

RESULTS

Results Update

Century Plyboards (BUY)

Higher sales drive earnings beat

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Century Plyboards

Higher sales drive earnings beat

Century Plyboards' higher-than-expected revenue growth (+11% YoY; 8% divergence) is likely due to higher sales of face veneer. EBITDA margin contraction (-70bps YoY) is due to lower plyboard margins (ply EBIT margin declined 470bps YoY). Laminate segment maintained strong performance (14% YoY revenue growth and 670bps YoY margin expansion). PAT declined 15% YoY, cash conversion cycle reduced marginally (121 days vs 125 days in FY16) and D/E reduced to 0.8x (1.2x in FY15). Our estimates imply 17%/18%/17% revenue/EBITDA/PAT CAGR over FY15-18 (RoE at 30% over FY17-18 vs 34% in FY16). The stock trades at 23x FY17E EPS; our target price implies 19x FY18E EPS. We do not see any scope for further multiple expansion since: (a) volume recovery remains uncertain, (b) mega MDF capex will increase leverage and earnings volatility if demand does not pick up; (c) rising unpredictability with increasing capital deployment outside India; and (d) stretched cash conversion cycle (121 days).

Stronger than expected revenue growth, marginal EBITDA margin miss

Century's sales grew by 11% YoY, due to 10% plyboard growth, 15% growth in laminates and 37% growth in the CFS business. EBITDA margin (ex-forex) declined by 70bps YoY to 16.7%. PAT declined 15% YoY due to 6% YoY EBIT decline and a higher tax rate (26% as against 19% last year).

Plyboard segment: Sales grew by 10% YoY, which seems like a result of higher face veneer sales due to scale-up of Laos timber peeling units. EBIT margin in this segment declined by 470bps YoY likely due to lower margins for face veneer and increasing mix of mid-segment ply. Whilst the management is yet to share the volume details, we think volume growth will be in low single digits.

Laminate segment: Laminate revenue increased by 15% YoY. The company has significantly ramped up utilisation and is operating at near-full utilisation; it has also started operating the plant for seven days a week to increase utilisation by ~15%. EBIT margin in this segment improved by 670bps YoY, which is a function of lower ad expenses (last year had one-off advertisement expenses), savings in crude-linked RM costs (40% of overall RM cost for the company) and superior realisation due to improving brand recall post aggressive marketing for the last year.

CFS segment: Revenue grew by 37% YoY, EBIT margin expanded by 237bps and absolute EBIT grew by 46%. However, growth is from a low base of last year and despite strong growth, container terminals are operating at sub-50% utilisation.

Cash flow and balance sheet: Century's cash conversion cycle improved marginally to 121 days as against 125 days last year (still materially higher than other building material categories). The company generated CFO (post-tax) of Rs2.5bn and invested Rs1.6bn for capex. D/E of the company receded to 0.8x from 1.2x in FY16.

Where do we go from here? Risks emanating

Our preference for Century Plyboards despite an evident slowdown in building materials is premised on the company's initiatives, such as scale and channel expansion, continuous improvement in marketing and distribution architecture, and securing long-term availability of raw material. The company has built the largest capacity of face veneer by an Indian player in Myanmar (32,000 CBM) and Laos (currently 48,000 CBM, likely to double over the next 2-3 years) with low capital intensity (Rs500mn invested in Laos); it has strategically partnered with a local player in Laos for physical infrastructure (barring machinery) and to manage production.

However, our concerns emanate from the company's high capex in the next two years (Rs4.5bn-5bn), which will require debt of ~Rs2.5bn. This could lead to earnings erosion (high interest charge) if demand fails to pick up. Moreover, post Century's and Greenply's expansion in MDF, the installed capacity of the industry will exceed demand, which will hinder capacity utilisation of Century and could lead to price wars and margin erosion.

BUY

Result Update

Stock Information

Bloomberg Code:	CPBI IN
CMP (Rs):	183
TP (Rs):	205
Mcap (Rs bn/US\$ bn):	41/0.6
3M ADV (Rs mn/US\$ mn):	43.1/0.6

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	7	26	4	8
Rel. to Sensex	2	18	9	9

Source: Bloomberg, Ambit Capital research

Ambit Estimates (Rs bn)

	FY16	FY17	FY18
Revenues	16.5	18.0	24.1
EBITDA	2.9	3.1	4.2
EPS (Rs)	7.5	8.0	10.9

Source: Bloomberg, Ambit Capital research

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We expect the company to post 17%/18%/17% revenue/EBITDA/PAT CAGR and 30% RoEs over FY17-18 vs 34% in FY16.

