

Century Plyboards

BUY
Sales disappoint; margin beats

Summary

- Century Plyboards reported mixed set of results where net sales were below our expectations (on lower-than-expected plywood sales) while EBITDA margin was better than our forecast.
- Century's net sales grew 19.8% YoY to Rs51 bn led by commercialization of MDF facility (sales of Rs5 bn) during Q3FY18, while the company's EBITDA grew 36.5% YoY to Rs9.2 bn (EBITDA margin at 18.0%).
- We slightly tweak our FY18/19/20 forecasts considering the Q3FY18 results and the updated management guidance.
- We maintain our Buy rating on the stock with a revised target price of Rs400.

Key Investment Rationale

- Plywood sales lower than expected:** Plywood sales at Rs3.2 bn were lower than our forecast impacted by higher GST rate (28%) in the early part of the quarter; *Sainik* sales fell 29% YoY during the quarter. Plywood EBIT margin fell 276bps YoY to 13.1% YoY on rise in raw material costs, although company now aims to raise plywood prices by 3-5%.
- MDF plant up and running:** During Q3FY18, MDF volumes stood at 20,639 cbm with a realization of Rs22,908/cbm; Segment EBITDA margin of 20.0% was commendable in our view. The company has commenced 1 line of operations during January in its Laminates division (which it is in the process of expanding). Further, the company aims to set-up a door unit in collaboration with a Chinese company while it also aims to set-up rooftop solar panel to save energy costs.
- Sales growth to remain strong:** We believe Century's earnings are at an inflection point given that its capex cycle is nearly complete. We expect Century's sales/EBITDA/PAT to grow at a CAGR of 18%/24%/22%, respectively. We value the stock at a PE multiple of 26.0x on our FY20 EPS estimate to derive a target price of Rs400 (previous Rs421).

TP	Rs400
CMP	Rs299
Potential upside / downside	+34%
Previous Rating	BUY

V/s Consensus

EPS (Rs)	FY18E	FY19E	FY20E
IDBI Capital	8.0	11.7	15.2
Consensus	8.1	11.2	13.5
% difference	(0.7)	4.2	13.0

Shareholding Pattern (%)

Promoters	72.0
FII	11.1
DII	4.7
Public	12.2

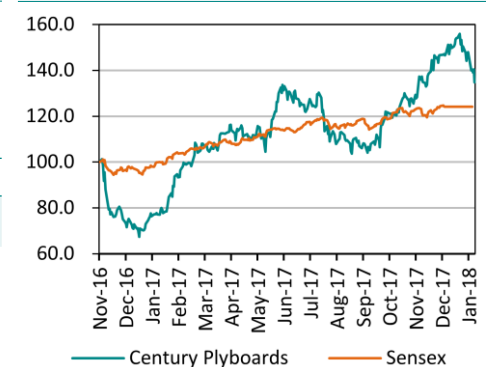
Price Performance (%)

	-1m	-3m	-12m
Absolute	(13.3)	4.5	38.5
Rel to Sensex	(19.6)	(2.3)	11.1

Key Stock Data

Bloomberg/Reuters	CPBI IN /CNTP.BO
Sector	Midcap
Shares o/s (mn)	222
Market cap. (Rs mn)	66,430
Market cap. (US\$ mn)	1,037
3-m daily average value (Rs mn)	306
52-week high / low	Rs 363 / 213
Sensex / Nifty	34,196 / 10,498

Relative to Sensex (%)



Financial snapshot

Year	FY16	FY17	FY18E	FY19E	FY20E
Revenue	16,357	17,825	19,884	24,977	29,185
EBITDA	2,898	3,147	3,381	4,667	5,695
EBITDA (%)	17.7	17.7	17.0	18.7	19.5
Adj. PAT	1,699	1,856	1,783	2,600	3,382
EPS (Rs)	7.6	8.4	8.0	11.7	15.2
EPS Growth (%)	12.7	9.2	(3.9)	45.8	30.1
PE (x)	39.9	36.6	38.1	26.1	20.1
Dividend Yield (%)	0.8	0.3	0.5	0.8	1.0
EV/EBITDA (x)	24.8	23.1	21.8	15.6	12.6
RoE (%)	37.2	30.1	23.0	27.7	29.1
RoCE (%)	28.1	25.5	19.8	25.7	29.4

