

BUY

TP: Rs 330 | ▲ 23%

CENTURY PLYBOARDS

Construction Materials

17 May 2018

Tepid quarter

Century Plyboards' (CPBI) revenue grew 11.4% YoY in Q4FY18 led by the new MDF plant, even as plywood revenues dipped 7.3%. Despite better gross margins, EBITDA margins contracted 187bps YoY due to higher other expenses (+318bps), resulting in flat EBITDA. PAT dropped 36% YoY on interest and depreciation costs related to the MDF plant. Management expects the foray into MDF to drive 25% revenue growth in FY19. We maintain BUY, but trim FY19/FY20 earnings by ~7% each and lower our Mar'19 target price from Rs 355 to Rs 330.

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Tepid revenue growth: CPBI's revenues grew 11.4% YoY led by MDF (Rs 647.6mn, +36% QoQ), where commercial production started in Q3FY18. Plywood revenues dipped 7.3% YoY due to a fall in commercial veneer/deco veneer revenues (-32.9%/-13.1%) and a 9.7% drop in plywood realisations. Lower availability of face veneer hit the commercial business, whereas plywood realisations softened owing to a change in product mix. Laminates posted 20% YoY revenue growth upon commissioning of a new line in Jan'18.

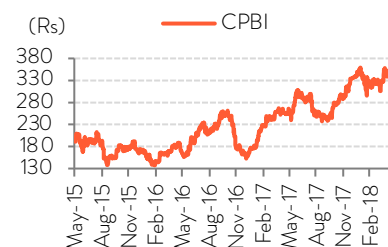
EBITDA flat, PAT declines: Despite a 148bps rise in gross margin, operating margins declined 187bps YoY to 15.3% due to higher other expenditure (+318bps), resulting in flat EBITDA YoY. Adj. PAT fell 36% YoY to Rs 357mn due to increased depreciation (+78% YoY) and higher interest cost (+377% YoY) upon commissioning of the MDF plant in FY18.

Strong guidance: Management has guided for (a) revenue growth of 25% YoY in FY19 driven by the MDF/particle board business (Rs 4bn vs. Rs 1.5bn YoY), and (b) EBITDA margins of 20% in MDF.

Maintain BUY: We like CPBI for its comprehensive wood panel product portfolio aided by its entry into MDF. Our Mar'19 TP of Rs 330 is set at 27x FY20E EPS.

Ticker/Price	CPBI IN/Rs 269
Market cap	US\$ 884.2mn
Shares o/s	223mn
3M ADV	US\$ 1.0mn
52wk high/low	Rs 364/Rs 235
Promoter/FPI/DII	72%/11%/17%

Source: NSE

STOCK PERFORMANCE

Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY17A	FY18P	FY19E	FY20E	FY21E
Adj. net profit (Rs mn)	1,690	1,650	2,172	2,699	3,013
Adj. EPS (Rs)	7.6	7.4	9.8	12.1	13.6
Adj. EPS growth (%)	3.6	(2.4)	31.7	24.3	11.6
Adj. ROAE (%)	27.2	21.1	23.0	23.4	21.6
Adj. P/E (x)	35.4	36.2	27.5	22.1	19.8
EV/EBITDA (x)	19.1	18.0	14.4	12.1	10.9

Source: Company, BOBCAPS Research

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FIG 1 – QUARTERLY PERFORMANCE

(Rs mn)	Q4FY18	Q4FY17	YoY (%)	Q3FY18	QoQ (%)
Total revenues	5,441	4,885	11.4	5,099	6.7
Total raw material consumed	2,738	2,531	8.2	2,607	5.0
% of sales	50.3	51.8	(148bps)	51.1	(80bps)
Employee expenses	752	667	12.7	723	4.0
% of sales	13.8	13.7	16bps	14.2	(35bps)
Other expenses	1,119	850	31.8	892	25.5
% of sales	20.6	17.4	318bps	17.5	308bps
EBITDA	831.6	837.8	(0.7)	877.7	(5.3)
% of sales	15.3	17.1	(187bps)	17.2	(193bps)
Depreciation	277.3	155.6	78.2	263.0	5.4
Other income	13.0	141.5	(90.8)	42.3	(69.4)
Interest cost	121.9	25.5	377.3	62.7	94.5
PBT	445.3	798.1	(44.2)	594.2	(25.1)
Taxes	88.1	239.1	(63.1)	127.6	(31.0)
Effective tax rate (%)	19.8	30.0		21.5	
APAT	357.2	559.1	(36.1)	466.6	(23.4)

