

Century Plyboards

HOLD
Maintained
Rs227

Plywood disappoints, laminates surprise

Reason for report: Q2FY17 result review and target price revision

Century Plyboards (CPBI) reported below par topline growth of 5.5% YoY to Rs4.6bn (I-Sec: Rs4.8bn), largely due to muted volumes in the plywood division. Plywood margins declined 180bps YoY, higher than anticipated, dragging overall company margins lower by 50bps YoY to 16.4% vs. our estimates of 16.8% in 2Q. Sluggish operational performance led to 5% YoY growth in PAT to Rs493m, missing our estimate of Rs535mn. To factor in the Q2 disappointment, we revise our revenue and earnings estimates downward by 2.4%/1.1% and 6%/1.9% for FY17/FY18, respectively. We now expect the company to report revenue and PAT CAGR of 19.1% and 20.4% respectively over FY16-FY18E. At CMP, the stock trades at 20.8x FY18E earnings. We maintain our HOLD rating with revised target price of Rs218 (Rs222 earlier), valuing the stock at 20x FY18E earnings.

- ▶ **Plywood division performance impacted by commercial veneer segment.** The plywood division reported muted revenue growth of 1.6% YoY to Rs 3.25bn led by decline in volume growth by 0.8% YoY. While volume growth in premium plywood, commercial grade plywood and commercial veneer stood at -4.4%, 1.9% and 8.4% respectively, revenue growth stood at 14.8%, -21.6% and -21.4% respectively. Aggressive advertising spends and higher discounts, particularly in the commercial grade plywood segment and commercial veneers, resulted in 180bps contraction in plywood EBIDTA margins. The commercial veneer segment witnessed steep cuts in realisations (27% YoY) due to lower demand of premium commercial veneers and higher penetration of low cost veneers from Africa and Soloman Islands in particular which forced CPBI to offer incremental discounts.
- ▶ **Laminates division posts superlative performance.** CPBI's laminates division posted strong performance in Q2FY17 with impressive growth (29.4% YoY in volume and 14.4% YoY in revenues) in the core laminate (both domestic and laminates) segment as pre-laminated particle board volumes and revenues declined significantly led by management's conscious decision to go slow in this segment via outsourcing. Considering its increasing focus on 1mm and value added textured laminates, management continues to guide for higher double digit growth in revenues in H2FY17.
- ▶ **PB unit commences in 2Q while MDF project to be fast-tracked.** CPBI's particle board unit commenced operations in Jul'16 and the quality has been well accepted by the trade. CPBI expects the unit to operate at 90% utilisation rate in Q3 and then to 100% by Q4. The company is investing close to Rs3.8bn on putting up a MDF plant in Punjab. With assurance from its Chinese machinery supplier for timely delivery, management expects the plant to commence production in Mar'17 versus its earlier estimate of Jun'17.

Wood Panel

Target price Rs218

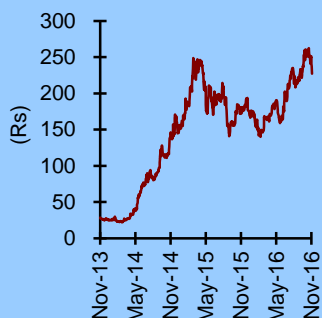
Target price revision
Rs218 from Rs222

Shareholding pattern

	Mar '16	Jun '16	Sep '16
Promoters	73.3	73.3	72.2
Institutional investors	15.4	13.3	15.4
MFs and UTI	3.3	4.3	5.2
FIs/Banks	0.1	0.5	0.0
Insurance	-	-	-
FII	12.1	8.5	10.2
Others	11.3	13.4	12.4

Source: NSE

Price chart



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Market Cap	Rs50.5bn/US\$756mn	Year to Mar	FY15	FY16	FY17E	FY18E
Reuters/Bloomberg	CNTP.BO /CPBI IN	Revenue (Rs mn)	15,884	16,637	18,105	23,540
Shares Outstanding (mn)	222.2	Rec. Net Income (Rs mn)	1,490	1,672	1,912	2,425
52-week Range (Rs)	263/140	EPS (Rs)	6.7	7.5	8.6	10.9
Free Float (%)	27.8	% Chg YoY	147.2	12.2	14.4	26.8
FII (%)	10.2	P/E (x)	33.9	30.2	26.4	20.8
Daily Volume (US\$/'000)	1,319	CEPS (Rs)	8.9	9.7	10.8	13.9
Absolute Return 3m (%)	6.5	EV/E (x)	20.5	18.5	19.0	13.4
Absolute Return 12m (%)	27.2	Dividend Yield (%)	0.8	0.9	1.1	1.1
Sensex Return 3m (%)	(1.3)	RoCE (%)	25.0	26.2	22.2	25.9
Sensex Return 12m (%)	4.3	RoE (%)	42.6	35.7	31.8	32.4