Source: Company; IDBI Capital Research

Table 1: Quarterly Snapshot

(Rs mn)

Financial snapshot	Q3FY18	Q2FY18	QoQ (%)	Q3FY17	YoY (%)
Net sales	5,099	4,746	7.5	4,255	19.8
Expenditure	4,222	4,005	5.4	3,581	17.9
EBITDA	920	747	23.2	674	36.5
<i>EBITDA margin (%)</i>	<i>17.9</i>	<i>15.7</i>	<i>218bps</i>	<i>15.8</i>	<i>205bps</i>
Interest	63	79	(21.0)	112	(44.1)
Depreciation	263	138	90.2	149	76.0
PBT	594	529	12.3	445	33.6
Tax	128	128	(0.2)	72	78.1
PAT	467	402	16.2	373	25.1
Adj. diluted EPS (Rs)	2.1	1.8	15.9	1.7	25.1

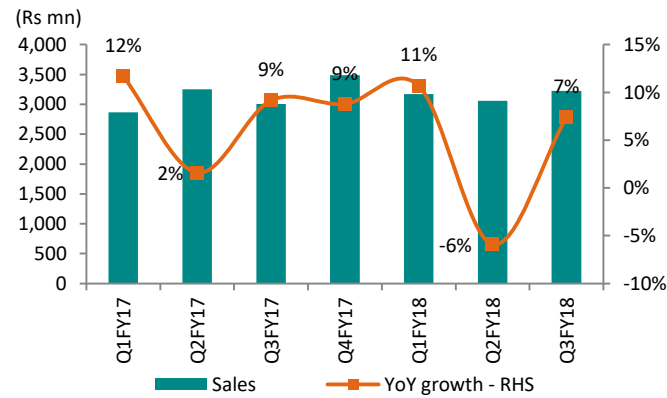
Source: Company; IDBI Capital Research

Table 2: Actual vs. Estimates

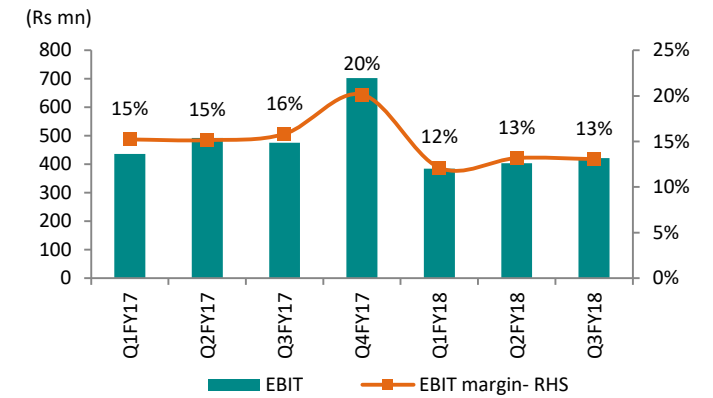
(Rs mn)

	Q3FY18E	Q3FY18A	Variance (%)
Net sales	5,591	5,099	(8.8)
EBTIDA	867	920	6.1
<i>Margin</i>	<i>15.5</i>	<i>18.0</i>	<i>254bps</i>
PAT	478	467	(2.4)
Adj. diluted EPS (Rs)	2.1	2.1	(2.4)