Valuation

We continue to believe ply is a large addressable market whose unorganised share is shrinking; this bodes well for a market leader like Century Plyboards. Stock trades at 23x FY17E EPS, which is at a significant discount to leading franchises in other building material categories like tiles, paints and electricals (20-35% discount). Our target price implies 19x FY18E EPS; multiples expansion could be hindered by stretched working capital cycles, low predictability of timber regulations, possibilities of disruptions to the product category, and rising capex needs for MDF expansion.

Questions for the management

We urge investors to understand the following from the management in the earnings conference call to be held on Thursday at 4PM Dial in details: +91 22 6746 5878.

- The company is setting up a large face veneer capacity in Laos and also contemplating expansions in Indonesia. How is this business progressing and is the company committing further capital in expanding its face veneer capacities? Does the company see the face veneer business as an alternate revenue source or a raw material linkage – what is the long-term plan here? Is there a likelihood of disruption in raw material sources such as Myanmar and Laos and the company's strategy to combat that?
- How is the particle board business progressing – has the company managed to scale up this business and are the company's revenues in-line with management's initial estimates (Rs800-1,000mn annual revenues)?
- What has resulted in low EBIT margin for plyboards for the second consecutive quarter? Has the margin on face veneer sales reduced materially?
- What is the current forex exposure of the company and what is the unhedged Buyers credit? Why is the company not hedging its forex exposure, despite volatile INR?
- The company has a large capex commitment in the next two years (Rs4.5-5bn), how does it plan to fund it, especially given that internal accruals might remain weak if demand weakness persists? Is the company looking to add capacities in the laminates business as well?
- It appears that the company's working capital cycle improved marginally in FY16, what led to the improvement, despite weak demand and most companies reporting deteriorating in working capital cycle?

Exhibit 1: Quarterly summary

(Rs mn, unless mentioned)	4QFY15	3QFY16	4QFY16	YoY (%)	QoQ (%)	Ambit Est	Dev (%)
Net Sales	4,049	3,886	4,512	11.4	16.1	4,173	8.1
Operating costs	3,299	3,210	3,774	14.4	17.6	3,485	8.3
EBITDA	793	696	773	(2.5)	11.1	709	9.1
EBITDA margin	19.6	17.9	17.1	-246 bps	-77 bps	17.0	16 bps
EBITDA (ex-forex)	710	665	760	7.0	14.3	709	7.3
EBITDA margin (ex-forex)	17.5	17.1	16.9	-69 bps	-28 bps	17.0	-13 bps
Other income	9	7	1	(89.9)	(87.9)	10	(91.3)
Depreciation	119	116	122	3.0	5.1	120	1.8
EBIT	684	587	638	(6.6)	8.8	599	6.6
Interest cost	90	107	103	14.3	(3.5)	150	(31.3)
PBT	593	480	549	(7.5)	14.4	449	22.4
Tax	114	64	144	26.6	124.7	90	
PAT	480	416	405	(15.5)	(2.6)	359	12.9
PAT (adjusted for forex gains/losses)	429	390	396	(7.7)	1.5	367	7.9
EPS	2.2	1.9	1.8	(15.5)	(2.6)	2	12.9

Source: Company, Ambit Capital research

Exhibit 2: Segmental performance

Segmental Sales (Rs mn)	4QFY15	3QFY16	4QFY16	YoY (%)	QoQ (%)
Plyboard	2,918	2,753	3,207	9.9	16.5
Laminates	805	774	923	14.7	19.2
CFS	174	235	238	36.6	1.3
Others	160	134	150	(6.3)	12.0
Segmental EBIT (Rs mn)					
Plyboard	576	408	482	(16.3)	18.2
Laminates	65	104	136	110.4	30.9
CFS	60	84	87	46.1	3.3
Others	(8)	(1)	(11)	32.2	1,760.6
Segmental EBIT (%)					
Plyboard	19.8	14.8	15.0	-471 bps	21 bps
Laminates	8.0	13.4	14.7	670 bps	131 bps
CFS	34.2	35.9	36.6	237 bps	71 bps
Others	(5.0)	(0.4)	(7.0)	-205 bps	-660 bps
Capital Employed (Rs mn)					
Plyboard	5,598	5,547	5,017	(10.4)	(9.6)
Laminates	1,705	1,633	1,572	(7.8)	(3.7)
CFS	600	631	595	(0.8)	(5.7)
Others	31	153	118	276.9	(23.2)
Segmental RoCE (TTM EBIT/CE)					
Plyboard	33.3	34.8	36.6	323 bps	180 bps
Laminates	13.5	23.0	28.4	1,497 bps	542 bps
CFS	36.3	40.3	47.3	1,104 bps	708 bps

