

## RAK Ceramics

Higher Revenue and lower Impairments boosted earnings

### 3Q21 Net profit misses our estimate

RAK Ceramics (RAKCEC) reported a Net Profit of AED53 Mn in 3Q21 compared to AED33 Mn in 3Q20 up by 59.6%, missing our estimate of AED95 Mn. This was mainly attributed to the challenges created by the imposition of customs duty of 12% in Saudi Arabia and the significant increase in logistics costs due to the global shortage of containers.

### P&L highlights

Revenue increased by 9.4% YOY to AED685 Mn in 3Q21, up from AED626 Mn in 3Q20 driven by strong growth trajectory in core business, while it is lower by -2.3% QoQ due to lower off-take from Saudi Arabia on account of imposition of 12% custom duty and lower revenue from Europe due to significantly higher freight cost on account of shortage of containers. Tiles revenue is higher by +7.0% YoY driven by Middle East, India and Bangladesh markets. QoQ revenue remained stable. Sanitaryware revenue is also higher by 11.0% YoY driven by UAE and European markets. Tableware revenue improved by +21.2% QoQ and +116.3% YoY. While the Direct Costs decreased by 1.9% YOY to AED423 Mn, down from AED431 Mn in 3Q20. Therefore, the Gross Profit has increased by 34.5% YOY to AED262 Mn in 3Q21 compared to AED194 Mn in 3Q20, with a Gross Profit Margin equal to 38.2% in 3Q21 Tiles margin increased by +7.0% YoY to 38.1%. Sanitaryware margin is also higher by +1.0% YoY to 35.0%. Tableware margins increased by 8.4% YoY and +7.0% QoQ to 44.7% due to increased revenue and productivity. Moreover, the Selling & Overhead Expenses have increased by 21.4% YOY to AED189 Mn in 3Q21, up from AED156 Mn in 3Q20. Total EBITDA is at AED 123.2m compared to AED 104.4m in Q3 2020. Margin is 18.0% compared to 16.7% in Q3 2020. The Operating Profit has significantly increased by 87.3% YOY to AED72 Mn in 3Q21, as compared to AED39 Mn in 3Q20, with an Operating Profit Margin (OPM) equal to 10.6% in 3Q21. Furthermore, the Other Income stood at AED13.9 Mn in 3Q21 compared to AED14.3 Mn in 3Q20. Financial Charges also fell by 3.2% YOY to AED19 Mn in 3Q21, down from AED20 Mn in 3Q20. While the Impairment Charges have declined by 15.2% YOY to AED5.1 Mn in 3Q21, down from AED6 Mn in 3Q20.

### Balance sheet highlights

Total Assets declined by 5.6% YOY to AED5.15 Bn, down from AED5.46 Bn in 3Q20. Total Liabilities have also decreased by 10.3% YOY to AED2.66 Bn compared to AED2.96 Bn in 3Q20. Total Equity was almost stable reaching AED2.49 Bn in 3Q21.

**Rating : ACCUMULATE**

### First Look Note – 3Q21

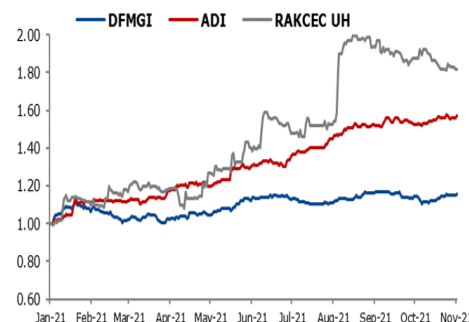
**Sector: Industrial**

#### Recommendation

Current Price (21-Nov)	2.88
Target Price	3.25
Upside/(Downside) (%)	+11.3%

#### Stock Information

Market Cap (mm)	2,861.87
Paid Up Capital (mm)	993.70
52 Week High	3.08
52 Week Low	1.36
3M Avg. daily value (AED)	4,786,642



#### Financial Ratios

Dividend Yield (12m)	3.47
Dividend Pay-out (%)	NA
Price-Earnings Ratio (x)	131.47
Price-to-Book Ratio (x)	1.26
Book Value (AED)	2.30
Return-on Equity (%)	1.06
Earning Per Share (AED)	0.02
Beta	0.49

#### Stock Performance

5 Days	1.41%
1 Months	5.49%
3 Months	-2.70%
6 Months	44.72%
1 Year	110.22%
Month to Date (MTD)	5.49%
Quarter to Date (QTD)	2.49%
Year to Date (YTD)	92.00%

