

# First Look Note | 4Q

UAE Equity Research

Sector: Industrial

Market: ADX

## **RAK Ceramics PJSC**

Steady profitability despite challenging macroeconomic conditions

Current Price	Target Price	Upside/Downside (%)	Rating	
AED 2.71	AED 3.80	+40%	BUY	

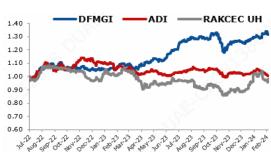
- RAKCEC capex increased 33.4% to AED 273.4 Mn in 2023. While the 2024 capex guidance of the Company stood at AED 300-350 Mn
- RAKCEC EBITDA increased 20.7% YOY to AED 166 Mn in 4Q23, while the EBITDA margin rose 390 bps YOY to 19.2% in 4Q23
- RAKCEC borrowings declined from AED 1,736 Mn in 4Q22 to AED 1,699 Mn in 4Q23, while net debt increased 9.3% to AED 1,418 Mn in 4Q23
- The board proposed a cash dividend of 10 fils per share for 2H23 in addition to a dividend of 10 fils per share in 1H23 with an attractive dividend yield of 7.4% in 2023

#### 4Q23 Net Profit lower than our estimate

Rak Ceramics PJSC (RAKCEC/"The Company") net profit marginally rose 1.4% YOY to AED 71 Mn in 4Q23, slightly lower than our estimate of AED 75 Mn. The increase in net profit is primarily attributable to a reduction in direct cost and operating expenses coupled with a rise in other income partially offset by a decline in revenue, higher tax expense, and NCI share.

### **P&L Highlights**

RAKCEC revenue declined 3.8% YOY to AED 866 Mn in 3Q23 mainly due to challenging macroeconomic conditions, rising geopolitical tension, market volatility, currency devaluation, and rising interest rates across core markets. The Company's tiles revenue declined 6.6% YOY to AED 494 Mn in 4Q23 attributable to a rise in competition from local peers and increased imports from India that affected the growth in core markets of the Middle East and Saudi Arabia. The Company's sanitaryware revenue grew 2.9% YOY to AED 126 Mn in 4Q23, primarily due to UAE and the Middle East expansion. However, tableware revenue increased 12.3% YOY to AED 110 Mn in 4Q23 owing to enhanced production capacity and innovative product offerings. Faucets' segment revenue declined 9.8% YOY to AED 113 Mn in 4023 owing to a decline in sales from European markets mainly due to challenging macroeconomic conditions. The Company's direct cost declined 1.9% YOY to AED 532 Mn in 4Q23 mainly due to a decline in raw material cost and higher changes in inventories. As a result, gross profit declined marginally 6.7% YOY to AED 334 Mn in 4Q23. On the other hand, operating expenses declined 19.8% YOY to AED 245 Mn in 4Q23, mainly due to lower advertisement and staff cost. As a result, operating profit grew 69.5% YOY to AED 89 Mn in 4Q23. EBITDA increased 20.7% YOY to AED 166 Mn in 4Q23 whereas the EBITDA margin rose 390 bps YOY to 19.2% in 4Q23.



Stock Information					
Market Cap (AED, mm)	2,692.94				
Paid Up Capital (mm)	993.70				
52 Week High	3.00				
52 Week Low	2.37				
3M Avg. daily value (AED)	1,784,987				

4Q23 Result Review	(AED, mm)
Total Assets	5,357
Total Liabilities	2,988
Total Equity	2,369
EBITDA	166
Net Profit	71

7.38
34.15
9.55
1.23
2.25
13.23

Stock Performan	се
5 Days	1.88%
1 Months	-2.52%
3 Months	8.40%
6 Months	5.86%
1 Year	-4.91%
Month to Date (MTD%)	0.37%
Quarter to Date (QTD%)	1.50%
Year to Date (YTD%)	1.50%



Impairments grew from AED 4 Mn in 4Q22 to AED 15 Mn in 4Q23 due to impairment loss on other receivables. Other income rose 13.3% YOY to AED 47 Mn in 4Q23. Moreover, finance cost grew 5.2% YOY to AED 27 Mn in 4Q23 due to higher benchmark rates. Furthermore, tax expenses stood at AED 7 Mn in 4Q23 as compared to a reversal of AED 10 Mn in 4Q22. In addition, the share of profit attributable to non-controlling interest holders grew 33.8% YOY to AED 11 Mn in 4Q22.

