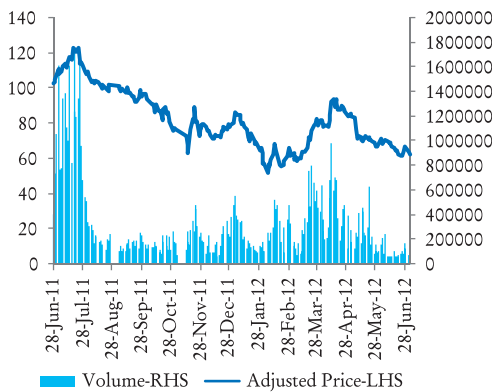


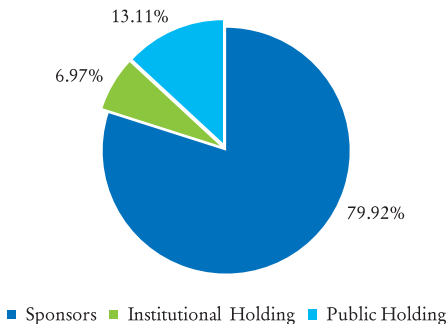
Initiation	
DSE Code	RAKCERAMIC
Current Price	BDT 66.7
COMPANY SNAPSHOT	
Paid-up Capital (BDT mn.)	2784
Total No. of Securities (mn.)	278.38
Free Float (estimated)	20.08%
Market Capitalization (BDT mn.)	18567.94
52 Week Price Range	49.1-124.7
Face Value (BDT)	10
Market Lot	200

PRICE PERFORMANCE			
Price Performance (%)	3 M	6 M	12 M
RAK Ceramics	-23.10%	-14.38%	-34.86%
DGEN	-9.25%	-12.41%	-23.14%

Adjusted Price and Volume Graph



Shareholding Pattern



Company Profile

RAK Ceramics (Bangladesh) Limited (RAKCERAMIC), a UAE-Bangladesh joint venture company, was incorporated in Bangladesh on 26 November, 1998 as a private company limited by shares under the Companies Act 1994, later converted into public limited company. The name of the Company was thereafter changed from RAK Ceramics (Bangladesh) Private Limited to RAK Ceramics (Bangladesh) Limited as per resolution passed in extraordinary general meeting on 10 June 2008, certificate issued by the Registrar of Joint Stock Companies dated 11 February, 2009. It is engaged in manufacturing and marketing of ceramics tiles, bathroom sets and all types of sanitary ware. It has started its commercial production on 12 November, 2000. In 2008, the company became a public limited company and subsequently was listed in DSE and CSE in 2010 under book building method.

Shareholding Pattern

As on June 28 2012, market capitalization of RAK Ceramics (Bangladesh) Ltd was BDT 18567 Mn. Of this 79.92% is held by sponsors. Institutional holding is 6.97%, public holding is 13.11%.

Capital Structure

RAK Ceramics is a very low debt company. Interest bearing debt to equity ratio in 2011 was only .03. Interest coverage ratio was 15.06 times. RAKCERAMIC possesses robust retained earnings of BDT 1318.18 mn, strong cash and bank balance of BDT 1442.04 million and a low debt to equity ratio of .03. This gives RAK Ceramics opportunity to use leverage in future to improve margin.

	2009	2010	2011
Total Debt to Equity Ratio (consolidated)	0.55	0.02	0.03
Interest Coverage Ratio (Consolidated)	3.77	7.72	15.06

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Performance Synopsis

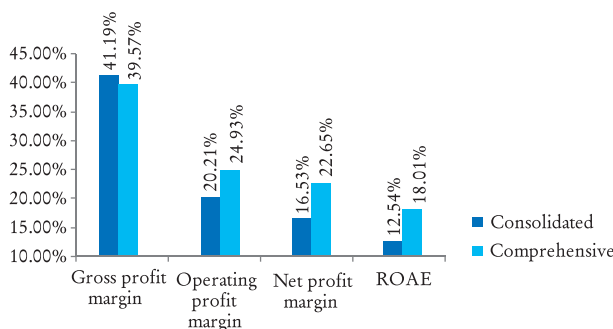
RAK Ceramics (Bangladesh) Ltd. is the market leader in Tile and Sanitary ware market with a market share of around 25% in tile and 60% in sanitaryware. Top line and the bottom-line grew 14.42% and 20.13% CAGR over the last five years. In 2011 revenue grew by 14.24% and net profit grew by 24.80%. Currently real estate industry is bearing the brunt of economic slowdown. Sales are going down. If the economic slowdown continues for long, then RAKCERAMIC being a cyclical company will not be able to observe much growth.