Source: Company, BOBCAPS Research

FIG 2 – SEGMENTAL PERFORMANCE

(Rs mn)	Q4FY18*	Q4FY17	YoY (%)	Q3FY18	QoQ (%)
Revenue					
Plywood & Allied products	3,230	3,743	(13.7)	3,227	0.1
Laminates	1,194	1,099	8.6	999	19.5
MDF	648	6	10,900.6	476	36.1
Particle Board	109	117	(7.2)	100	8.8
Container Freight Station	233	235	(0.9)	276	(15.6)
Others	98	91	7.0	75	30.6
Total	5,511	5,292	4.1	5,153	7.0
Less: Inter Segment revenue	69.62	33.38	108.6	53	30.7
Net revenues	5,441	5,258	3.5	5,099	6.7
Profit before interest & tax					
Plywood & Allied products	480	740	(35.2)	422	13.9
Laminates	115	110	3.8	122	(6.2)
MDF	(24)	(6)	279.9	1	(2,416.4)
Particle Board	(12)	(33)	(62.5)	8	(249.5)
Container Freight Station	62	60	3.6	85	(27.1)
Others	(14)	(21)	(33.0)	3	(514.7)
Total	606	850	(28.7)	642	(5.6)
EBIT Margin (%)					
Plywood & Allied products	14.9	19.8	(492bps)	13.1	180bps
Laminates	9.6	10.0	(44bps)	12.2	(263bps)
MDF	(3.7)	(108.1)	NA	0.2	(395bps)
Particle Board	(11.4)	(28.3)	NA	8.3	NA
Container Freight Station	26.7	25.5	116bps	30.9	(422bps)

Source: Company, BOBCAPS Research | *As per Ind-AS, numbers not comparable

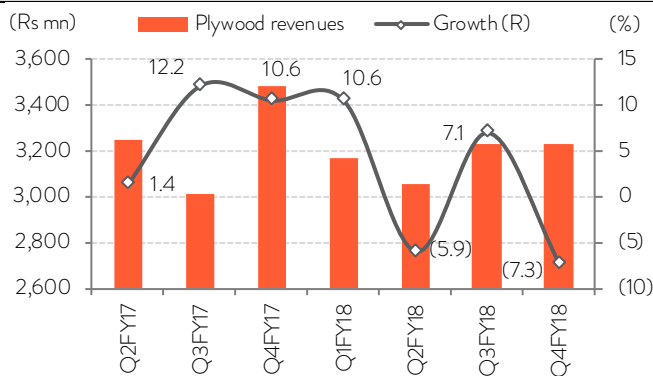
FIG 3 – REVISED ESTIMATES

(Rs mn)	New		Old		Chg (%)	
	FY19	FY20	FY19	FY20	FY19	FY20
Revenues	24,614	28,292	25,011	28,505	(1.6)	(0.7)
EBITDA	4,158	4,945	4,353	5,051	(4.5)	(2.1)
PAT	2,172	2,699	2,337	2,904	(7.1)	(7.1)

