

NetRoadshow Event Transcript

Rak Ceramics Q4 & Fy 2025 Earnings Call And Webcast

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Becky (Moderator)

Hello, and welcome, everyone, to the RAK Ceramics Q4 and FY 2025 Earnings Call and Webcast. My name is Becky, and I will be your operator today. All lines will be muted throughout the presentation portion of the call with the chance of Q&A at the end. If you wish to ask a question, please press star followed 1 on your telephone keypads. All of you who have joined us online, you can simply text question by the Q&A button on your browser. I will now hand over to your host, Mohamad Haidar, to begin. Please go ahead.

Mohamad Haidar (Executive)

Hello, everyone, and welcome to the RAK Ceramics Fourth Quarter and Full Year 2025 Earnings Call and Webcast. This is Mohamad Haidar from Arqaam Capital, and we are pleased today to welcome the management team of RAK Ceramics. We have Mr. Abdallah Massaad, Group CEO; and Mr. PK Chand, Group CFO. Over to you, Abdallah.

Abdallah Massaad (Group Chief Executive Officer)

Thank you, Mohamad. Good afternoon, everyone, and thank you for joining us on the Fourth Quarter and Full Year 2025 Earnings Conference Call and Webcast. We appreciate you joining us today. 2025 was a year of resilience. We delivered solid financial performance, demonstrating the strength of our business model and our ability to navigate challenging conditions. The key driver for this growth was strong UAE activities in real estate and construction sector and increased contribution from high-margin project business. In fourth quarter 2025, profit before tax increased by 14.5% year-on-year to AED 94 million. In the full year, profit before tax rose 19.9% to AED 331.8 million. Net profit after tax increased 2.5% year-on-year to AED 65.8 million in the fourth quarter and 6.2% to AED 248.5 million for the full year. Total revenue declined by 1.7% in the fourth quarter to AED 856.4 million, while full year revenue rose 1.6% to AED 3.28 billion. Our gross margin remained robust, reflecting operational efficiency improvements. Gross profit margin strengthened to 40% for the year compared to 39.3% in full year 2024.

Now let me give you an overview of revenue by market and segments. The UAE remains our largest market, contributing 39% of our total revenue, delivering double-digit growth, supported by sustained real estate and construction activities. This reflects the strength of our brand and distribution network. This was followed by Europe, which contributed 22% of our total revenue. India, Saudi Arabia and Bangladesh also continue to represent important market for the group. Across segments, tiles remains the primary revenue contributor, followed by sanitaryware, faucets and tableware. Now we take a closer look to our financial performance of our key markets and business segments. In the UAE, we witnessed strong 17% year-on-year revenue growth in the fourth quarter, driven by tiles and sanitaryware segment and sustained momentum in the real estate sector and favorable market conditions.

Some markets, including Saudi Arabia, India and Europe faced competitive pressure. Saudi Arabia continued to face challenges due to intensified competition and oversupply from local tiles manufacturer leading to a 33.7% decline in the fourth quarter 2025. But in Saudi, we are shifting from supplying ceramics to supply porcelain and high-end differentiated products for a better margin and supporting the growth of the project sector. In Europe, revenue declined by 11.3% year-on-year in the fourth quarter 2025 on account of economic challenges faced in the U.K., Italy and Germany. In India, revenue decreased by 28.8% year-on-year in the fourth quarter 2025 as the market witnessed cyclical slowdown during the year, marked by limited domestic growth across the industry. In Bangladesh, revenue remained resilient, supported by improved in overall economic sentiment, formation of the new government, post elections and expected to revise stalled public sector projects supporting revenue growth in 2026.

Turning to performance by segment. The tiles division recorded a decline in both volume and value in fourth quarter with a revenue at AED 493 million, primarily driven by Saudi Arabia, the Middle East, India and Europe. The sanitaryware division experienced a volume decline of 6.6% and revenue declined by 3.9% in Q4, reflecting weaker performance across markets with resilience in the UAE and America. The tableware division delivered revenue growth of 6.6% in the fourth quarter, driven by the UAE, Europe and African market. Gross margin expanded year-on-year, supported by higher contribution from airline and premium hospitality segments. In October 2025, RAK Porcelain Group announced a strategic acquisition of Bankook Design Chambre S.L., the owner of the Cookplay brand, expanding its premium tableware portfolio and strengthening its presence in Europe.