Profit margin of RAK Ceramics (Bangladesh) Ltd is good. Comprehensive gross profit margin in 2011 was 39.57%. Operating profit margin and net profit margin in 2011 was 24.93% and 22.65% respectively. But when considered on a consolidated basis margins squeezed. Consolidated gross profit margin operating profit margin and net profit margin in 2011 was 41.19%, 20.21% and 16.53% respectively. Margins are narrow on consolidated basis because most of the associate

companies and subsidiaries are still not profitable.

At the current price of BDT 66.7, RAKCERAMIC is trading at a P/E of 29.25.

Profitability Ratios for 2011



Source: RAKCERAMIC Annual Report & LBSL Research

Most of the Associates and Subsidiaries are Operating in Loss

	Holding (%)	Relationship	Investment in mn Taka	Present Status	Sales (BDT mn)	Net Profit (BDT mn)
RAK Pharmaceuticals Pvt. Ltd.	55	Subsidiary	409.2	On Production	291.46	(292.07)
RAK Power Pvt. Ltd.	57	Subsidiary	116.85	On Production	239.29	40.95
Classic Porcelain Pvt. Ltd.	51	Subsidiary	5.10	Under Commissioning	-	(2.75)
RAK FOOD & Beverage Pvt. Ltd.	51	Subsidiary	1.02	Under Commissioning	-	(.08)
RAK Security & Services Pvt. Ltd.	35	Associate	.35	On Operation		1.00*
RAK Paints Pvt. Ltd.	40	Associate	130	On Production		(55.36)*
RAK-Mosfly(Bangladesh) Pvt. Ltd.	20	Associate	9.25	On Production		(2.28)*

Note: * Net Profit figures for Associates are share of profit/(loss) in those Associates.

RAK Pharmaceuticals Pvt. Ltd.

RAK pharmaceutical commenced its operation in 2009. Despite the superior sales growth over the last three years, they are increasingly showing negative profit. At the end of 2011, their net profit stood at BDT (292.07) million which is almost equal to the sales figure of that year. Meager gross profit margin, Increasing operating cost and significant financial leverage were the main causes to this inferior performance. Now the

concern is that when the RAK Pharmaceuticals could appear as a profitable entity. Their sales growth figure and profit margins are indicating that it would be difficult for them to reach at breakeven within two to three years. However, their negative profit will decline over the years. Reduction in loss will impact the consolidated Income Statement of RAK Ceramics positively.

	Sales (BDT mn)		Capacity Utilization	
	2010	2011	2010	2011
Tablet	22498486	47041275	25.20%	28.61%
Capsule	9679354	17809670	9.29%	54%
Dry syrup	138879	617356	14.88%	7.71%
Topical	82962	108760	1.12%	8.92%
Injectable		114379		

To create a position in the market with strong marketing channel, and to reach to a sales level that can offer economies of scale RAK Pharmaceuticals will need some more years. We see their capacity utilization level is very low. Once they reach a desired sales level,

one can expect RAK Pharmaceuticals can generate industry average Gross Profit Margin of 40% to 50%, Net Profit Margin of 15% to 20% and ROE of 20% to 25%.

	2009	2010	2011
Net Sales (BDT mn)	16.5	129.3	291.5
Gross Profit (BDT mn)	3.5	18.0	112.4
Operating Profit (BDT mn)	-29.3	-161.8	-216.0
Net Profit/(loss) after Tax (BDT mn)	-30.8	-230.8	-292.1
Gross Profit Margin	21%	14%	39%
Operating Profit Margin	-177%	-125%	-74%
Net Profit Margin	-187%	-178%	-100%

Source: RAKCERAMIC Annual Report & LBSL Research

RAK Power Pvt. Ltd.

Licensed capacity of RAK Power is 10MW. Installed capacity is 9 MW. Annual utilization for 2011 was 76%. The company supplied power to Rural Electrification Board (REB) to the extent of 1.5-2.5 MW in excess of group company requirement.

Out of the total sales 21.86 million (9.13%) came from sale to REB. The rest of the sales revenue (217 million) came from other group companies.

