK Chand Yes, I will answer the question. Now, as far as the provisions are concerned, there were certain provisions created in earlier years. We had examined all the provisions, and then, since the provisions were not required, these haven’t written back. As far as this profit on sale is concerned, there were certain flats available with us, and we have sold those flats, and therefore, the gain has been recorded, and as far as the rebate is concerned, so we get this rebate on purchases made in last year. So, every year, this is a regular phenomenon, so every year, this income is coming. So, this time, it is coming in the second quarter. I hope I answered all the questions.

Operator Second question. Could you please provide any update on timelines for KSA plant?

Abdallah Massaad I’ll answer this question. Look, as of today, we received, it’s not yet a paper commitment, but a tentative date. By the first quarter of 2026, the gas will be available in the area where we have the plot. Therefore, we are submitting all our documents and plans where we can get the factory ready by end of next year. Hopefully, we can get a commitment, because honestly, until now, we did not spend heavily, in capex, machinery until we get the firm commitment in the gas. But in my opinion, by end of next year, if we get the firm commitments, which, already, we have, in terms of minutes of the meeting, actually, but we are asking for more tangible things, the project should be operational by beginning of 2027/end of 2026.

Operator And last question from Richa, asking, What is the effective tax rate?

PK Chand As I mentioned, as far as UAE is concerned, the effective tax rate for the first half of 2025 is 14%, compared to 9% in the last year. But the overall effective tax is 23.8% for the first half of this year, compared to 14.8% in the last year.

Operator Thank you very much. Our next question comes from William Sewell with Vergent Asset Management, asking, Can you update on the status of potential sale of the landbank in RAK?

Abdallah Massaad Yes, I’ll answer. Honestly, we don't have any material things to update. As you know, the Ras Al-Khaimah is developing in a good way. The momentum is there, a lot of construction, but honestly, we don't have any update on, or any material things for, our land.

Operator Thank you very much. We have another question from Mohamad. Please go ahead.

Mohamad Haidar This will continue as long as the real estate activity is strong, and normally, would it still extend a couple of years after the sale of a certain project, given that that ceramics product comes later in the construction stage?

Abdallah Massaad Yes, Mohamad, so, honestly, if you look at the construction activities in the whole UAE, and especially also in Ras Al-Khaimah, we have jobs, which we've supplied, and that's why you can see this jump. And, yes, it will continue. We have a lot of projects, which the ceramics, sanitaryware, faucets come in the later stage. So that's why outlook in the UAE is looking good here.

Mohamad Haidar Excellent, and just as a rough estimate, what's the split between developer-driven projects versus retails in the UAE today?

Abdallah Massaad Here you have the number, but honestly, the project is remaining, so we sell to three networks. One is a project, wholesale and retail. PK, you have the split. I believe we have more than [inaudible 00:29:47].

PK Chand As far as UAE sales is concerned, the project sales are approximately 60%. The distributor sale is around 22%, and the retail sale is 18%.

Mohamad Haidar Excellent. Thank you very much.

Operator Our next question comes from Wei Chao with [inaudible 00:30:11] Investment, asking, Any guidance on margins in the second half 2025 and 2026?

PK Chand As a principle, we don't give any guidance for the future, but Tiles, it is expected that the margins will remain same. Sanitaryware and Faucet, the margins may slightly increase. That's [inaudible 00:30:37], yes.

Operator Thank you very much. Just as a reminder, if you have joined us online, you can submit a text question via the Q&A button on your browser. We currently have no further questions, so that concludes the Q&A session. I will now hand back over to Mohamad for any closing remarks.

Mohamad Haidar Thank you, Ezra. Abdallah, PK, congratulations again for a solid, strong Q2 set of numbers, and we look forward to having you with us next quarter. Thank you, everyone, for joining.

PK Chand Thank you.

Abdallah Massaad Thank you, everyone. Thank you, Mohamad.

Operator Thank you very much, Mohamad, and thank you to all the speakers on today's line. That concludes today's conference call. You may now disconnect your lines.