Actually, Cookplay is very known on the Michelin Star with differentiated shapes and offerings. Faucets division revenue grew by 3.1% in Q4 year-on-year, primarily driven by improved performance in Saudi Arabia, Europe, Asia and Africa. We continue progressing with the relocations of key EU production facilities to the UAE as part of our cost

optimization strategy. While competitive pressure persists across several markets, we are taking targeted action to strengthen performance. In our strongest market, the UAE, our focus remains on premium positioning and disciplined execution across project and retail channels. In Saudi Arabia, we are refining our project and retail strategy, focusing on premium and differentiated products to drive both revenue growth and margin recovery. We are all positioned to meet market demand as the Saudi Arabia market is experiencing a decisive shift from ceramic tiles to porcelain tiles.

In Europe, we are implementing an operational cost optimization strategy to strengthen margin resilience and drive cost efficiencies alongside project business reactivation with developers and contractors. We will continue executing the KLUDI turnaround plan, including shifting European production to the UAE to improve performance. In India, we are reinforcing our retail footprint, upgrading showroom and expanding dealer network to improve market penetration and profitability. In Bangladesh, we are executing targeted turnaround initiatives to strengthen market share and restore profitability. We will remain disciplined on pricing strategy, product mix, distribution to improve overall performance. Looking ahead to 2026, our priorities are centered on disciplined execution and strengthening the group competitiveness across our key markets and business segments.

Across the group, we will drive operational efficiencies, strengthen working capital management and implement targeted turnaround and the growth initiatives to improve bottom line performance across our portfolio. We will maintain our leadership in the UAE through project-led growth and premium positioning while strengthening our presence in selected export markets. At the same time, we will continue enhancing our retail footprint and distribution capabilities to support sustainable growth. In UAE, we have completed the upgrade of our next generation of Continua+ technology, reinforcing our innovation leadership in large format surface. The advanced Continua system enabled production of the slabs up to 1.8 and 3.6 meters with thicknesses ranging from 6 millimeter to 2 centimeters.

We have also commissioned Europe's longest kiln at 300 meter equipped with IoT-enabled system and fully automated quality inspection. Our sanitaryware facility is also being modernized with energy-efficient system that aligns with our sustainability goal. We will continue advancing our capacity enhancement plan, including accelerating completion of our Saudi greenfield type projects by first quarter 2027 to reinforce long-term competitiveness. The KLUDI transformation remains a key priority with continued integration and operational improvement aimed at enhancing performance and margin resilience. Our achievement in 2025, combined with a disciplined strategy for 2026, position RAK Ceramics to improve profitability, manage risk prudently and deliver sustainable long-term value to our shareholders. I will now take -- now hand over to our Group CFO. PK, please.

PK Chand (Group Chief Financial Officer)

Thank you, Abdallah, and good afternoon, everyone. I appreciate you joining us today. Mr. Abdallah has already covered the strategic and operational highlights of the fourth quarter. I will now walk you through the financial performance for the fourth quarter and full year of 2025, focusing on revenue, gross profit margins and key balance sheet highlights. We will begin from Slide 11. We are pleased to share that the fourth quarter of 2025 delivered a resilient performance. Total revenue marginally decreased by 1.7% year-on-year to AED 856.4 million, primarily driven by weaker performance in KSA, Middle East, India and Europe markets. However, for full year of 2025, revenue increased by 1.6% to AED 3.28 billion, supported by growth in the UAE, Middle East, Bangladesh, Africa and the America markets. In tiles and sanitaryware segment, revenue decreased by 4.7% year-on-year to AED 608.7 million in the fourth quarter of 2025. While in full year, it increased by 1.5% year-on-year to AED 2.36 billion, driven by strong demand in the UAE, Middle East and recovery in Bangladesh. Tiles revenue decreased by 4.9% at AED 493.0 million in the fourth quarter of 2025 due to weak performance in all markets, except UAE, Bangladesh, America and Africa markets. However, in full year, revenue increased by 1.9% year-on-year to AED 1.89 billion.

Sanitaryware revenue fell 3.9% year-on-year to AED 115.7 million in the fourth quarter of 2025, driven by weaker performance across all markets, except the UAE and American market. In full year, revenue remained stable to AED 466.4 million, supported by the launch of KLUDI branded sanitaryware in premium project segment. Tableware segment delivered a strong revenue growth of 6.6% year-on-year at AED 108.5 million in the fourth quarter of 2025, driven by the UAE, Europe and African markets, supported by sales to the airline industry and premium hospitality projects. In full year, the revenue declined moderately by 1.4% year-on-year to AED 364.1 million. In October 2025, we strengthened our premium product portfolio with the acquisition of Bankook Design, a Spanish company that owns the Cookplay brand for tableware. Faucets revenue grew by 3.1% year-on-year at AED 112.9 million in the fourth quarter of 2025, driven by KSA and Europe markets. In full year, the revenue increased by 4.6% year-on-year to AED 465.2 million.