	2010	2011
Sales (BDT mn)	182.68	239.30
Gross Profit (BDT mn)	41.48	84.44
Net Profit After Tax (BDT mn)	16.39	40.96
Gross Profit Margin	22.71%	35.29%
Operating Profit Margin	20.49%	32.57%
Net Profit Margin	8.97%	17.12%

Source: RAKCERAMIC Annual Report & LBSL Research

RAK Food & Beverage Pvt. Ltd.

RAK Food and Beverage Limited will produce non-traditional beverages including lemon, bubble, coconut, mineral and tonic waters. Local raw materials will be used in producing most of the beverages. The market for fruit juices and soft drinks is around Tk

5.0 billion and only pure drinking water market in the country is over Tk 1.5 billion. There is no market estimation for non-traditional beverages. RAK Food & Beverage Limited will also produce food products.

	2010	2011
Turnover	0	0
Operating Profit/(Loss)	(.051)	(.082)
Net Profit/(Loss)	(.520)	(.082)

Source: RAKCERAMIC Annual Report & LBSL Research

Classic Porcelain Pvt. Limited

Objective of Classic Porcelain Pvt. Limited is to manufacture, sale and export of 100 percent export oriented all types of porcelain/ceramic-made table ware such as bone china, porcelain white ware, crockery, pottery etc. The ceramic sector in Bangladesh is large, rapidly growing as manufacturing ceramic product is a gas based, labor -intensive and skill-oriented business, and the country enjoys a comparative edge as it is a cheap gas and low labor cost economy. Bangladesh's ceramic exports grew from a mere USD 1 million in 1991 to a significant USD 37.58 million in 2010-11. According to Bangladesh Ceramic Manufacturing Association is expected to surge to USD 100mn over six years as Japan, the UK, Germany, China and European countries,

who dominated the global trade in ceramic products, are yielding advantage on account of rising cost, wage and currency appreciation. Although Bangladeshi ceramic tableware product has performed well in the world market, its domestic market share is shrinking day by day, due to widespread import of low-priced foreign goods especially from China. More than 50% of domestic demand is met by foreign products, especially low priced products of china, because people of our country are still buyers of low-end ceramic products. This supply gap is an opportunity for existing as well as new firms. Due to gas shortage entrepreneurs are not enthusiastic about setting up capacities, where demand is already there.

	2010	2011
Turnover	0	0
Operating Profit/(Loss)	0	(.1225)
Net Profit/(Loss)	2.75	.77

Source: RAKCERAMIC Annual Report & LBSL Research

RAK-Mosfly (Bangladesh) Pvt. Ltd.

Mosfly is a concern of Maya Group of Singapore and one of the leading anti insect producers in the world is the co sharer of the mosquito repellent plant. The Gulf conglomerate along with Mosfly will initially invest Tk 600 million in the project to produce anti mosquito products. Anti mosquito products both in coil and aerosol forms is likely to be released in local market.

RAK Security & Services Pvt. Ltd.

RAKCERAMIC classifies its investment in RAK Security & Services Pvt. Ltd. as investment in associates. Investment stake is 35%. The share of profit in 2011 was BDT 1.00 million. RAK Security and Services (Pvt) Ltd provides security services, office cleaning, Plantation, Landscaping & Floral Presentation service. The company is trying to leverage the famous RAK brand and make a position in the market as high quality security service provider.

Revenue Breakdown & Growth Drivers

RAKCERAMIC sells ceramic tiles and sanitaryware products. Revenue grew at a CAGR of 14.42% over the last five years. In 2011 revenue grew by 14.24% over the previous year. Revenue growth was largely derived from price increase during the year and healthy off take of value-added products.

Bangladesh poses a low per capita ceramic tile consumption .76 sq. meters per annum, compared with 2.4 sq. meters in China, 3.1 sq. meters in Vietnam, 3.5 sq. meters in Brazil and 4.9 sq. meters in Spain. As income levels rise, this under-penetration will progressively correct, resulting in attractive growth for ceramic industry. Industry people believe that growing housing demand, growth in the hospitality sector and increased affordability of the Bangladeshi consumer would help the industry sustain its growth. If we look at the housing need of our country and the construction

needs the growth potential becomes apparent. Bangladesh enjoys a competitive industrial advantage for various reasons. Our low-cost gas availability accounts for only 23% of the tiles production cost in Bangladesh compared with 35-40% in other countries, labor cost at 16% compares favorably with 25-30 percent in other countries, generalized system of preferences makes possible to export duty free.

