ANANDRATHI

India I Equities

Plywood
Result Update
Change in Estimates ☑ Target ☑ Reco ☐

27 January 2015

Century Plyboards

Strong margins, better profitability; we maintain a Buy

Rating: **Buy**
Target Price: ₹226
Share Price: ₹177

Key takeaways

Mounting revenues, up 26% yoy. Century Plyboard's 3QFY15 reported revenue came at ₹3.86bn (up 26% yoy) and 3% above our estimated ₹3.7bn. This was driven by growth in all segments, plywood (up 20.4% yoy), laminates (up 36.3% yoy) and logistics (up 48.4% yoy). Volumes for plywood and laminates rose, respectively, 10% and 19% yoy. For 9MFY15, sales grew 22.8% yoy to ₹11.5bn.

Whopping 898-bp yoy jump in margin. The 3Q EBITDA margin shot up 898bps yoy to 18.9%. This was chiefly because of lower raw material cost (down 899bps to 50.4% of sales). The benefit from the Myanmar 100% subsidiary for sourcing raw material is likely to continue over the next quarters. For 9MFY15, the EBIDTA margin jumped 662bps to 16%. The company reported PAT of ₹414m (up 110% yoy), supported by the robust margins. During 9MFY15, PAT was up 174% yoy to ₹1.03bn.

Capacity expansions leading to forward and backward integration. The new venture with a local timber manufacturer in Laos is likely to come up by Mar'15. Also, the company is setting up a particle board unit at Chennai at ₹0.6bn capex. This would benefit it in integration and help it achieve revenue of around ₹1.25bn at full capacity. For better capacity utilisation, the pre-laminate plant at Kolkata would be shifted to Chennai.

Our take. With the product launches in economy brands, GST implementation, a separate campaign for laminates, the advantages of sourcing from Myanmar and in logistics, and expanding capacities, volumes are likely to increase. We maintain our Buy recommendation on the stock, assigning a PE of 18x FY17e, and arrive at a target price of ₹226. At present, the stock trades at PE of 19.2x FY16e and 14.2x FY17e. **Risks:** Currency fluctuations, substitutes, high interest rates.

Key data	CPBI IN / CNTP.BO
52-week high / low	₹199 / ₹22
Sensex / Nifty	29571/ 8911
3-m average volume	US$0.2m
Market cap	₹40bn/US$0.65bn
Shares outstanding	223m

Shareholding pattern (%)	Dec14	Sep'14	Jun '14
Promoters	74.4	74.4	74.4
- of which, Pledged	8.4	*8.4*	*8.4*
Free Float	25.6	25.6	25.6
- FII	6.0	5.8	2.9
- DII	2.8	1.9	0.5
- Public	16.7	17.7	22.1

Estimates revision (%)	FY15e	FY16e	FY17e
Sales	-	-	-
EBITDA	9.6	8.1	4.5
EPS	1.9	6.1	2.1

Financials (YE Mar)	FY16e	FY17e
Sales (₹m)	20,010	25,003
Net profit (₹m)	2,077	2,796
EPS (₹)	9.3	12.6
Growth (%)	40.9	34.6
PE (x)	19.2	14.2
PBV (x)	6.9	4.9
RoE (%)	42.1	40.1
RoCE (%)	32.3	35.0
Dividend yield (%)	0.8	0.9
Net gearing (%)	0.5	0.2

Source: Anand Rathi Research

Quarterly results (YE Mar)	3QFY14	3QFY15	% yoy	9MFY14	9MFY15	% yoy
Sales (₹m)	3,056	3,858	26.3	9,411	11,556	22.8
EBITDA (₹m)	304	730	140.2	883	1,849	109.4
EBITDA margin (%)	9.9	18.9	898bps	9.4	16.0	662bps
Interest (₹m)	77	145	86.9	346	343	(0.8)
Depreciation (₹m)	88	116	32.5	244	329	35.1
Other income (₹m)	68	9	(86.3)	88	28	(68.1)
PBT (₹m)	207	478	131.2	381	1,205	216.1
Tax (₹m)	9	64	586.3	6	176	2,985.0
Tax rate (%)	5	13	893bps	1	15	1313bps
Adj. PAT (₹m)	197	414	109.6	375	1,028	174.0

Source: Company

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Quick Glance – Consolidated Financials and Valuations

Fig 1 – Income statement (₹ m)

Year-end: Mar	FY13	FY14	FY15e	FY16e	FY17e
Net sales	11,311	12,840	16,068	20,010	25,003
Sales growth (%)	1.14	13.51	25.14	24.54	24.95
- Oper. expenses	10,183	11,327	13,499	16,785	20,941
EBIDTA	**1,129**	**1,512**	**2,569**	**3,225**	**4,062**
EBITDA margins (%)	9.98	11.78	15.99	16.12	16.25
- Interest	390	551	452	410	363
- Depreciation	267	332	433	442	490
+ Other income	73	95	50	70	80
- Tax	17	24	260	367	493
Effective tax rate (%)	3.19	3.27	15.00	15.00	15.00
Reported cons.PAT	**527**	**700**	**1,474**	**2,077**	**2,796**
+/- Extraordinary items					
Adjusted cons. PAT	527	700	1,474	2,077	2,796
Adj. FDEPS (₹/sh)	(12.4)	32.9	110.6	40.9	34.6
Adj. FDEPS growth (%)	2.4	3.1	6.6	9.3	12.6
DPS (₹/sh)	(12.4)	32.9	110.6	40.9	34.6

