MORNING FARSIGHT

Tuesday, July 31, 2018

PRISM JHONSON CMP:RS 114 TRGT:RS 145 TIME HORIZON: 1 YEAR

Prism Jhonson, one of India's leading integrated Building Materials' Company, with a wide range of products from cement, ready-mixed concrete, tiles and bathroom products, has posted good earnings across all 3 verticals and outlook for the coming quarters is seen positive with multiple triggers and attractive valuations. Cement Division, having capacity of 7 MTPA, which mainly caters to Eastern UP, MP and Bihar with marketing network of 4,000 dealers, has posted good performance in Q1FY19, with Segment EBIT rising to Rs 143 cr from Rs 104 cr QoQ and Rs 88 cr, a growth of 38% QoQ and 63% YoY, thanks to13% volume growth. improving sand availability in UP & Bihar, benefits of operating leverage and better cost control, with EBIT margin rising to 19.5% in Q1FY19 from 13.7% of Q4FY18, an expansion of 580 bps in rising cost environment. Post FY20, the cement business should continue to see margin expansion, led by commissioning of WI-IRS (reduce power cost) and split grinding unit with a capacity of 1-1.5 MTPA in UP, lowering freight cost. Tiles Division (H & R Johnson), which offers end-to-end solutions of Tiles, Sanitaryware, Bath Fittings and Engineered Marble & Quartz under 4 brands, viz. Johnson, Johnson Marbonite, Johnson Porselano and Johnson Endura , through 13 manufacturing plants across the country, with capacity of 68 million sq. mt. per annum, also shown good performance in Q1FY19. Segment registered volume growth of 7%YoY on the back of launch of new products, channel expansion, opening of display centers, customer & Influencer engagement and focused vertical structure approach, which resulted in Sustained improvement at EBIT levels as compared to corresponding quarter. During Q1FY19, EBIT losses reduced to Rs 9.2 cr from Rs 22.4 cr QoQ, while division has turned EBITDA positive with Consolidated EBITDA margins of 3.9% for the quarter. For this segment, business in FY18 was impacted by underutilization of capacity. We expect healthy growth in volumes led by effective marketing Initiatives and product innovation, as the company has launched various new formats and opened 5 new display centers, which should bode well for volumes over the coming quarteRs We expect healthy improvement in consolidated margins in FY20 (from 3.8% in FY18), led by improvement in standalone utilization levels. Ready Mix Concrete segment also reported strong performance with EBIT rising to Rs 10.6 cro from negative EBIT of Rs (6.3) cr YoY, thanks to pick up in both real estate and infrastructure sector, especially road construction and shift from unorganized players to organized playeRs Under this segment, company is operating 93 ready-mixed concrete plants in 44 cities/towns across the Country. Further, it has 5 Quarries across the country and is currently the second largest player in the RMC business, and thus, a direct beneficiary of the infra boom in the country. This segment has EBIT loss In H1FY18 and had EBIT margin of 2.9% for past two quarteRs Overall, company reported PAT of Rs 70.2 cr for Q1FY19 against Rs 62.7 cr QoQ and Rs 16.7cr YoY, leading to an EPS of Rs 1.39 for Q1YF19, which was at similar level for whole of FY18. Further, it is encouraging to note that the company is back on the list of Dividend paying Companies alter long gap of 6 years (after FY12) and has declared interim dividend of Rs 0.50 per equity share. Company is currently having an EV of Rs 7,250cr, and if we assign EV/Sales of 1x to its Tiles Division, the EV comes at Rs 1,726crores. Further, RMC divison is having an EV of Rs 280 cr at EV/EBIT of 7x on an estimated EBIT of Rs 70cr. This leaves cement divison with EV of Rs 5,244 crores and with capacity of 7MTPA, EV per tonne is at $109 per tonne, which is quite reasonable, as earnings are likely to show strong improvement in the coming quarters. Share ruling at Rs 114 can move to Rs 145 in 1 year timeframe. Buy as an investor.