Source: Company, Ambit Capital research

Balance Sheet

Rs mn unless mentioned	FY14	FY15	FY16E	FY17E	FY18E
Total Networth	2,931	3,894	5,275	6,740	8,732
Loans	5,276	4,677	4,527	5,827	6,577
Of which Buyers credit	2,002	1,500	1,100	800	800
Sources of funds	8,314	8,564	9,804	12,578	15,331
Net block	3,164	2,456	3,478	6,567	8,038
Total Current Assets	6,793	7,819	8,004	7,875	9,875
Current liabilities and provisions	1,914	2,041	2,036	2,221	2,939
Net current assets	4,879	5,777	5,968	5,654	6,935
Application of funds	8,314	8,564	9,804	12,578	15,331

Source: Company, Ambit Capital research

Income statement

Rs mn unless mentioned	FY14	FY15	FY16	FY17E	FY18E
Revenue	13,477	15,727	16,469	18,022	24,101
Plyboards	10,480	12,458	12,364	13,661	16,371
MDF/particle board	-	-	-	600	3,552
Laminates	2,587	3,213	3,947	4,602	5,811
Total expenses	11,961	13,326	13,709	15,056	20,083
EBITDA	1,766	2,559	2,875	3,074	4,210
EBITDA margin	13.1%	16.1%	17.3%	16.4%	16.7%
Depreciation	387	485	446	690	787
EBIT	1,416	2,251	2,445	2,598	3,626
Other income	37	177	16	214	204
Adj PBT	629	1,795	1,978	2,229	3,028
Provision for taxation	124	338	297	446	606
Adjusted PAT	786	1,491	1,672	1,774	2,412
EPS basic (Rs)	4	7	8	8	11

Source: Company, Ambit Capital research

Cash flow statement

Rs mn unless mentioned	FY14	FY15	FY16E	FY17E	FY18E
PBT	629	1,796	1,978	2,229	3,028
Change in working capital	(1,168)	(877)	311	64	(1,499)
Direct taxes paid	(117)	(337)	(297)	(446)	(606)
CFO	338	1,488	2,889	2,692	2,106
Net capex	643	(68)	1,468	3,779	2,259
CFI	(706)	128	(1,479)	(3,565)	(2,055)
Interest & finance charges paid	(287)	(335)	(467)	(369)	(598)
Dividends paid	(60)	(462)	(291)	(309)	(420)
CFF	(281)	(1,577)	(908)	623	(268)
Net increase in cash	(649)	39	502	(250)	(217)
FCF	(305)	1,556	1,421	(1,087)	(153)
Opening cash balance	983	334	374	875	625
Closing cash balance	334	374	875	625	408

Source: Company, Ambit Capital research

Ratio analysis / Valuation parameters

	FY14	FY15	FY16E	FY17E	FY18E
RoCE	19	22	21	18	21
RoIC	23	23	20	22	23
RoE	36	43	36	29	31
Working capital turnover	2.5	3.0	2.8	3.1	3.8
Debt/Equity(x)	1.7	1.2	0.8	0.9	0.7
Net debt/Equity(x)	1.6	1.1	0.7	0.8	0.7
P/E (x)	51.2	27.0	24.1	22.7	16.7
P/B(x)	13.2	10.2	7.5	5.9	4.6
EV/EBITDA(x)	25.6	17.4	15.3	14.8	11.0

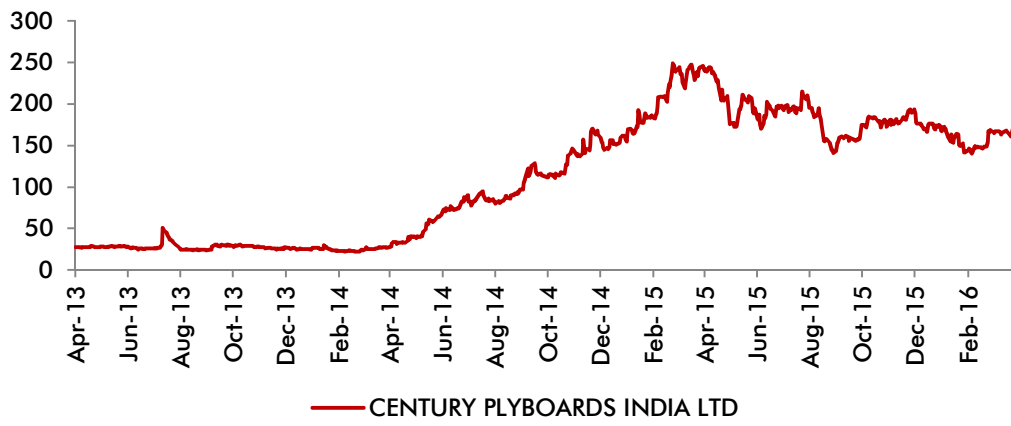
Source: Company, Ambit Capital research

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E&C = Engineering & Construction

Century Plyboards India Ltd (CPBI IN, BUY)



Source: Bloomberg, Ambit Capital research

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BUY	>10%
SELL	≤10%
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