#### **Balance Sheet Highlights**

RAKCEC borrowings declined from AED 1,736 Mn in 2022 to AED 1,699 Mn in 2023 while net debt increased 9.3% to AED 1,418 Mn in 2023. The Company maintained a net debt to EBITDA ratio of 2.2x in 2023 compared to 2.3x in 2022. Cash and cash equivalents along with bank deposits fell from AED 439 Mn in 2022 to AED 281 Mn in 2023. The Company's capex increased 33.4% to AED 273.4 Mn in 2023. Meanwhile, the 2024 capex guidance of the company stood at AED 300-350 Mn. The Company's net cash flow from operations marginally declined 0.5% to AED 507 Mn in 2023 mainly due to higher working capital.

#### **Target Price and Rating**

We maintain our BUY rating on RAK Ceramics PJSC with an unchanged target price of AED 3.80. Challenging macroeconomic conditions, market volatility, and currency devaluation mainly impacted the company's performance in 4Q23. Solid competition from local peers, coupled with increased imports from India in the Middle East affected the performance in core markets of KSA and the Middle East. High household prices and the slowdown of construction work in Europe in addition to volatile gas supply and currency devaluation in Bangladesh impacted the top line. However, RAKCEC took the initiatives to overcome these challenges by creating brand awareness, increasing dealer networks, new product launches, and leveraging brand enhancement. Furthermore, RAKCEC is upgrading its tiles production facility in India to add new designs and better production efficiency whereas the Company can now produce large format tiles in Bangladesh post the tiles plant upgrade. RAKCEC also successfully finished the Tableware expansion project and added 10 Mn pieces capacity. In addition, the approval for the Faucets Greenfield plant in Bangladesh is still pending and construction is expected to start in 2024. The Company aims to protect its market share, enhance production capabilities and diversify into new markets. Whereas the Company further aims to incur a capex of AED 300-350 Mn during 2024. The board proposed a cash dividend of 10 fils per share for 2H23 and 10 fils per share in 1H23, resulting in an attractive dividend yield of 7.4% in 2023. On a positive note, the Company maintained its margins despite challenging macroeconomic and business conditions. Thus, based on the above-mentioned factors, we maintain our BUY rating on the stock.

#### **RAK Ceramics - Relative valuation** (at CMP) 2022 2018 2019 2020 2021 2023 2024F PE (x) 14.7 16.4 NA 10.9 8.9 9.3 10.0 PB (x) 1.1 1.1 1.3 1.2 1.2 1.2 1.2 **EV/EBITDA** 9.8 8.9 11.6 7.8 7.1 6.6 7.5 5.0% 5.3% 2.8% 7.4% 7.4% 7.4% 7.4% Dividend yield

