RAK
CERAMICS

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RAK Ceramics realises solid growth in 2015; reports an increase in its annual profits by 10.2% at AED 310.3 million

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- Major investments in the ‘core business’ driven by expansions, acquisitions and leadership appointments
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- Substantial turnaround in ‘non-core businesses’ led to expansion of the bottom line
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- Board builds on 2015 dividend policy; announces a 30% cash and 5% stock dividend
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Ras Al Khaimah, 14 February 2016 – RAK Ceramics PJSC (Ticker: RAKCEC: Abu Dhabi), one of the world’s largest hi-tech manufacturers of lifestyle ceramics solutions, today announced its results for the year ending December 2015.

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Net profit recorded AED 310.3 million, an increase of 10.2%, primarily driven by continued delivery of the Value Creation Plan and led by major enhancements in 'core businesses’ as a result of following a diligent investment plan in core; in addition to a successful turnaround of ‘non-core business’ activities.

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Overall gross margin increased by 230 basis points to 28.2%, a healthy improvement despite an increasingly competitive environment. Gross margin from ‘core businesses’ rose to 29.3% from 28.4% in 2014 driven by an increase in tile margins by 20 basis points from 2014 due to a wider range of offered products. This was coupled with greater contribution from the high margin sanitaryware ‘core business’ and tableware.

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The Board of Directors approved a cash dividend of 30% pay out to its shareholders. The board also approved a stock dividend of 5% confirming the board’s commitment to sharing more profit with shareholders via a sustainable dividend policy.

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Investing in the Future; Driving Revenue through Core Businesses

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2015 represented a solid operational growth year for RAK Ceramics, supported by continued focus on growing ‘core businesses’ identified as tiles, sanitaryware, faucets and tableware in key markets of the GCC, India and Bangladesh. The company prepared the ground for revenue growth, despite uncertainty within the global macro-economic environment led by sharp declines in oil prices, strengthening of the US dollar and increases in natural gas prices.

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Capital Expenditure (“CAPEX”) formed a major part of RAK Ceramics’ investment commitments in 2015. A total AED 305 million was primarily spent on expanding core businesses such as sanitaryware capacity in Bangladesh by 25%, enhancing technology and modernising equipment. Planned global expansions of tiles capacities in Bangladesh and sanitaryware in the UAE are expected to take place in Q1 2016. Core business CAPEX was up by 85% from 2014 and was the largest capital expenditure ever made in the core business.

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Investments made in the business were largely funded through cash flows from operations and incoming cash proceeds from disposal of assets in 2015. Net debt-to-EBITDA ratio remains at a healthy 2.71 times.

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Abdallah Massaad, RAK Ceramics' Group Chief Executive Officer said: "The continued growth in our bottom line is the result of our meticulous planning and commitment to expanding our core businesses and building our brand globally. This sustained momentum allowed us to continue to deliver the best, most innovative tiles in the world. The strong commitment from the teams involved in delivering the Value Creation Plan was positive and has allowed us to head into 2016 with an optimistic view. We are aware of the economic and geopolitical factors that will continue to challenge our business in 2016 and may impact our performance, but we are confident that we have the right mechanisms and measures in place to mitigate those risks."

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"As we have wrapped up a strong 2015, we look forward to an even stronger 2016 driven by positive momentum and strategic investments made this year." He added

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Non-core Turnaround

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The substantial realisations from the turnaround of non-core businesses helped boost gross margins and profitability. 'Non-core businesses' such as Al Hamra Construction and Electrogroup were significantly turned around in 2015 with the objective of profiting from them ahead of exiting. Margins were also supported by the sale of other 'non-core businesses,' Laticrete RAK, RAK Piling LLC, RAK Logistics, RAK Gypsum and Al Hamra Aluminium in the UAE, as well as RAK Mosfly, RAK Paints and RAK Pharmaceuticals in Bangladesh, and the sale of 'core but non-profitable businesses' such as RAK Ceramics Sudan.

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Continued disposal of assets as planned, and a further turn-around in remaining non-core operations will further improve net margins in 2016.

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Business Outlook

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A major focus of the business in 2015 was setting up the right foundations in preparation for 2016. The business focused on acquisitions aimed at strengthening the control of the Group over its subsidiaries. RAK Ceramics acquired 100% of its subsidiaries in Iran and India, and began the process of acquiring its European (UK and Germany) subsidiaries, strengthening its position in these markets and allowing RAK Ceramics to retain the greatest amount of control over its global operations. RAK Ceramics will seek to leverage these successes in 2016 and will continue to look for opportunities to invest in attractively valued assets and in regions that have long-term favourable demographic trends.

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RAK Ceramics is optimistic about 2016. With its new set up, the company has become truly global with limited dependence on particular markets for profit generation. However, the GCC remains one of the largest markets for RAK Ceramics as well as being its homeland. Despite the challenges facing the region, sales in the UAE and Saudi Arabia increased in 2015, with the UAE registering an increase in revenues of 7.8% and Saudi Arabia by 11.5%. RAK Ceramics core markets are expected to continue their growth momentum in 2016, led by the GCC, South Asia and Europe.

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Continuing the Value Creation Plan will be the immediate focus for 2016 with the emphasis firmly on turning around the Indian operations, selling RAK China, restarting Iran once sanctions are lifted and continuing restructuring the global joint ventures and subsidiaries. With these activities in the pipeline, RAK Ceramics will be geared towards very healthy returns and a strong top line growth in 2016.

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Key highlights for the period

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- Net profit increased by 10.2% to AED 310.3 million driven by divestment of non-core businesses and turnaround in profitability of remaining non-core businesses
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- Overall revenue in 2015 decreased by 1.5% to AED 3.1 billion. ‘Core revenues’ dropped 2.9% to AED 2.59 billion and ‘non-core revenues’ increased by 6.9% to AED 493 million
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- Tiles revenues decreased by 8.4% to AED 2.0 billion and sanitaryware revenues fell by 1% to AED 444 million
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- Consolidated gross margin was 28.2% for 2015, up 230 basis points year-on-year.
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- Core capex increased by 85% to AED 257 million.
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- EBIDTA increased by 1.7% to AED 594 million; EBITDA margin at 19.3%
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- Net debt to EBITDA ratio increased to 2.71 times but was in line with historical range
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