

RAK Ceramics

Steady Performance despite Cost Challenges

1Q22 Net Profit lower than our estimate

RAK Ceramics PJSC (RAKCEC) reported 5.6% YOY decrease in net profit to AED 57 Mn in 1Q22 from AED 61 Mn in 1Q21, missing our estimate of AED 68 Mn. This decrease in net profit mainly due to increase in freight and transportation cost and higher of profit attributable to non-controlling shareholders partially offset by increase in revenue and gross profit margin.

P&L highlights

Net Revenue rose 8.3% YOY to AED 783 Mn in 1Q22 driven by a strong growth in Sanitaryware and Tableware Segment somewhat offset a marginal drop in revenue from Tiles Segment. Revenue from sanitaryware rose 13.1% YOY to AED 155 Mn in 1Q22 driven by growth in European and UAE market. Tableware revenue grew from AED 41.1 Mn in 1Q21 to AED 75.7 Mn in 1Q22. By geography, revenue of Tiles and Sanitary Segment supported by growth in Middle East (excluding UAE and KSA), Bangladesh, Europe, India partially offset by decline in KSA region. Cost of sales rose 5.1% YOY to AED 494 Mn in 1Q22. Resultantly, gross profit increased 14.3% YOY to AED 289 Mn in 1Q22, with a gross profit margin of 37.0% in 1Q22 compared to 35.0% in 1Q21. Expansion in margin is driven by a gain in production efficiency and optimization of production line in UAE, India and Bangladesh. Selling and overhead expenses rose 20.9% YOY to AED 212 Mn in 1Q22 due to increase in freight cost because of the supply chain disruption and rising transportation cost. Thus, total EBITDA remain almost unchanged at AED 119 Mn in 1Q22 compared to AED 120 Mn in 1Q21 with a margin of 15.1% in 1Q22. Operating profit remain static at AED 78 Mn in 1Q22. Impairment charges rose from AED 6 Mn in 1Q21 to AED 7 Mn in 1Q22. Furthermore, other income increased to AED 20 Mn in 1Q22, up from AED 10 Mn in 1Q21. Finance charges declined to AED 18 Mn in 1Q22 from AED 29 Mn in 1Q21 due to the decrease in net foreign exchange loss of the company. Profit before tax grew from AED 68 Mn in 1Q21 to AED 77 Mn in 1Q22. Share of profit attributable to non-controlling holders rose from AED 2 Mn in 1Q21 to AED 13 Mn in 1Q22 dragging the profitability.

Balance Sheet highlights

Total debt of the company stood at AED 1.5 Bn and net debt/EBITDA ratio of 1.93x in 1Q22. Cash and cash equivalents including bank deposits stood at AED 573 Mn in 1Q22. Cash flow from operations decreased to AED 151 Mn in 1Q22 compared to AED 203 Mn in 1Q21 as the company received advance of AED 30.9 Mn against asset held for sale in 1Q21. mainly due to the increase in working capital activities of the company. Thus, free cash flow stood at AED 127 Mn in 1Q22, as compared to AED 187 Mn in 1Q21.

Target price and rating

We maintain our BUY rating on Rak Ceramics with a revised target price of AED 3.50. Rak Ceramics took several initiatives to strengthen its brand and even introduced new products to drive demand. The company is also launching its product on e-commerce platform,

Rating : BUY

First Look Note – 1Q22

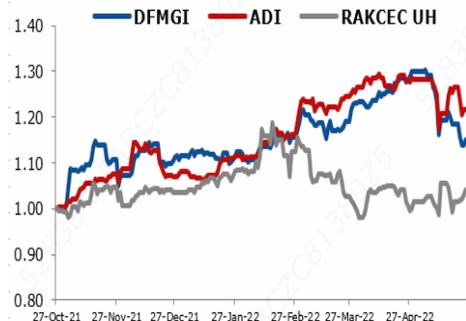
Sector: Industrial

Recommendation

Current Price (10-Jun-22)	2.97
Target Price (AED)	3.50
Upside/Downside (%)	+18%

Stock Information

Market Cap (mm)	2,951.30
Paid Up Capital (mm)	993.70
52 Week High	3.38
52 Week Low	2.17
3M Avg. daily value (AED)	3,210,607



Financial Ratios

Dividend Yield (12m)	6.73
Dividend Pay-out (%)	80.63
Price-Earnings Ratio (x)	12.10
Price-to-Book Ratio (x)	1.34
Book Value (AED)	2.22
Return-on Equity (%)	11.17
Earning Per Share (AED)	0.25
Beta	0.28