Source: Company, BOBCAPS Research

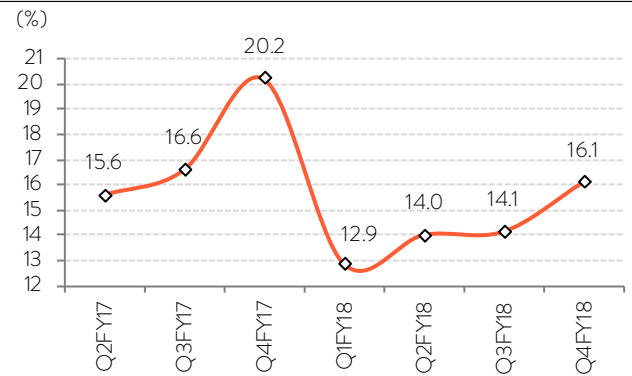
QUARTERLY TRENDS

FIG 4 – PLYWOOD REVENUES



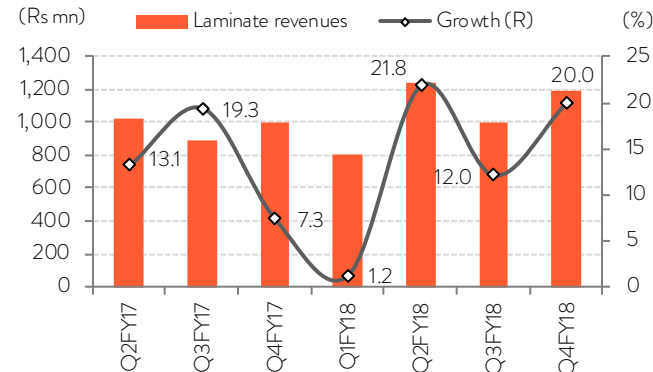
Source: Company, BOBCAPS Research

FIG 5 – PLYWOOD EBITDA MARGINS



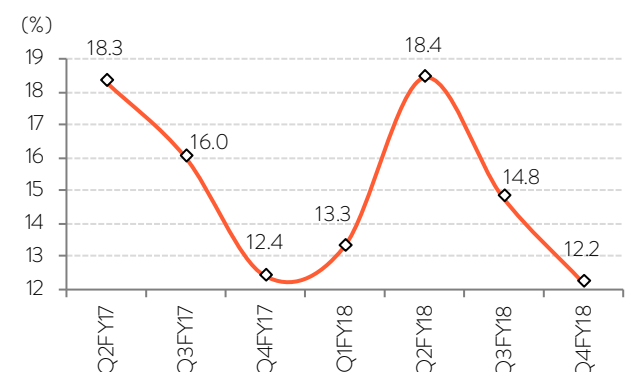
Source: Company, BOBCAPS Research

FIG 6 – LAMINATE REVENUES



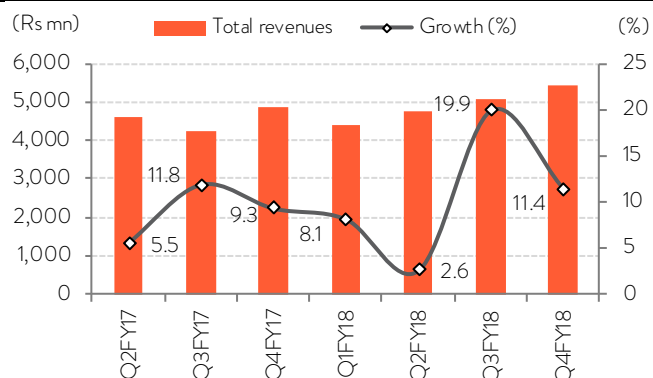
Source: Company, BOBCAPS Research

FIG 7 – LAMINATE EBITDA MARGINS



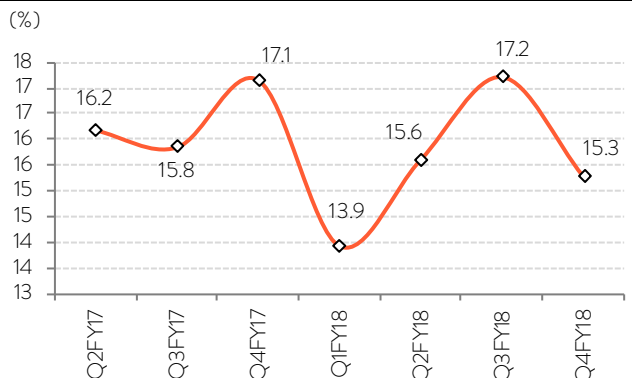
Source: Company, BOBCAPS Research

FIG 8 – REVENUES



Source: Company, BOBCAPS Research

FIG 9 – EBITDA MARGINS



Source: Company, BOBCAPS Research

Earnings call highlights

- CPBI aims to grow revenues at 25% in FY19. Growth was muted in FY18 due to GST implementation and the rate flip-flop, as well as delays in e-way bill rollout.
- With recent implementation of the e-way bill, management expects the organised sector to witness higher growth in FY19. In Apr'18, the company's plywood business grew 8% YoY.
- CPBI suffered a forex loss of Rs 66.1mn in FY18 (vs. a gain of Rs 181.3mn in FY17), which affected overall profitability.
- Management has not hedged forex as a policy since FY04, and this has served CPBI well to date. However, given the recent rupee volatility, the company will revisit this strategy.