Table 1: Q2FY17 result review*(Rs mn, year ending March 31)*

Particulars	Q2FY17	Q2FY16	YoY (%)	Q1FY17	QoQ (%)	H1FY17	H1FY16	YoY (%)
Net Sales	4,593	4,355	5.5	4,036	13.8	8,629	8,021	7.6
Other Op. Income	34	31	9.8	21	61.6	56	61	(8.2)
Total Op. Income	4,627	4,386	5.5	4,058	14.0	8,685	8,082	7.5
Expenditure	3,870	3,646	6.2	3,374	14.7	7,244	6,670	8.6
Raw Materials	1,513	1,899	(20.3)	1,439	5.1	2,952	3,426	(13.8)
Cost of traded goods	892	445	100.5	606	47.0	1,498	875	71.3
Staff Cost	624	560	11.5	638	(2.1)	1,262	1,070	18.0
Other Expenditure	841	742	13.4	691	21.8	1,532	1,300	17.9
Operating Profit	757	741	2.2	683	10.8	1,441	1,412	2.0
<i>OPM (%)</i>	<i>16.4</i>	<i>16.9</i>	<i>-50bps</i>	<i>16.8</i>	<i>-40bps</i>	<i>16.6</i>	<i>17.5</i>	<i>-90bps</i>
Other Income	13	6	127.0	8	63.5	21	10	114.8
Interest	60	131	(53.8)	89	(32.1)	149	253	(41.1)
Depreciation	126	105	20.3	93	36.4	219	204	7.2
Exceptional income	0	0		0		0	0	
PBT	584	511	14.2	510	14.4	1,094	965	13.3
Tax	91	42	116.8	80	14.0	171	95	80.1
PAT	493	469	5.0	431	14.5	923	871	6.1
<i>NPM (%)</i>	<i>10.7</i>	<i>10.8</i>	<i>-10bps</i>	<i>10.7</i>	<i>0bps</i>	<i>10.7</i>	<i>10.9</i>	<i>-20bps</i>

Source: Company data, I-Sec research

Table 2: Segment reporting*(Rs mn, year ending March 31)*

Particulars	Q2FY17	Q2FY16	YoY (%)	Q1FY17	QoQ (%)	H1FY17	H1FY16	YoY (%)
Segment revenue								
Plywood & allied products	3,465	3,458	0.2	3,113	11.3	6,578	6,267	5.0
Laminate & allied products	1,110	941	17.9	873	27.0	1,983	1,754	13.0
Particle board	32	0	0.0	0	0.0	32	0	0.0
MDF	12	17	(29.5)	14	(13.4)	26	49	(47.6)
CFS	211	201	5.0	234	(9.9)	445	375	18.7
Others	113	114	(1.4)	148	(23.6)	261	279	(6.6)
Total	4,926	4,722	4.3	4,376	12.6	9,302	8,709	6.8
Segment EBIT								
Plywood & allied products	492	517	(4.8)	436	12.8	928	961	(3.4)
Laminate & allied products	171	103	66.3	115	48.7	286	200	43.3
Particle board	-12	0	0.0	0	0.0	-12	0	0.0
MDF	3	2	58.1	2	5.5	5	8	(34.7)
CFS	56	56	0.2	79	(28.3)	135	110	22.4
Others	-24	-4	458.5	-4	552.7	-28	-6	379.4
Total	686	674	1.9	629	9.2	1,315	1,273	3.3
EBIT margin (%)			YoY (bps)		QoQ (bps)			YoY (bps)
Plywood & allied products	14.2	15.0	-76	14.0	19	14.1	15.3	-123
Laminate & allied products	15.4	10.9	449	13.2	224	14.4	11.4	305
Particle board	-37.4	0.0	0	0.0	0	-37.4	0.0	0
MDF	21.2	9.4	1,174	17.4	378	19.2	15.4	379
CFS	26.7	28.0	-129	33.6	-686	30.3	29.4	91
Others	-21.1	-3.7	-1,740	-2.5	-1,866	-10.6	-2.1	-850
Total	13.9	14.3	-33	14.4	-44	14.1	14.6	-48
RoCE (%)			YoY (bps)		QoQ (bps)			YoY (bps)
Plywood & allied products	35.5	36.7	-120	33.3	219	33.5	34.1	-63
Laminate & allied products	44.2	24.9	1,930	28.9	1,529	37.0	24.2	1,279
Particle board	-7.0	0.0	-697	0.0	-697	-3.5	0.0	-349
MDF	0.7	12.1	-1,143	1.6	-97	0.7	28.6	-2,792
CFS	38.8	37.3	156	59.2	-2,041	46.5	36.6	997
Others	-114.0	-16.0	-9,799	-27.1	-8,692	-65.7	-10.8	-5,498
Total	27.6	33.0	-541	29.4	-178	26.5	31.2	-475

Source: Company data, I-Sec research

Financial summary

Table 3: Profit & Loss statement

(Rs mn, year ending March 31)