Source: Company, Anand Rathi Research

Fig 2 – Balance sheet (₹ m)

Year-end: Mar	FY13	FY14	FY15e	FY16e	FY17e
Share capital	223	223	223	223	223
Reserves & surplus	2,274	2,692	3,853	5,566	7,945
Net worth	2,497	2,914	4,075	5,788	8,167
Total debt	4,461	4,478	4,128	3,678	3,228
Minority interest	0	0	0	0	0
Def. tax liab. (net)	(2)	(5)	(5)	(5)	(5)
Capital employed	**6,956**	**7,386**	**8,198**	**9,460**	**11,389**
Net fixed assets	2,217	2,307	2,324	2,332	2,361
Investments	157	379	379	379	379
- of which, Liquid					
Working capital	3,784	4,520	4,982	5,973	7,447
Cash	797	180	513	776	1,202
Capital deployed	**6,956**	**7,386**	**8,198**	**9,460**	**11,389**
Net debt/equity	1.5	1.5	0.9	0.5	0.2
W C turn (days)	79	92	96	98	102
Book value (₹/sh)	11	13	18	26	37

Source: Company, Anand Rathi Research

Fig 3 – Cash-flow statement (₹ m)

Year-end: Mar	FY13	FY14	FY15e	FY16e	FY17e
Consolidated PAT	527	700	1,474	2,077	2,796
+Non-cash Items	269	329	433	442	490
Cash profit	796	1,029	1,907	2,519	3,286
- Incr./(Decr.) in WC	545	735	462	991	1,473
Operating cash-flow	252	293	1,445	1,528	1,813
-Capex	377	423	450	450	520
Free cash-flow	**(126)**	**(130)**	**995**	**1,078**	**1,293**
-Dividend	65	252	312	364	417
+ Equity raised	(1,090)	(31)	0	0	0
+ Others	1,082	17	(350)	(450)	(450)
+ Debt raised	(576)	222	0	0	0
-Investments	0	0	0	0	0
Net cash-flow	**377**	**(617)**	**332**	**263**	**426**
+Opening cash	421	797	180	513	776
Closing cash	797	180	513	776	1,202

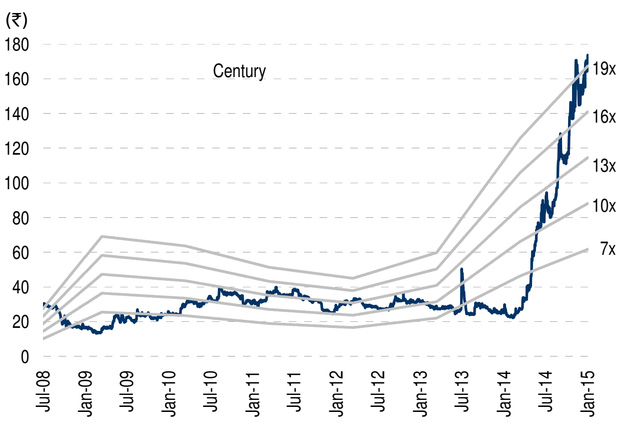
Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis @ ₹177

Year-end: Mar	FY13	FY14	FY15e	FY16e	FY17e
P/E (x)	78.2	58.8	27.9	19.8	14.7
Cash P/E (x)	51.9	39.9	21.6	16.3	12.5
EV/EBITDA (x)	39.7	30.1	17.4	13.7	10.6
EV/sales (x)	4.0	3.5	2.8	2.2	1.7
P/B (x)	16.5	14.1	10.1	7.1	5.0
Dividend yield (%)	0.1	0.5	0.6	0.8	0.9
Dividend payout (%)	10.5	31.7	18.1	15.0	12.7
RoE (%)	21.1	25.9	42.2	42.1	40.1
RoCE (%)	13.4	17.8	28.1	32.3	35.0
Debtor days	55.4	54.1	53.0	55.0	59.0
Inventory days	70.2	83.2	93.0	93.0	93.0
Payables days	47.1	44.9	50.0	50.0	50.0
Working capital days	78.6	92.5	96.0	98.0	102.0
Fixed asset T/O (x)	5.1	5.6	6.9	8.6	10.6
Debt to equity (x)	1.8	1.5	1.0	0.6	0.4