Plywood

- Plywood margins were hit by a lack of raw material availability at the Guwahati plant, which led to price pressure.
- Given raw material cost pressures, CPBI plans to take a ~3% price hike on plywood products from Jun'18 which should enable it to maintain margins.
- The company is looking at alternate sources of face veneer besides its current supply from Myanmar. It is also currently sourcing from Solomon Islands and exploring Gabon, Africa, for future supplies.
- CPBI is seeing more demand for mass-market plywood whereas offtake of premium products is muted.
- Management expects 12-15% revenue growth in plywood in FY19 led mainly by volumes, accompanied by EBITDA margins of 15-16%.

Laminates

- A new production line for laminates was commissioned in Jan'18 and a second line will become operational by Jun'18. Both lines will increase capacity by ~50%.
- Due to the rise in crude, raw material prices are increasing – the company intends to pass this burden along going ahead.
- Management expects laminate revenues to grow by ~20% in FY19, aided by the capacity increase, with EBITDA margins of ~15%.

MDF

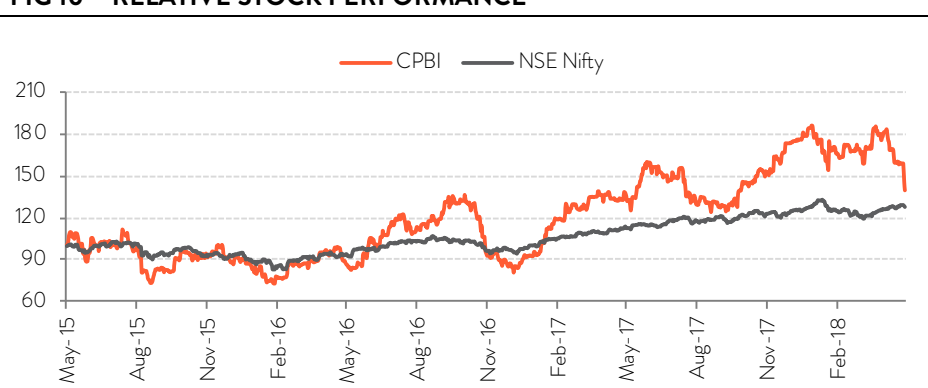
- During Q4FY18, CPBI wrote-off substandard MDF inventory worth ~Rs 20mn, which affected margins.
- The company has taken price cuts of ~4% from Q1FY19 due to increased competitive intensity in the segment.
- Management sees enormous demand potential for MDF and believes the recent price competition will gradually normalise.
- South India imports large amounts of MDF – this demand can now be catered to by the growing domestic capacities. Management believes that imports will gradually be substituted by domestic players given the recent rupee depreciation (~5%) and MDF price cuts (~4%).
- CPBI can expand its current MDF plant from ~600cbm/day to 1,000cbm/day at a nominal capex of Rs 1bn-1.2bn – management intends to proceed with this expansion going ahead.
- Management has guided for 80% utilisation of the MDF plant in FY19 with 20% operating margins.

Valuation methodology

CPBI is the joint market leader in India's organised plywood industry along with Greenply Industries (MTLM IN). It is also the third largest laminate player in India and has recently set up the biggest MDF plant in the country. With this facility, CPBI has evolved into the largest integrated wood panel company in India, equipped with a wide distribution reach, strong brand focus and comprehensive product portfolio.

We continue to value CPBI at a P/E of 27x FY20E (in line with its 3-year average). Based on our revised earnings estimates, we have a new Mar'19 target price of Rs 330 for the stock (from Rs 355). Maintain BUY.