Stock Performance

5 Days	0.34%
1 Months	2.41%
3 Months	0.34%
6 Months	3.85%
1 Year	26.92%
Month to Date (MTD)	0.34%
Quarter to Date (QTD)	8.39%
Year to Date (YTD)	4.21%

growing its distribution network, entering into collaborations and other activities to drive topline. The management also believes KSA sales to bounce back to previous level as logistics situation eases and it sees healthy demand traction led by increased retail footprint and secured projects. The company is undertaking initiatives to mitigate rising energy cost by securing better contract terms with suppliers and installing energy saving instruments to decrease energy consumption and costs. Furthermore, Rak Ceramics increased its stake in Kludi Group from 51% to 100% with an investment of EUR 19 Mn. It plans to finance this acquisition using internal cash accruals. The consolidation complements the current business of tiles, sanitaryware and tableware business. Kludi is an established faucet company with manufacturing footprint across Germany, Austria, Hungary and UAE with annual sales of EUR 120 Mn. Rak Ceramics plans to pay a dividend of 60 fils during the next three year and 25 fils in FY2022. The company share price offer an attractive dividend yield of 8.4% based FY2022 dividend. However, rising energy cost might impact margins if the company is unable to pass on the rising cost. Based on the aforementioned factors, we assign BUY rating on the stock.

RAK Ceramics - Relative valuation

(at CMP)	2018	2019	2020	2021	2022F
PE(X)	16.3	18.1	NA	12.1	9.3
PB(X)	1.2	1.2	1.4	1.3	1.3
EV/EBITDA	18.3	10.5	12.7	12.0	7.7
Dividend yield	5.0%	5.0%	2.5%	6.7%	8.4%

FABS Estimates & Co Data
RAK Ceramics - P&L

AED mm	1Q21	4Q21	1Q22A	1Q22F	Var.	YOY Ch	QOQ Ch	2021	2022F	YOY
Revenue	723	752	783	791	-1.0%	8.3%	4.1%	2,861	3,186	11.4%
Direct costs	-470	-499	-494	-475	4.0%	5.1%	-1.1%	-1,826	-1,879	2.9%
Gross profit	253	253	289	317	-8.6%	14.3%	14.3%	1,035	1,307	26.3%
Selling & overhead exp.	-175	-189	-212	-238	-10.9%	20.9%	12.1%	-743	-961	29.4%
EBITDA	120	106	119	120	-1.4%	-1.5%	12.2%	459	507	10.5%
Depreciation and amortisation	-42	-41	-41	-40	3.0%	-3.7%	-1.5%	-167	-161	-3.6%
Operating profit	78	64	78	81	-3.5%	-0.3%	21.0%	292	346	18.6%
Impairment	-6	-17	-7	0	NM	32.1%	-55.4%	-32	0	NM
Other income	10	27	20	24	-15.1%	92.8%	-24.2%	89	94	5.9%
Share of associates	3	4	3	0	NM	-11.0%	-18.5%	17	0	NM
Loss on net monetary position	-1	-1	0	0	NM	NM	NM	-3	0	NM
Investment & other inc.	12	2	2	0	NM	-85.7%	-24.5%	17	-27	260.4%
Financial charges	-29	-11	-18	-11	62.2%	-38.7%	62.7%	-78	-78	NM
Profit before tax	68	68	77	93	-17.1%	13.2%	13.1%	301	335	11.4%
Tax expense	-6	-5	-7	-8	-8.6%	22.7%	26.0%	-17	-16	-5.6%
Profit before minorities	63	63	70	86	-17.9%	12.4%	11.9%	284	319	12.4%
Minorities	-2	-18	-13	-18	-27.0%	556.9%	-25.8%	-37	0	NM
Profit to shareholders	61	45	57	68	-15.5%	-5.6%	26.7%	246	319	29.5%

FABS Estimates & Co Data

RAK Ceramics - Margins

	1Q21	4Q21	1Q22A	YOY ch	QOQ ch	2021	2022F	Change
Gross profit margin	35.0%	33.6%	37.0%	194	332	36.2%	41.0%	486
EBITDA margin	16.7%	14.1%	15.1%	-151	109	16.0%	15.9%	-13
Operating profit margin	10.8%	8.5%	9.9%	-86	139	10.2%	10.9%	66
Net Margin	8.4%	6.0%	7.3%	-108	131	8.6%	10.0%	140

FABS estimate & Co Data

Research Rating Methodology:

Rating	Upside/Downside potential
BUY	Higher than +15%
ACCUMULATE	Between +10% to +15%
HOLD	Lower than +10% to -5%
REDUCE	Between -5% to -15%
SELL	Lower than -15%

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