We continue to execute our cost optimization strategy by shifting key European production to the UAE. Other revenue increased by 3.7% year-on-year to AED 92.9 million in the full year of 2025, driven by increase in our ceramic trading business. We will turn to Slide 14 now. Overall gross profit margin for the fourth quarter of 2025 increased by 190 basis points year-on-year to 39.1%, primarily driven by higher sales to UAE market. In full year of 2025, the gross profit margin improved by 70 basis points year-on-year to 40%. Tiles gross margin in the fourth quarter of 2025 decreased by 180 basis points compared to the same quarter of 2024 at 39.8% due to pricing pressure in the India and Bangladesh markets amid rising competition. However, in full year of 2025, margin improved by 50 basis points year-

on-year to 41.2%, supported by enhanced operational efficiencies and higher sales in the UAE.

Sanitaryware gross profit margin in the fourth quarter of 2025 improved by 320 basis points year-on-year, reaching 31.1%. And in the full year, it increased by 260 basis points at 33.6%, supported by enhanced operational efficiencies and higher sales in the UAE market. Tableware gross profit margin in the fourth quarter improved by 820 basis points year-on-year at 54.4%. And in the full year of 2025, it increased by 350 basis points at 54.6%, supported by higher sales to the airline industry and premium hospitality projects. The faucets gross margin increased by 270 basis points year-on-year at 24.1% in the fourth quarter of this year, while in full year of 2025, margin decreased by 380 basis points at 24.2% due to KLUDI Europe transformation initiatives. Profit before tax for the fourth quarter of 2025 amounted to AED 94 million, representing an increase of 14.5% compared to AED 82.1 million in the corresponding quarter of 2024. For the full year of 2025, profit before tax increased by 19.9% to AED 331.8 million. This improvement was primarily driven by higher revenue, increased gross profit margin, higher other income, lower export freight cost and reduced interest expense.

Consequently, margin increased to 10.1% for the full year of 2025 compared to 8.6% in the same period of the previous year. The net profit after tax increased by 2.5% year-on-year at AED 65.8 million in the fourth quarter of this year, while in full year, the profit before tax is AED 248.5 million, an increase of 6.2% year-on-year. The increase is despite implementation of the newly introduced 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% in 2024 to 14.9% in 2025, impacting additional tax of AED 23.9 million. Net profit margin for the full year of 2025 is 7.6% compared to 7.2% in the last year. EBITDA for the fourth quarter of 2025 increased by 1% year-on-year to AED 159.6 million. And in the full year, it increased by 5.3% to AED 623.6 million. EBITDA margin has increased to 19% in 2025 compared to 18.3% in last year.

The overall working capital decreased by AED 89 million at AED 1.40 billion in December 2025 compared to September 2025. Trade receivables slightly increased from 84 days in the third quarter of 2025 to 85 days in the fourth quarter. Inventory days slightly increased from 266 days in the third quarter to 267 days in the fourth quarter. Trade payable, however, increased from 62 days in the third quarter of 2025 to 65 days in the fourth quarter. Other payable days also increased from 120 days in the third quarter to 134 days in the fourth quarter due to increase in tax provisions. Net debt decreased by AED 144.5 million at AED 1.49 billion] compared to September 2025 due to decrease in working capital. Net debt to EBITDA also decreased from 2.63x in September 2025 to 2.40x in December 2025. CapEx spending has been AED 274 million in 2025 out of which AED 134

million related to upgradation of tiles manufacturing plants to produce large-format porcelain tiles.

CapEx guidance for 2026 is at AED 500 million, including CapEx of AED 150 million for the greenfield project in KSA. Total estimated CapEx, excluding working capital for KSA project is AED 250 million. We continue to maintain comfortable liquidity and remain well positioned to meet our financial obligations. In line with the dividend policy, the Board proposed to distribute semiannual cash dividend of 10 fils per share for the second half of 2025, amounting to AED 99.4 million. This follows a previously distributed semiannual cash dividend of 10 fils per share amounting to AED 99.4 million for the first half of 2025. We now move to Slide 19. Over the past 12 months, the company's share price has remained stable. The stock is currently trading at a P/E multiple of 10.7x, reflecting investors' confidence and long-term value. This concludes the financial overview for the quarter. I will now hand back the call to Mr. Abdallah for his closing remarks, including our priorities for 2026 before we open for questions.

Abdallah Massaad (Group Chief Executive Officer)

Thank you. As outlined, 2025 reflected resilient performance with revenue growth of 1.6% and stronger profitability despite challenging market conditions. We strengthened our position in the UAE, expanded margins and advanced targeted turnaround and growth initiatives across the portfolio. While near-term challenges remain in certain markets, we are focused on disciplined execution, operational efficiencies and prudent risk management. With a strong foundation, clear strategic priorities and continued investment in capacity and innovation, we are well positioned to drive sustainable, profitable growth and deliver long-term value for our shareholders. Thank you for continuous support. I will now hand over the call back to the operator for the Q&A session.