FABS Estimates & Co Data



#### RAK Ceramics – P&L

4Q22	3Q23	4Q23	4Q23F	Var.	YOY Ch	QOQ Ch	2022	2023	Change
901	837	866	829	4.5%	-3.8%	3.5%	3,517	3,458	-1.7%
-542	-522	-532	-516	3.0%	-1.9%	1.9%	-2,196	-2,149	-2.2%
358	315	334	313	6.8%	-6.7%	6.1%	1,321	1,309	-0.9%
-306	-220	-245	-215	14.1%	-19.8%	11.4%	-993	-930	-6.3%
138	169	166	140	18.5%	20.7%	-1.8%	577	647	12.2%
48	50	50	42	17.8%	3.9%	-0.5%	179	195	9.2%
52	95	89	98	-9.4%	69.5%	-6.3%	328	379	15.4%
-4	-8	-15	-8	98.9%	274.7%	87.3%	-53	-37	-31.1%
41	36	47	31	52.5%	13.3%	31.8%	149	119	-20.3%
2	2	-3	2	NM	NM	NM	7	7	-5.6%
-26	-32	-27	-31	-12.9%	5.2%	-15.1%	-93	-119	28.7%
68	92	88	92	-4.0%	30.8%	-3.9%	372	345	-7.2%
10	-8	-7	-12	-45.8%	NM	-17.8%	-32	-25	-23.5%
78	84	82	80	2.3%	4.8%	-2.5%	340	321	-5.7%
8	7	11	5	NM	33.8%	57.0%	37	30	-19.8%
70	77	71	75	-4.8%	1.4%	-7.9%	303	291	-3.9%
	901 -542 <b>358</b> -306 <b>138</b> 48 <b>52</b> -4 41 2 -26 <b>68</b> 10 <b>78</b> 8	901837-542-522358315-306-22013816948505295-4-8413622-26-32689210-8788487	901837866-542-522-532358315334-306-220-245138169166485050529589-4-8-1541364722-3-26-32-2768928810-8-77884828711	901837866829-542-522-532-516358315334313-306-220-245-2151381691661404850504252958998-4-8-15-84136473122-32-26-32-27-316892889210-8-7-127884828087115	9018378668294.5%-542-522-532-5163.0%3583153343136.8%-306-220-245-21514.1%13816916614018.5%4850504217.8%52958998-9.4%-4-8-15-898.9%4136473152.5%22-32NM-26-32-27-31-12.9%68928892-4.0%10-8-7-12-45.8%788482802.3%	9018378668294.5%-3.8%-542-522-532-5163.0%-1.9%3583153343136.8%-6.7%-306-220-245-21514.1%-19.8%13816916614018.5%20.7%4850504217.8%3.9%52958998-9.4%69.5%-4-8-15-898.9%274.7%4136473152.5%13.3%22-32NMNM-26-32-27-31-12.9%5.2%68928892-4.0%30.8%10-8-7-12-45.8%NM788482802.3%4.8%87115NM33.8%	9018378668294.5%-3.8%3.5%-542-522-532-5163.0%-1.9%1.9%3583153343136.8%-6.7%6.1%-306-220-245-21514.1%-19.8%11.4%13816916614018.5%20.7%-1.8%4850504217.8%3.9%-0.5%52958998-9.4%69.5%-6.3%-4-8-15-898.9%274.7%87.3%4136473152.5%13.3%31.8%22-32NMNMNM-26-32-27-31-12.9%5.2%-15.1%68928892-4.0%30.8%-3.9%10-8-7-12-45.8%NM-17.8%788482802.3%4.8%-2.5%87115NM33.8%57.0%	9018378668294.5%-3.8%3.5%3,517-542-522-532-5163.0%-1.9%1.9%-2,1963583153343136.8%-6.7%6.1%1,321-306-220-245-21514.1%-19.8%11.4%-99313816916614018.5%20.7%-1.8%5774850504217.8%3.9%-0.5%17952958998-9.4%69.5%-6.3%328-4-8-15-898.9%274.7%87.3%-534136473152.5%13.3%31.8%14922-32NMNMNM7-26-32-27-31-12.9%5.2%-15.1%-9368928892-4.0%30.8%-3.9%37210-8-7-12-45.8%NM-17.8%-32788482802.3%4.8%-2.5%34087115NM33.8%57.0%37	9018378668294.5%-3.8%3.5%3,5173,458-542-522-532-5163.0%-1.9%1.9%-2,196-2,1493583153343136.8%-6.7%6.1%1,3211,309-306-220-245-21514.1%-19.8%11.4%-993-93013816916614018.5%20.7%-1.8%5776474850504217.8%3.9%-0.5%17919552958998-9.4%69.5%-6.3%328379-4-8-15-898.9%274.7%87.3%-53-374136473152.5%13.3%31.8%14911922-32NMNMNM77-26-32-27-31-12.9%5.2%-15.1%-93-11968928892-4.0%30.8%-3.9%37234510-8-7-12-45.8%NM-17.8%-32-25788482802.3%4.8%-2.5%34032187115NM33.8%57.0%3730

FABS estimate & Co Data

#### **RAK Ceramics - Margins**

	4Q22	3Q23	4Q23	YOY Ch	QOQ Ch	2022	2023	Change
Gross margin	39.8%	37.6%	38.6%	-121	95	37.6%	37.9%	29
Operating margin	5.8%	11.3%	10.3%	444	-107	9.3%	11.0%	162
EBITDA margin	15.3%	20.2%	19.2%	390	-103	16.4%	18.7%	231
Net profit margin	7.8%	9.2%	8.2%	42	-101	8.6%	8.4%	-20

FABS estimate & Co Data



### Valuation:

We use Discounted Free Cash Flow (DCF) and Relative Valuation (RV) to value RAK Ceramics. We have assigned 70% weight to DCF and 30% to RV.