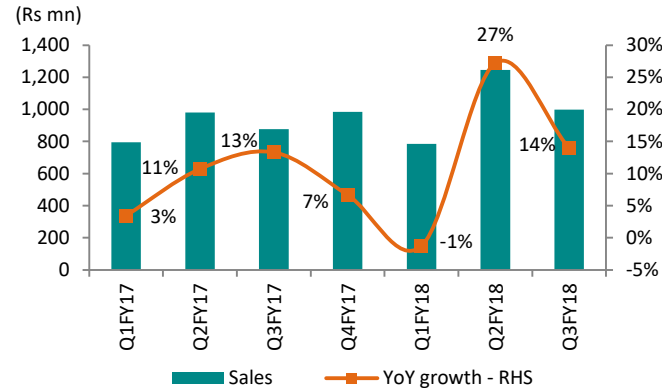
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Figure 1: Plywood sales grew 7% YoY


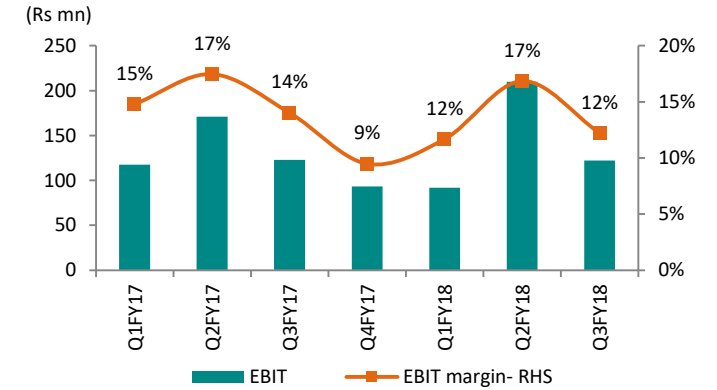
Source: Company; IDBI Capital Research

Figure 2: Plywood margins lower YoY


Source: Company; IDBI Capital Research

Figure 3: Laminates sales growth strong in Q3FY18


Source: Company; IDBI Capital Research

Figure 4: Laminates EBIT margins contract YoY


Source: Company; IDBI Capital Research

We have tweaked our FY18 estimates to factor the mixed Q3FY18 results. Our FY19 sales estimates are lowered to account for lower MDF guidance by the management (80% utilization expected in FY19 vs. our earlier expectation of 90%).

Table 3: Change in estimates

	FY18E			FY19E			FY20E		
	Old	New	(%) Chg	Old	New	(%) Chg	Old	New	(%) Chg
Revenue (Rs mn)	20,934	19,884	(5.0)	26,158	24,977	(4.5)	29,935	29,185	(2.5)
EBITDA (Rs mn)	3,337	3,381	1.3	4,661	4,667	0.1	5,601	5,695	1.7
EBITDA margin (%)	15.9	17.0	106bps	17.8	18.7	87bps	18.7	19.5	80bps
Net profit (Rs mn)	1,879	1,783	(5.1)	2,814	2,600	(7.6)	3,554	3,382	(4.8)
EPS (Rs)	8.5	8.0	(5.1)	12.7	11.7	(7.6)	16.0	15.2	(4.8)

Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account					(Rs mn)
Year-end: March	FY17	FY18E	FY19E	FY20E	
Net sales	17,825	19,884	24,977	29,185	
<i>Growth (%)</i>	9.0	11.6	25.6	16.8	
Operating expenses	(14,904)	(16,569)	(20,382)	(23,570)	
EBITDA	3,147	3,381	4,667	5,695	
<i>Growth (%)</i>	8.6	7.4	38.1	22.0	
Depreciation	(524)	(794)	(894)	(952)	
EBIT	2,623	2,587	3,774	4,743	
Interest paid	(286)	(301)	(440)	(407)	
Other income	-	-	-	-	
Pre-tax profit	2,337	2,286	3,334	4,337	
Tax	(481)	(503)	(733)	(954)	
<i>Effective tax rate (%)</i>	20.6	22.0	22.0	22.0	
Minority Interest	-	-	-	-	
Net profit	1,856	1,783	2,600	3,382	
Adjusted net profit	1,856	1,783	2,600	3,382	
<i>Growth (%)</i>	9.2	(3.9)	45.8	30.1	
<i>Shares o/s (mn nos)</i>	222	222	222	222	