FIG 10 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- **Failure to stabilise MDF plant:** CPBI has recently entered into the manufacturing of MDF. A failure to stabilise the plant and run it at optimum capacity will adversely affect performance.
- **Regulatory concerns on raw material sourcing:** Wood is a key raw material for plywood and MDF manufacturing. Any regulatory restriction on sourcing of wood or face veneer will affect the company's profitability.
- **Sharp rise in raw material prices:** Higher raw material prices and an inability to pass these on to consumers may hurt profitability.
- **Prolonged slowdown in housing market:** A continued slowdown in the housing market would hit growth prospects.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY17A	FY18P	FY19E	FY20E	FY21E
Total revenue	18,187	20,239	24,614	28,292	31,154
EBITDA	3,130	3,329	4,158	4,945	5,467
EBIT	2,537	2,423	3,018	3,676	4,043
Net interest income/(expenses)	(302)	(358)	(314)	(330)	(182)
Other income/(expenses)	0	79	102	133	146
Exceptional items	0	0	0	0	0
EBT	2,235	2,143	2,807	3,479	4,007
Income taxes	(515)	(463)	(603)	(748)	(962)
Extraordinary items	215	(19)	0	0	0
Min. int./Inc. from associates	(30)	(31)	(31)	(32)	(33)
Reported net profit	1,905	1,631	2,172	2,699	3,013
Adjustments	(215)	19	0	0	0
Adjusted net profit	1,690	1,650	2,172	2,699	3,013

Balance Sheet

Y/E 31 Mar (Rs mn)	FY17A	FY18P	FY19E	FY20E	FY21E
Accounts payables	1,410	1,753	1,956	2,248	2,475
Other current liabilities	855	1,312	1,214	1,240	1,366
Provisions	187	120	246	283	312
Debt funds	6,114	5,346	5,100	3,150	1,400
Other liabilities	0	0	0	0	0
Equity capital	223	223	223	223	223
Reserves & surplus	6,927	8,293	10,157	12,467	15,043
Shareholders' fund	7,149	8,516	10,380	12,690	15,265
Total liabilities and equities	15,835	17,231	19,111	19,858	21,098
Cash and cash eq.	672	211	102	58	85
Accounts receivables	3,422	3,572	4,114	4,728	5,207
Inventories	3,006	3,828	4,046	4,651	5,121
Other current assets	1,949	1,138	1,618	1,860	2,049
Investments	61	61	61	61	61
Net fixed assets	3,041	6,474	8,484	7,814	7,890
CWIP	2,991	1,261	0	0	0
Intangible assets	18	18	18	18	18
Deferred tax assets, net	675	667	667	667	667
Other assets	0	0	0	0	0
Total assets	15,835	17,231	19,111	19,858	21,098

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY17A	FY18P	FY19E	FY20E	FY21E
Net income + Depreciation	2,498	2,537	3,312	3,968	4,437
Interest expenses	302	358	314	330	182
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(479)	573	(1,010)	(1,106)	(756)
Other operating cash flows	8	72	31	32	33
Cash flow from operations	2,329	3,540	2,646	3,225	3,896
Capital expenditures	(3,119)	(2,610)	(1,888)	(600)	(1,500)
Change in investments	2	0	0	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(3,118)	(2,610)	(1,888)	(600)	(1,500)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	1,418	(768)	(246)	(1,950)	(1,750)
Interest expenses	(302)	(358)	(314)	(330)	(182)
Dividends paid	0	(268)	(339)	(421)	(470)
Other financing cash flows	(44)	4	31	32	33
Cash flow from financing	1,072	(1,391)	(867)	(2,669)	(2,369)
Changes in cash and cash eq.	284	(461)	(109)	(44)	27
Closing cash and cash eq.	672	211	102	58	85

Per Share

Y/E 31 Mar (Rs)	FY17A	FY18P	FY19E	FY20E	FY21E
Reported EPS	8.6	7.3	9.8	12.1	13.6
Adjusted EPS	7.6	7.4	9.8	12.1	13.6
Dividend per share	1.0	1.0	1.3	1.6	1.8
Book value per share	32.1	38.3	46.6	57.0	68.6

Valuations Ratios

Y/E 31 Mar (x)	FY17A	FY18P	FY19E	FY20E	FY21E
EV/Sales	3.3	3.0	2.4	2.1	1.9
EV/EBITDA	19.1	18.0	14.4	12.1	10.9
Adjusted P/E	35.4	36.2	27.5	22.1	19.8
P/BV	8.4	7.0	5.8	4.7	3.9