Valuation Method	Target	Weight	Weighted Value
DCF Method	3.29	70.0%	2.31
Relative Valuation (RV)	4.97	30.0%	1.49
Weighted Average Valuation (AED)			3.80
Current market price (AED)			2.71
Upside/Downside (%)			+40%

#### 1) DCF Method:

Rak Ceramics is valued using free cash flow to the firm. We have discounted the cash flow using the weighted average cost of capital of 8.3%. It is arrived after using cost of equity of 9.4% and after-tax cost of debt of 5.9% with a debt-to-equity ratio of 52.7%. Cost of equity is calculated by using 10-year government bond yield of 4.7%, beta of 1.00 and equity risk premium of 4.7%. Government bond yield is calculated after adding Abu Dhabi 10-year spread over 10-year US risk-free rate. Cost of debt is calculated using cost of 6.3% after adjusting a tax rate of 7.1%. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	774
Terminal value (AED, Mn)	4,152
FV to Common shareholders (AED, Mn)	3,273
No. of share (Mn)	994
Current Market Price (AED)	2.71
Fair Value per share (AED)	3.29

#### DCF Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
NOPAT	346	363	407	446	485
D&A	207	218	228	241	242
Change in working capital	-99	-192	-264	-216	-247
(-) Capex	-350	-275	-200	-200	-100
Free Cash Flow to Firm (FCFF)	92	114	171	270	379
Discounting Factor	0.93	0.86	0.79	0.73	0.68
Discounted FCFF	85	98	136	198	257

Source: FAB Securities



#### 2) Relative Valuation:

We have used local as well as international peers to value RAK Ceramics and it is valued using the 2024 EV/ EBITDA multiple. We have applied a discount to the peer valuation as there is only one regional peer listed, and we chose to value it in line with its multiple. It is valued at EV/EBITDA of 11.4x compared to a peer valuation of 13.4x.

Compony	Market	EV/EBI	TDA (x)	P/E	(x)
Company	(USD Mn)	2024F	2025F	2024F	2025F
Somany Ceramics Limited	343	13.4	10.5	28.5	20.1
Saudi Ceramic Company	596	13.2	NM	37.3	NM
Kajaria Ceramic Tiles	2,457	27.0	22.2	44.4	36.3
Dynasty Ceramic	496	8.3	7.4	13.9	13.0
Cera Sanitaryware Limited	1,292	30.2	25.0	42.8	35.7
Average		18.4x	16.3x	33.4x	26.3x
Median		13.4x	16.4x	37.3x	27.9x
Max		27.0x	22.9x	42.8x	35.9x
Min		13.2x	9.7x	28.5x	18.3x

Source: FAB Securities



#### **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%

#### **FAB Securities Contacts:**

<b>Research Analyst</b> Ahmad Banihani	+971-2-6161629	ahmad.banihani@Bankfab.com
Sales & Execution Abu Dhabi Head Office		
Trading Desk	+971-2-6161700/1 +971-2-6161777	Online Trading Link
Institutional Desk	+971-4-4245765	

#### DISCLAIMER

This report has been prepared by FAB Securities (FABS), which is authorised by the UAE Securities and Commodities Authority, licensing registration number 604002, and is a member of the Abu Dhabi Securities Exchange and Dubai Financial Market. The information, opinions and materials contained in this report are provided for information purposes only and are not to be used, construed, or considered as an offer or the solicitation of an offer or recommendation to sell or to buy or to subscribe for any investment security or other financial instrument. The information, opinions and material in this report have been obtained and derived from publicly available information and other sources considered reliable without being independently verified for their accuracy or completeness. FABS gives no representation or warranty, express or implied, as to the accuracy and completeness of information and opinions expressed in this report. Opinions expressed are current as of the original publication date appearing on the report only and the information, including the opinions contained herein, are subject to change without notice. FABS is under no obligation to update this report. The investments referred to in this report might not be suitable for all recipients. Recipients should not base their investment decisions on this report and should make their own investigations, and obtain independent advice, as appropriate. Any loss or other consequences arising from the uses of material contained in this report shall be the sole and exclusive responsibility of the recipient and FABS accepts no liability for any such loss or consequence. The value of any investment could fall as well as rise and the investor may receive less than the original amount invested. Some investments mentioned in this report might not be liquid investments, which could be difficult to realise in cash. Some investments discussed in this report could be characterised by high level of volatility, which might result in loss. FABS owns the intellectual property rights and any other material contained in this report. No part of this report may be reproduced, utilised or modified in any form either in whole or in part or by any electronic, mechanical or other means, now known or hereafter invented, including photocopying and recording, or stored in any retrieval system without the prior consent of FABS in writing. While utmost care has been taken to ensure that the information provided is accurate and correct, neither FABS, nor its employees shall, in any way, be responsible for the contents. By accepting this document, the recipient agrees he/she has read the above disclaimer and to be bound by the foregoing limitations/restrictions.