

RAK Ceramics (Bangladesh) Limited

Equity Note | LBIL Research

October 19, 2017

COMPANY SNAPSHOT		
Tickr		RAKCERAMIC
Shares Outstanding	Mn	353.69
Market Cap	Mn	20,478.83
3 Months Average Turnover		44.82
Market Price		57.90
52 Weeks Range		55.2-73
Forward P/E		20.98

Operating Result (BDT Mn)	2013	2014	2015	2016	2017A
Revenue	5,169	5,047	5,059	5,661	6,531
Gross Profit	2,096	1,975	2,162	2,409	2,723
EBIT	993	1,078	1,498	1,311	1,497
EBITDA	1,359	1,144	1,756	1,702	1,710
NPAT	590	650	1,094	915	979

Balance Sheet Data	2013	2014	2015	2016	2017A
Total Asset	8,990	9,477	10,753	11,158	11,164
Total Fixed Asset	2,734	2,014	2,312	4,005	3,453
Total Debt	482	324	1,192	1,163	1,075
Retained Earnings	1,280	1,077	1,196	1,270	917
Total Equity	5,816	5,919	6,039	6,112	5,927

Growth Data	2013	2014	2015	2016	2017A
Revenue	5.32%	-2.36%	0.24%	11.90%	15.36%
Gross Profit	7.86%	-5.77%	9.47%	11.42%	13.00%
EBIT	10.61%	8.64%	38.95%	-12.52%	14.21%
EBT	10.60%	12.95%	38.19%	-14.11%	8.55%
Net Profit	17.86%	10.22%	68.42%	-16.36%	6.94%
Fixed Assets	1.79%	-11.58%	11.11%	37.52%	-4.43%
Total Asset	8.44%	5.42%	13.47%	3.76%	0.06%

Leverage Ratios	2013	2014	2015	2016	2017A
Debt to Equity	0.08	0.05	0.20	0.19	0.18
Times Int. Earned	22.19	139.05	79.13	32.75	12.74

Efficiency Ratio	2013	2014	2015	2016	2017A
Inventory Turnover	1.63	1.61	1.42	1.36	1.43
Rec Turnover	8.68	8.84	8.30	9.01	10.61
Ast. Turnover	0.60	0.55	0.50	0.52	0.59
Pay Turnover	12.04	9.69	5.82	5.29	6.34
C.C Cycle	235.52	230.89	237.98	239.04	232.03

Company Profile: RAK Ceramics (Bangladesh) Limited formerly RAK Ceramics (Bangladesh) Pvt. Limited, a UAE-Bangladesh joint venture company, was incorporated in Bangladesh on 26 November 1998 as a private company limited by shares and later converted from a private limited into a public limited on 10 June 2008. The address of the Company's registered office is RAK Tower, Plot # 1/A, Jasimuddin Avenue, Sector # 3, Uttara, Dhaka 1230.

Management Profile:

Chairman: Mr. Abdallah Massaad

Managing Director: Mr. S.A.K. Ekramuzzaman

Commercial Operation: It has started its commercial production on 12 November 2000. The commercial production of its new sanitary ware plant, expansion unit of ceramics facilities, tiles and sanitary plant was started on 10 January 2004, 1 July 2004, 1 September 2007, 1 April 2015 and 17th May respectively.

Listing: The Company got listed with Dhaka Stock Exchange (DSE) and Chittagong Stock Exchange (CSE) on 13 June 2010.

Nature of business: The Company is engaged in manufacturing and marketing of ceramics tiles, bathroom sets and all types of sanitary ware. Two major product categories are as follows:

- I. **Ceramic and gres porcellanato tiles:** In the year 2016, annual production capacities was 11.68 mn sqm and capacity utilization: 68% at our tiles plant.
- II. **Sanitary ware:** At RAK Ceramics (Bangladesh), the sanitary ware portfolio features more than 30 models comprising wash basins (mounted and pedestal), water closets, bidets, water tanks, bathroom sets. These are increasingly preferred on account of attractive designs, diverse range and various functional applications. In the year 2016, annual production capacities 1.45 mn pieces and capacity utilization was 100%.

Description of subsidiaries:

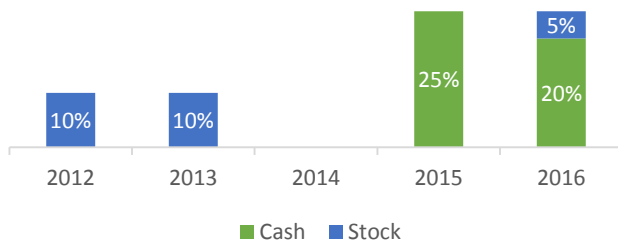
RAK Power Pvt. Ltd.: RAK Power Pvt. Ltd. (100% subsidiary of RAKCBD) is the 10MW captive power unit which supplies uninterrupted power to RAKCBD factory at a lower price than that of the government which helps RAKCBD to run the production of the factory smoothly. The company supplies power to Bangladesh Rural Electrification Board (BREB) in excess of group requirement and as per requirement of REB.

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RAK Security and Services (Pvt.) Ltd.: RAK Ceramics (Bangladesh) Ltd holds 99% shares of the company. The principal activities of the company is to carry on the business of security guarding, cleaning services, termite and pest control services, fumigation services and setting up manpower technical training establishments for creation of skilled workers in various fields of construction and public works, pre-employment back ground verification and immigration & Visa documents verification services, fire safety services etc.