## Target price and rating

We upgrade our rating on RAKCEC to ACCUMULATE with a revised target price of AED3.25. RAK Ceramics is one of the large ceramics' brands in the world. It is headquartered in the UAE. The company is listed on the Abu Dhabi Securities Exchange and on the Dhaka Stock Exchange in Bangladesh. RAKCEC has been delivering robust financial performance and in 3Q21 the company surpassed the pre-pandemic levels in terms of Revenues and Profitability, although a 12% customs duty was imposed in Saudi Arabia accompanied with increase in logistics costs driven by the shortage of containers worldwide. As compared to Pre-Pandemic levels in 3Q19, Total Revenues increased by 9.6% in 3Q21 reaching AED685 Mn driven by increase in core business. Net Profit in 3Q19 stood at AED45.5 Mn, while in 3Q21 the company surpassed this figure and reported a Net Profit of AED63.4 Mn. Nevertheless, Gross Profit Margin in 3Q21 reached an all-time high of 37.1%, increasing by 510 Bps compared to 32% as at end of 2020. In 3Q21, RAKCEC reported an increase by 9.4% YOY with Total Revenues reaching AED684.8 Mn up from AED625.7 Mn in 3Q20, boosted by the growth in core business but due to lower demand in UAE, Saudi and European markets, the QOQ revenues decreased slightly by 2.3% as compared to AED700.8 Mn. To note that The Revenues by markets in 9M21 increased YOY in Saudi Arabia by 47.1%, Middle East (excluding KSA and UAE) by 54.6%, India by 77%, Europe by 31.2%, Bangladesh by 43.4% and Africa by 34.6, while it insignificantly decreased in UAE by 1.6% and in the Rest of the World by 1.3% decrease YOY. The Tiles and Sanitaryware Revenues also increased in 9M21 by 30.4% YOY reaching AED1,874.5 Mn up from AED1,437.7 Mn in 9M20, whereas the Tableware Revenues increased by 58.1% YOY to AED164.5 Mn in 9M21 up from AED104 Mn in 9M20. Total Gross Profit Margin reached an all-time high of 38.2%, an increase by 7.1%YOY, due to improved production efficiency, and optimization of production lines across all plants. EBITDA stood at AED123.2 Mn in 3Q21 up from AED104.4 Mn in 3Q20, an increase by 18% YOY while the EBITDA margin increased to 18% up from 16.7% same period last year. Net Profit in 3Q21 reported AED63.4 Mn up from AED34 Mn in 3Q20 with Net Profit Margin increasing to 9.3% compared to 5.4% same period last year. Net Profit after minorities reached AED52.8 Mn in 3Q21 as compared to AED33.1 Mn in 3Q20. The increase in Net Profit was mainly driven by higher Revenues. Working Capital days increased to 180 Days from 176 Days in the previous quarter and the Working Capital increased to AED1.33 Bn as at end of 3Q21. Net Debt to EBITDA decreased from 2.04x in 2Q21 to 1.89x in 3Q21 reaching an all-time low due to the decrease in Debt to its lowest level as well reaching AED979 Mn in 3Q21 down from AED1.1 Bn in 2Q21. Capital Expenditure reported AED59 Mn in 9M21 with the outlook to reach AED110-125 Mn by end of 2021. Finally, The Board of Directors approved to distribute a Cash Dividend of 10 fils per share for the third quarter of 2021 for a total of AED99.4 Mn which was paid in October 2021. Based on the above, we assign an ACCUMULATE rating.

### RAK Ceramics - Relative Valuation

(at CMP)	2017	2018	2019	2020	2021E
PE (X)	10.42	16.71	17.79	-22.15	10.53
PB (X)	1.07	1.14	1.18	1.34	1.15
Dividend yield (%)	7.5%	4.7%	4.7%	2.6%	3.5%

FABS Estimates & Co Data

**RAK Ceramics - P&L**

AED mm	3Q20	2Q21	3Q21	3Q21F	Var.	YOY Ch	QOQ Ch	2020	2021F	Change
Revenue	626	701	685	706	-3.1%	9.4%	-2.3%	2,349	2,818	20.0%
Direct costs	-431	-434	-423	-432	-2.1%	-1.9%	-2.5%	-1,597	-1,766	10.6%
<b>Gross profit</b>	<b>194</b>	<b>267</b>	<b>262</b>	<b>274</b>	<b>-4.5%</b>	<b>34.5%</b>	<b>-2.0%</b>	<b>753</b>	<b>1,053</b>	<b>39.8%</b>
Selling & overhead exp.	-156	-190	-189	-186	1.8%	21.4%	-0.2%	-608	-753	23.7%
<b>Operating profit</b>	<b>39</b>	<b>77</b>	<b>72</b>	<b>88</b>	<b>-17.9%</b>	<b>87.3%</b>	<b>-6.4%</b>	<b>144</b>	<b>300</b>	<b>NM</b>
Impairment	-6.0	-4.7	-5.1	-4.6	10.0%	-15.2%	7.8%	-264	-19	-92.7%
Other income	14.3	37.8	13.9	31	-55.1%	-2.8%	-63.2%	57	82	43.4%
Share of associates	4	4	5	4	19.8%	16.0%	20.4%	17	17	3.6%
Loss on net monetary position	-2	-1	-1	-1	72.8%	-55.7%	73.8%	-3	-3	-20.9%
Investment & other inc.	8	2	1	7	-81.9%	-83.5%	-19.2%	22	23	5.4%
Financial charges	-20	-18	-19	-19	4.9%	-3.2%	5.5%	-84	-86	2.6%
<b>Profit before tax</b>	<b>37</b>	<b>97</b>	<b>67</b>	<b>107</b>	<b>-37.0%</b>	<b>82.6%</b>	<b>-30.9%</b>	<b>-112</b>	<b>314</b>	<b>NM</b>
Tax expense	-3	-2	-4	-5	-24.9%	32.9%	65.5%	-15	-16	12.6%
<b>Profit before minorities</b>	<b>34</b>	<b>95</b>	<b>63</b>	<b>102</b>	<b>-37.6%</b>	<b>86.6%</b>	<b>-33.1%</b>	<b>-126</b>	<b>298</b>	<b>NM</b>
Minorities	-1	-7	-11	-6	68.6%	NM	51.1%	-4	-26	NM
<b>Profit attributable</b>	<b>33</b>	<b>88</b>	<b>53</b>	<b>95</b>	<b>-44.7%</b>	<b>59.6%</b>	<b>-39.9%</b>	<b>-130</b>	<b>272</b>	<b>NM</b>

*FABS estimate & Co Data*
**RAK Ceramics - Margins**

AED mm	3Q20	2Q21	3Q21	YOY Ch	QOQ Ch	2020	2021F	Change
GPM	31.1%	38.1%	38.2%	712	12	32.0%	37.4%	531
OPM	6.2%	11.0%	10.6%	439	-46	6.1%	10.6%	450
Net Margin	5.3%	12.5%	7.7%	242	-482	-5.5%	9.6%	1516

*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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