Becky (Moderator)

Thank you. If you would like to ask a question and you have joined us online, you can submit a text question via the Q&A button on your browser. Otherwise please press star followed by 1 on your telephone keypads now. If for any reason you want to remove yourself from the queue, please press star followed by 2. And while preparing to ask a question, please ensure your device is unmuted locally. We have our first question. What are the utilization rate for segment-wise?

Abdallah Massaad (Group Chief Executive Officer)

Look, as we said, we are working on margins. And therefore, if we take on tiles, we still have capacity, especially now what we used during this year is almost somewhere between 65% to 70% of our capacity. And what we are doing is converting the previous ceramics capacity to porcelain tiles, vitrified tiles, and this will be ready by the second half of -- sorry, second

quarter of this year, end of second quarter. In terms of sanitaryware, it's the same where we have approximately 60%. And in tableware business, we have a capacity utilization of approximately 80%.

Becky (Moderator)

Thank you. Our next question comes from Pulan Kumar from [Galus Limited]. How does management plan to reduce the elevated 287-day cash conversion cycle, particularly the 267-day inventory holding period? And what specific operational or supply chain initiatives are being implemented to improve working capital efficiency and cash flow generation over the next 12 to 18 months?

PK Chand (Group Chief Financial Officer)

As far as working capital improvement is concerned, the company has taken a note of this. And a person specifically for this job has been appointed. We are also looking at the automation of the whole system, including the -- that means what items you produce to order and produce to stock. So those things have also been identified. We are also looking at the life cycle of the product. And we hope that by end of this year, there should be some result out of this exercise.

Becky (Moderator)

Thank you. As a reminder, if you did want to ask a question, please press star followed by 1 on your telephone keypads or you can submit a text question via the Q&A on your browser. We currently have no further questions. So I'll hand over to Mohamad.

Mohamad Haidar (Executive)

Thank you, Becky. Actually, I have a couple of questions, if I may. So we saw a trade agreement between Europe and India, which might bring down the custom duties in Europe on ceramics. Do you see that impacting you potentially? And how will you mitigate against it?

Abdallah Massaad (Group Chief Executive Officer)

Mohamad, I don't see any risk there because India was selling. And as you said, RAK Ceramics today, we are differentiated ourselves in terms of product, on quality, on innovation. And to be honest, we are not in competition with the Indian or Chinese product or production from this perspective.

Mohamad Haidar (Executive)

Okay. Very, very clear. And when you say that you are planning to like mobilize your production capability on KLUDI to the UAE, you mean you're going to move the whole plant to the UAE and do the production there?

Abdallah Massaad (Group Chief Executive Officer)

Look, Mohamad, it is -- our strategy was on acquiring KLUDI is a strong brand, 100 years old brand, the German product and technology. We started with the transformation. Honestly, what we saw that shifting the metal production to the UAE is something which will support the cost and efficiency in the manufacturing. We will keep in Germany, the R&D, the engineering as well as the plastic manufacturing there.

Mohamad Haidar (Executive)

Very clear. And one last one. I know we always ask this question. Any update on your land parcel in Ras Al Khaimah?

Abdallah Massaad (Group Chief Executive Officer)

Honestly, till now, no. We have -- the real estate in Ras Al Khaimah, it's booming. In the whole UAE is booming. And Ras Al Khaimah also, we do see value out of it. But till now, nothing materialized.

Mohamad Haidar (Executive)

Very clear. Thank you very much.

Abdallah Massaad (Group Chief Executive Officer)

Thank you, Mohamad.

Becky (Moderator)

We do have another question from Pulan Kumar. What is the liquidity position of the company? Does the company have a bank credit facility?

PK Chand (Group Chief Financial Officer)

See, as far as the term loans are concerned, we already had an approved limit of more than AED 250 million, which is already signed, approved, we can draw any moment. And then in the second quarter, since the CapEx approval has already been done, in the second quarter, we will do our forecast. And then based on that, we will approach banks. So in this year, we have to repay around \$100 million to the banks. And the EBITDA, which is getting generated is more or less sufficient to cover the CapEx as well as the dividend payments. So as far as

liquidity is concerned, overall, there is no strain as such. And this I'm talking only for the term loans. As far as working capital is concerned, we have got enough sanctioned limits. So that's not an issue at all.

Becky (Moderator)

We currently have no further questions. This concludes today's call. Thank you all for joining. You may now disconnect your lines.