Dividend History:



Shareholding Structure:

	Sponsor	Govt.	Institution	Foreign	Public
31-Dec-16	75.59%	0.00%	11.66%	0.91%	11.84%
31-Aug-17	72.05%	0.00%	14.67%	0.05%	13.23%
30-Sep-17	72.05%	0.00%	14.74%	0.05%	13.16%

Ceramics Industry Outlook: The Bangladeshi ceramic industry, despite a slowdown in many other manufacturing sectors, continues to grow at a healthy 15 percent a year, reflecting growing external and internal demand, owing to cheap natural gas, the prime energy source required to manufacture the products. The country enjoys comparative advantages in manufacturing ceramic products, as it is gas based, labor intensive and skill-oriented. Value addition in ceramics stands at nearly 70 percent. The ceramics industry of Bangladesh has invested about Taka 5,000 crore in the past decade. More than 54 ceramic factories are operating in Bangladesh and more than 100 thousand people of our country are directly or indirectly related ceramics industry. The present investment in ceramics industry is more than 50 billion. Aggregate annual production capacity of sanitary is 115,000 tonnes and tableware is 250 million pieces and 48% is export oriented and 70 million sqm for tiles. An estimate by Bangladesh Ceramic Ware Manufacturer and Exporters Association shows that despite tremendous local industry growth, the country still imports between 25-35 percent of the tiles consumption to fulfill the demand. According to estimates, the local consumption of porcelain tableware is Taka 3.25 billion and export was Taka 3.60 billion export of tiles was Tk 120 million and local sale Tk 18.50 billion in fiscal year 2014-15 according to BCWMA.

Performance Analysis:

Profitability Ratios	2013	2014	2015	2016	2017A
G. P Margin	40.55%	39.14%	42.74%	42.56%	41.69%
EBITDA Margin	26.29%	22.67%	34.71%	30.05%	26.19%
EBIT Margin	19.20%	21.36%	29.62%	23.15%	22.92%
N. P Margin	11.40%	12.87%	21.63%	16.17%	14.99%
ROA	6.82%	7.04%	10.82%	8.35%	8.77%
ROE	10.37%	11.07%	18.30%	15.07%	16.26%
ROIC	9.35%	10.25%	16.13%	12.44%	13.45%

- ✓ The topline grew by 11.90 percent compared to previous year. The ceramics business accounted for a significant share of the Company's revenue; other businesses (power and security) made contributions in growth of Group top line.
- ✓ Gross profit increased by 11.42% but Profit after tax (PAT) and EBITDA decreased by 16.37% and 2.46% from last year. The decrease in the bottom line performance is due to the rise in gas price, the use of which is critical in the production process.
- ✓ 17.36% increase in production to 7.06 mn sqm., 7.91 % increase in sales to 6.48 mn sqm and 3.16 % average increase in price realizations in the tiles segment.
- ✓ 2.11% increase in production to 1.45 mn pieces in the sanitaryware segment.

Recent Developments:

- ✓ Some of the new products launched in Sanitaryware segment included series RAK Galaxy, Harmony, Gloria wall hunk, Cleo model. Some of the top selling products included cynthia, orient, Washington.
- ✓ There has been an addition of BDT 2,086.19 mn in 2016 to the gross block of the fixed assets in the view to enhance production capacity. But as sales were not immediately increased to desired level, the incremental interest expense and greater depreciation cost caused by the capacity expansion, reduced Operating Profit Margin and Net Profit after Tax Margin.
- ✓ The Company invested BDT 28.73 mn in heavy equipment in its ceramic tiles and sanitaryware facility which is expected to be commissioned in the coming year.

Investment Positives:

- ✓ Currently, the highest consumption of ceramic tiles is being reported in Asia Pacific. In 2015, the region accounted for a share of 65.6% of the overall demand for these tiles in the world. The rapid urbanization has given significant rise to construction activities in emerging Asian economies over the last few years.
- ✓ RAK Ceramics (Bangladesh) is the market leader. The current market constituents for the Company include construction developers, government institutions and local consumers. The Company has a strong market reputation in Bangladesh with a network of 92 dealers nationwide and receives strong support

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from RAK Ceramics PJSC, UAE, in terms of technological knowhow and management and marketing support.

- ✓ The increased capacity of RAK Ceramics (Bangladesh) Ltd. will allow the company to capture further market share of the growing sector.
- ✓ The country enjoys comparative advantages in manufacturing ceramic products, as it is gas based, labor intensive and skill-oriented. Value addition in ceramics stands at nearly 70 percent.
- ✓ As one of the most densely populated countries in the world, Bangladesh has been experiencing severe housing shortages. With the majority of the population in the middle and low-income groups, ensuring housing for all is difficult here. The private sector housing developers have met a large proportion of the national housing demand in the last 40 years. Which creates room for the growth of the ceramics sector.

Investment Concerns:

- ✓ The risk of falling demand for the company's product or services would harm the performance of the company.
- ✓ The use of natural gas in production has replaced high cost propane gas with a view to optimize energy costs. But increased gas price is pulling up the COGS. Further increase in gas price will harm the profit margins.
- ✓ Unfavorable interest rate movements caused by volatile money markets and a growing demand for capital could impact the Company's ability to raise cheap funds. This can also make the demand of real estate and relevant products sluggish.
- ✓ Exchange rate risk is quite relevant for RAK Ceramics (Bangladesh) Limited since a large proportion of its raw material requirements in foreign currency. Unfavorable currency fluctuations could affect profitability.

Last 1 year Rebased Price