DuPont Analysis

Y/E 31 Mar (%)	FY17A	FY18P	FY19E	FY20E	FY21E
Tax burden (Net profit/PBT)	75.6	77.0	77.4	77.6	75.2
Interest burden (PBT/EBIT)	88.1	88.5	93.0	94.6	99.1
EBIT margin (EBIT/Revenue)	13.9	12.0	12.3	13.0	13.0
Asset turnover (Revenue/Avg TA)	131.9	122.4	135.5	145.2	152.1
Leverage (Avg TA/Avg Equity)	2.2	2.1	1.9	1.7	1.5
Adjusted ROAE	27.2	21.1	23.0	23.4	21.6

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Ratio Analysis

Y/E 31 Mar	FY17A	FY18P	FY19E	FY20E	FY21E
YoY growth (%)					
Revenue	10.8	11.3	21.6	14.9	10.1
EBITDA	8.1	6.4	24.9	19.0	10.5
Adjusted EPS	3.6	(2.4)	31.7	24.3	11.6
Profitability & Return ratios (%)					
EBITDA margin	17.2	16.5	16.9	17.5	17.5
EBIT margin	13.9	12.0	12.3	13.0	13.0
Adjusted profit margin	9.3	8.1	8.8	9.5	9.7
Adjusted ROAE	27.2	21.1	23.0	23.4	21.6
ROCE	16.6	13.9	15.9	18.2	18.6
Working capital days (days)					
Receivables	63	63	57	57	58
Inventory	122	126	121	117	119
Payables	28	34	33	33	34
Ratios (x)					
Gross asset turnover	5.2	3.2	2.5	2.4	2.4
Current ratio	1.3	1.8	2.1	2.4	2.5
Net interest coverage ratio	8.4	6.8	9.6	11.1	22.2
Adjusted debt/equity	0.8	0.6	0.5	0.2	0.1

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

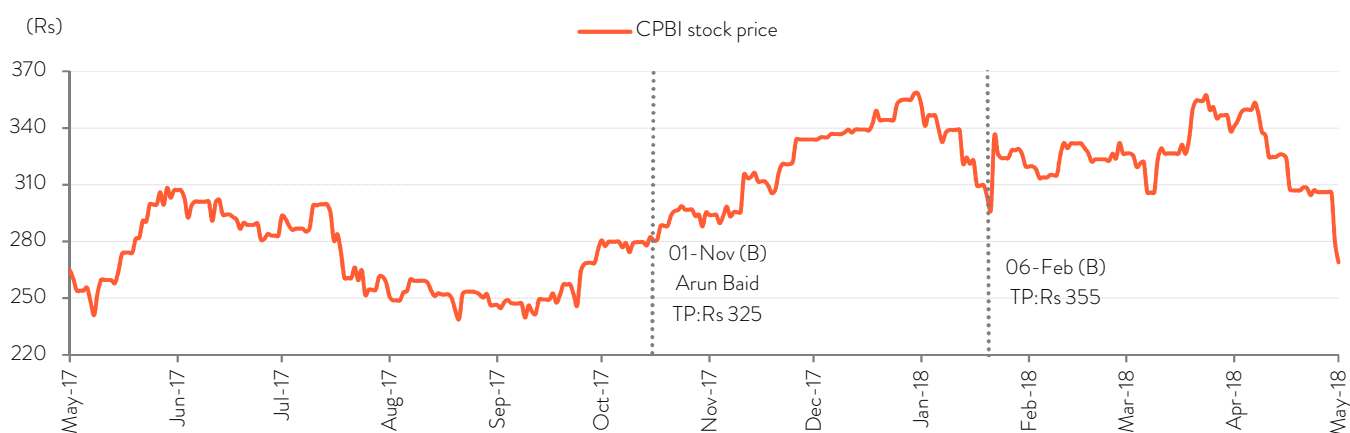
ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

HISTORICAL RATINGS AND TARGET PRICE: CENTURY PLYBOARDS (CPBI IN)



B – Buy, A – Add, R – Reduce, S – Sell

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