



Farsight

MORNING FARSIGHT

Monday, December 03, 2018

PRISM JOHNSON

CMP:RS 84

TRGT:RS 100

TIME HORIZON: 1 YEAR

Prism Johnson is looking a good buy, with company having one of the highest RoEs in the sector of over 15% (only next to Heidelberg Cement RoE of 17%) and having delivered good earnings growth for Q2FY19 and H1FY19, coupled with attractive valuations and multiple cost reduction plans to fructify in coming 6-8 months. For Q2FY19, Company's Cement Division reported —20% volume growth, while for H1FY19, volume growth stood at 16%YoY, which is remarkable and well ahead of peerRs Further, During Q2FY19, Cement Division's EBITDA more than doubled to Rs 79cr from Rs 37 cr seen in Q2FY18 and on per ton basis, EBITDA improved to Rs 588/tonne against Rs 332/tonne on YoY basis, despite cost headwinds and weak pricing trends in the industry. During H1FY19, Cement Division's EBITDA increased by 86% to Rs 248 cr and EBITDA per ton was at Rs821/tonne against Rs 512/tonne. Moving on to Tiles division, volume growth for H1FY19 was at 2%, which would have been even higher, but impacted by transport strike in July affecting JV sales / operations and floods in Kerala, one of the key markets for Prism Johnson. The RMC (Ready Mix Concrete) Division reported 13% revenue growth and EBIT of Rs 12.4 cr in H1FY19 in comparison to EBIT loss of Rs 9.7 cr YoY. The Company has awarded LOIs for development of captive Solar Power projects at its cement and tiles manufacturing facilities with an aggregate capacity of 22MW. This initiative would result in operational cost savings. The above projects would be commissioned in next 6-8 months. Further, company has successfully bid for 47,900 TPA of coal from Coal India subsidiaries. This along with earlier linkage adds to 166,200 tpa and constitutes about 1/3rd of annual fuel requirement Company has also received LOI from Madhya Pradesh Govt for allotment of limestone mining lease for 50 years with —77 MTPA of reserves under earlier regulations and was under processing by the State Govt. Company's Cement Division has a total capacity of 7.4 MTPA and mainly caters to markets of Eastern UP, MP and Bihar with marketing network of 4,000 dealers Tiles Division (H & R Johnson) offers end-to-end solutions of Tiles, Sanitaryware, Bath Fittings and Engineered Marble & Quartz under 4 strong brands, viz. Johnson, Johnson Marbonite, Johnson Porselano and Johnson Endura, through 13 manufacturing plants across the country and capacity of 68 million m2 per annum. YTD. After almost two years of painful cost pressures, cost trends finally seem to be reversing and will be reflected from H2FY19 (especially in Q4FY19 with a lag) as: (1) pet coke prices have come off —15% from peak (US\$95-100 against peak US\$120); (2) international coal prices are also easing (down 15%); (3) freight cost to see benefit of axle load relaxation, softer crude/diesel prices and better demand (4) currency stabilization (35% cost FX-linked); and (5) operating leverage in the seasonally better 2H. Price hikes have been initiated in select markets in North, and it is expected to gain strength over the next couple of weeks. Demand trends are also improving and Sep-Q was the fourth consecutive quarter of double-digit volume growth and H2FY19 will witness sharp rise in offtake as well. Stock is now trading at EV/EBITDA of 9x and Cement Division is trading at EV/tonne of \$86/tonne, which are attractive with industry leading RoE of 15% and Promoter stake of —75%. Share ruling at Rs 84 can move to Rs100 in 1 year. Buy as an investor only.

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Disclosure of interest statement – • Analyst interest of the stock / Instrument(s): - No. • Firm interest of the stock / Instrument (s): - No.