Cash Flow Statement					(Rs mn)
Year-end: March	FY17	FY18E	FY19E	FY20E	
Pre-tax profit	2,337	2,286	3,334	4,337	
Depreciation	517	771	894	952	
Tax paid	(531)	(503)	(733)	(954)	
Chg in working capital	(318)	(785)	(1,088)	(1,543)	
Other operating activities	-	-	-	-	
Cash flow from operations (a)	2,005	1,769	2,406	2,792	
Capital expenditure	(2,945)	(2,212)	(700)	(600)	
Chg in investments	(464)	-	-	-	
Other investing activities	-	-	-	-	
Cash flow from investing (b)	(3,409)	(2,212)	(700)	(600)	
Equity raised/(repaid)	-	-	-	-	
Debt raised/(repaid)	1,451	1,000	(1,000)	(633)	
Dividend (incl. tax)	267	446	650	846	
Chg in minorities	-	-	-	-	
Other financing activities	-	-	-	-	
Cash flow from financing (c)	1,719	1,446	(350)	212	
Net chg in cash (a+b+c)	314	1,003	1,356	2,404	

Balance Sheet

(Rs mn)

Year-end: March	FY17	FY18E	FY19E	FY20E
Net fixed assets	5,334	6,774	6,580	6,228
Investments	960	960	960	960
Other non-curr assets	369	369	369	369
Current assets	8,119	9,077	11,249	14,175
Inventories	2,638	2,943	3,697	4,480
Sundry Debtors	3,353	3,740	5,064	6,237
Cash and Bank	538	621	604	1,256
Loans and advances	1,334	1,488	1,527	1,784
Total assets	14,781	17,180	19,159	21,732
Shareholders' funds	7,086	8,420	10,371	12,907
Share capital	223	223	223	223
Reserves & surplus	6,864	8,198	10,148	12,685
Total Debt	5,500	6,500	5,500	4,867
Secured loans	5,500	6,500	5,500	4,867
Unsecured loans	-	-	-	-
Other liabilities	(692)	(689)	(689)	(689)
Curr Liab & prov	2,887	2,948	3,977	4,647
Current liabilities	2,701	2,741	3,717	4,343
Provisions	185	207	260	304
Total liabilities	7,695	8,759	8,788	8,825
Total equity & liabilities	14,781	17,180	19,159	21,732
Book Value (Rs)	32	38	47	58

Source: Company; IDBI Capital Research

Financial Ratios

Year-end: March	FY17	FY18E	FY19E	FY20E
Adj EPS (Rs)	8.4	8.0	11.7	15.2
Adj EPS growth (%)	9.2	(3.9)	45.8	30.1
EBITDA margin (%)	17.7	17.0	18.7	19.5
Pre-tax margin (%)	13.1	11.5	13.3	14.9
ROE (%)	30.1	23.0	27.7	29.1
ROCE (%)	25.5	19.8	25.7	29.4
Turnover & Leverage ratios (x)				
Asset turnover (x)	1.4	1.2	1.4	1.4
Leverage factor (x)	2.1	2.1	1.9	1.8
Net margin (%)	10.4	9.0	10.4	11.6
Net Debt / Equity (x)	0.7	0.7	0.5	0.3
Working Capital & Liquidity ratio				
Inventory days	54	54	54	56
Receivable days	69	69	74	78
Payable days	35	31	34	35

Valuation

Year-end: March	FY17	FY18E	FY19E	FY20E
P/E (x)	36.6	38.1	26.1	20.1
Price / Book value (x)	9.6	8.1	6.5	5.3
PCE (x)	28.5	26.3	19.4	15.7
EV / Net sales (x)	4.1	3.7	2.9	2.4
EV / EBITDA (x)	23.1	21.8	15.6	12.6
Dividend Yield (%)	0.3	0.5	0.8	1.0



Notes

Dealing

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Key to Ratings Stocks:

BUY: Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto ±5%; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

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