In a developing country like Bangladesh, where the urban population constitutes almost 28% of the total population and is increasing by 2.8% annually. Dhaka's population growth rate is the highest among the major cities in the world. However, 77% of the Bangladesh's urban dwellings and over 98% of rural dwellings are earthen in nature. The nation needs an estimated 3-5.5 lakh dwelling units a year in addition to a need to constructing about 4 million new houses annually to meet emerging demand. Dhaka alone requires about 100000 new dwelling units annually to service its growing population. Since rural Bangladesh (80% percent of the 150 mn population) is growing at 1.8% a year, there is an increasing need to migrate to urban centers, which only adds to the housing demand. In the face of this reality, Bangladesh's annual supply is restricted to only 35000 dwelling units; increasing backlog and promising quality-driven companies like RAK of an assured market.

Bangladesh's sanitation coverage is a poor 53%, leaving nearly half of the country's 150mn population without sanitation and a consequent exposure to a diarrhea and infectious diseases. It is estimated that inadequate sanitation cost Bangladesh an estimated USD 4.2 billion annually.

	Share of Total Revenue	Capacity	Utilization in 2011	Market Share in Respective Industry
Tile	75% apprx	86.4 mn Sft	90%	25%
Sanitaryware	25% apprx	1.1 mn pcs	111%	60%

Cost Structure

	% or Total Expense			% of Total Revenue		
	2009	2010	2011	2009	2010	2011
COGS	76.31%	73.31%	72.76%	69.64%	62.87%	60.43%
Admin Expense	1.69%	5.80%	7.31%	1.54%	4.98%	6.07%
Marketing and Selling Expense	11.83%	11.31%	10.31%	10.80%	9.70%	8.57%
Financial Expense	4.33%	1.12%	1.13%	3.95%	0.96%	0.94%
Income Tax	5.85%	8.46%	8.48%	5.34%	7.25%	7.05%
Total Expense	100.00%	100.00%	100.00%	91.26%	85.76%	83.06%

Source: RAKCERAMIC Annual Report & LBSL Research

Cost of goods sold is the most significant expenditure for RAKCERAMIC. COGS accounts for 72.76% of total expense. COGS are 60.43% of revenue. In this COGS raw material is the main component. Raw material is 49.03% of total COGS. The main raw materials include a) body materials comprising various clays, sands and minerals and b) glaze materials comprising additives and bonding agents. The company imports more than 90% of its raw materials. Exchange rate risk is quite relevant for RAKCERAMIC for this reason. In 2011 foreign exchange loss was BDT 38 million.

The next big component of RAKCERAMIC expense is marketing and selling expense. In 2011, it was 10.31% of total expense. Financial expense as percentage of total expense has decreased over the years as RAKCERAMIC has reduced its debt over the years.

Profitability

Consolidated Gross Profit Margin in 2011 was 41.19%, which was 37.51% in 2010. Gross Profit Margin improved because revenue grew by 14.24% (mostly due to price increase) but COGS grew by 7.5%. Operating profit margin also improved from 18.79% to

20.21%. Net Profit Margin in 2011 was 16.53% in comparison to 15.13% in 2010.

Consolidated ROAE in 2011 was 12.54% which was 13.71% in 2010. Consolidated ROAE figures do not seem attractive. But if we look at the Comprehensive ROAE in 2011 it was 18.01% and in 2010 it was 19.09%. RAKCERAMIC has invested in many subsidiaries and associates in last few years. Out of four subsidiaries three are in loss and out of three associates two are in loss. It seems that within next two years none of the losing concern will come to profit. But loss will reduce. So to seem attractive from the consolidated ROAE perspective it will require the investments in subsidiaries and associates to yield positive return.

Operating efficiency	Consolidated			Comprehensive		
	2009	2010	2011	2009	2010	2011
Gross profit margin	31.46%	37.51%	41.19%	30.36%	37.13%	39.57%
Operating profit margin	18.21%	18.79%	20.21%	18.02%	22.45%	24.93%
Net profit margin	8.46%	15.13%	16.53%	8.90%	18.76%	22.65%
ROAE		13.71%	12.54%		19.09%	18.01%
ROAA		9.54%	10.25%		12.51%	13.35%

Source: RAKCERAMIC Annual Report & LBSL Research

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