	FY15	FY16	FY17E	FY18E
Net Revenues	15,884	16,637	18,105	23,540
Operating Expenses	13,181	13,702	15,104	19,345
EBITDA	2,703	2,935	3,001	4,195
% margins	17.0%	17.6%	16.6%	17.8%
Depreciation & Amortisation	485	484	484	674
Gross Interest	456	481	294	651
Other Income	33	11	38	42
Recurring PBT	1,796	1,981	2,261	2,912
Less: Taxes	296	301	349	487
Less: Minority Interest	9	8	(0)	(0)
Add: Share of Profit of Associates	(1)	-	-	-
Net Income (Reported)	1,490	1,672	1,912	2,425
Extraordinaries (Net)	-	-	-	-
Recurring Net Income	1,490	1,672	1,912	2,425

Source: Company data, I-Sec research

Table 4: Balance sheet

(Rs mn, year ending March 31)

	FY15	FY16	FY17E	FY18E
Assets				
Total Current Assets	7,890	8,139	8,578	10,116
of which cash & cash eqv.	374	389	138	203
Total Current Liabilities & Provisions	1,581	2,175	1,983	2,366
Net Current Assets	6,309	5,964	6,594	7,750
Investments	4	2	2	2
Net Fixed Assets	2,454	2,396	2,493	6,445
Capital Work-in-Progress	326	1,256	4,126	-
Goodwill	2	-	-	-
Total Assets	9,095	9,618	13,215	14,197
Liabilities				
Borrowings	5,138	4,194	6,625	5,775
Deferred Tax Liability	8	7	7	7
Minority Interest	55	90	90	90
Equity Share Capital	223	223	223	223
Face Value per share (Rs)	1	1	1	1
Reserves & Surplus*	3,671	5,104	6,312	8,032
Less: Misc. Exp. n.w.o.	-	-	-	-
Net Worth	3,894	5,327	6,534	8,255
Total Liabilities	9,095	9,618	13,256	14,126

*Excluding revaluation reserves

Source: Company data, I-Sec research

Table 5: Quarterly trend (consolidated)

(Rs mn, year ending March 31)

	Dec-15	Mar-16	Jun-16	Sep-16
Net revenues	3,906	4,547	4,058	4,627
% growth (YoY)	1.2	11.1	9.8	5.5
EBITDA	696	773	683	757
Margin (%)	17.8	17.0	16.8	16.4
Other income	7	1	8	13
Extraordinaries (Net)	-	-	-	-
Net profit	416	405	431	493

Source: Company data, I-Sec research

Table 6: Cashflow statement

(Rs mn, year ending March 31)

	FY15	FY16	FY17E	FY18E
Operating Cashflow	1,846	2,510	2,396	3,099
Working Capital Changes	(976)	395	(882)	(1,090)
Capital Commitments	201	(1,354)	(3,450)	(500)
Free Cashflow	1,071	1,550	(1,936)	1,508
Cashflow from Investing Activities	27	2	-	-
Issue of Share Capital	-	-	-	-
Inc (Dec) in Borrowings	(663)	(944)	2,431	(850)
Dividend paid	(462)	(593)	(705)	(705)
Change in Deferred Tax Liability	15	(1)	-	-
Chg. in Cash & Bank balance	(13)	14	(210)	(46)

Source: Company data, I-Sec research

Table 7: Key ratios

(Year ending March 31)

	FY15	FY16	FY17E	FY18E
Per Share Data (in Rs.)				
EPS	6.7	7.5	8.6	10.9
Cash EPS	8.9	9.7	10.8	13.9
Dividend per share (DPS)	1.8	2.0	2.5	2.5
Book Value per share (BV)	16.9	24.3	29.8	37.5
Growth (%)				
Net Sales	17.7	4.9	9.0	30.1
EBITDA	70.8	8.6	2.2	39.8
PAT	147.2	12.2	14.4	26.8
Cash EPS	94.5	9.0	10.7	29.3
Valuation Ratios (x)				
P/E	33.9	30.2	26.4	20.8
P/CEPS	25.5	23.3	21.1	16.3
P/BV	13.4	9.3	7.6	6.1
EV / EBITDA	20.5	18.5	19.0	13.4
EV / Sales	3.5	3.3	3.2	2.4
Operating Ratios				
Raw Material / Sales (%)	53.6	54.5	54.4	52.9
Employee cost / Sales (%)	12.8	12.8	12.6	12.8
SG&A / Sales (%)	13.9	19.2	12.5	12.6
Other Income / PBT (%)	1.8	0.6	1.7	1.4
Effective Tax Rate (%)	16.5	15.2	15.4	16.7
Working Capital (days)	125.0	110.1	108.0	100.0
Inventory Turnover (days)	77.1	65.8	64.0	60.0
Receivables (days)	62.3	63.5	64.0	59.0
Payables (days)	14.4	19.2	20.0	19.0
Net D/E Ratio (x)	1.2	0.7	1.0	0.7
Profitability Ratios (%)				
Net Income Margins	9.5	10.2	10.6	10.4
RoACE	25.0	26.2	22.2	25.9
RoAE	42.6	35.7	31.8	32.4
Dividend Payout	31.0	35.5	36.8	29.1
Dividend Yield	0.8	0.9	1.1	1.1
EBITDA Margins	17.2	17.8	16.7	17.9

Source: Company data, I-Sec research

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