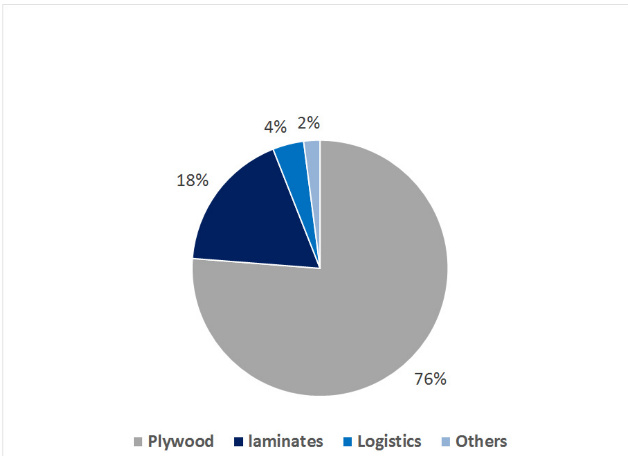
Source: Company, Anand Rathi Research

Fig 5 – PE band



Source: Bloomberg, Anand Rathi Research

Fig 6 – Revenue breakup (FY14)



Source: Company, Anand Rathi Research

Result Highlights

Buoyant operating performance

For 3QFY15 Century reported revenue of ₹3.86bn (up 20.3% yoy), 3% above our estimated ₹3.7bn. The growth came from plywood (up 20.4% yoy), laminates (up 36.3% yoy) and logistics (up 48.4% yoy). The 3Q EBITDA margin shot up 898bps yoy to 18.9%, driven by low raw-material costs and a ₹19.7m forex gain in the quarter.

Ahead, with the ongoing expansions on track, volumes are expected to rise. Because of the increasing sales and healthy margins, profit grew 110% yoy to ₹41m, 18% above our estimate. The 3Q EBIT margins in plywood and laminates grew 812bps and 568bps yoy respectively to 19.2% and 7.1%. With greater capacity and utilization, return ratios could improve. The company is expected to deliver a healthy RoE of ~35-40% in the next 2-3 years.

Fig 7 – Quarterly results

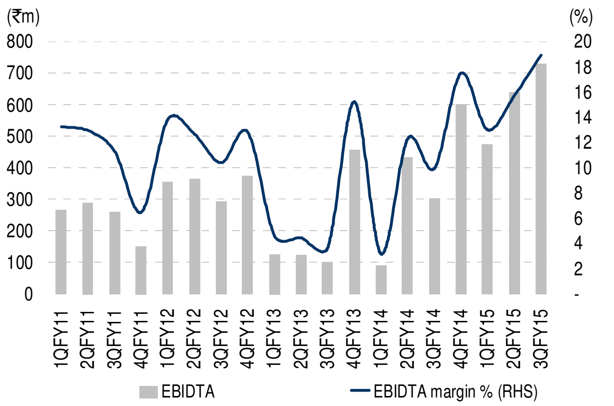
₹ m	3QFY14	3QFY15	% var	2QFY15	% var	3QFY15e	% var
Sales	3,056	3,858	26.3	4,070	(5.2)	3,746	3.0
EBIDTA	304	730	140.2	638	14.3	555	31.4
PBT	207	478	131.2	420	14.0	411	16.3
PAT	197	414	109.6	358	15.7	349	18.4

Source: Company, Anand Rathi Research

Century is planning to enter a fresh area, a venture with a local timber manufacturer in Laos by Mar'2015 to source its raw material. Also, it is setting up a particle-board unit at Chennai at capex of ₹0.6bn. This would lead to both forward and backward integration. The wood waste from the Chennai plant would be the key raw material for the new unit, hence leading to operational efficiency.

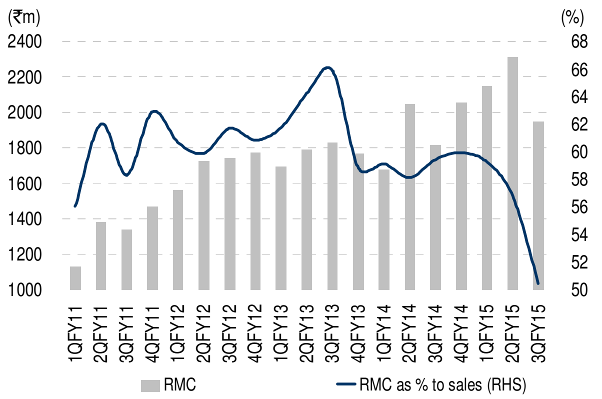
The laminates capacity is now operating at optimum level. Because of no major capex plan, we expect debt to be ₹4.12bn by FY15, in turn shrinking the debt-equity ratio (we haven't factored in the particle board expansion). Also, the company has franchises for its modular furniture, and its recent entry into the MDF business on an outsourced model from Vietnam would aid its growth.

Fig 8 – EBITDA margin increases yoy



Source: Company, Anand Rathi Research

Fig 9 – RM/sales declines yoy



Source: Company, Anand Rathi Research

Valuations

On the GST being implemented, a shift from the informal to the formal sector is expected, boosting the company's prospects. Its focus on increasing infrastructure to meet mounting demand would lead to a better performance. It has begun to promote its brands aggressively. Besides the new television ad launched in Jun'14, the company has started campaigning for laminates in order to improve margins.

At the ruling price of ₹177, the stock trades at 19.8x FY16e P/E and 13.7x EV/EBIDTA. We believe that the strong return ratios, improving free-cash-flows and constant payouts would drive growth. On the above analysis, we retain our Buy recommendation on the stock, assigning a PE of 18x FY17e earnings, and arrive at a price target of ₹226. This would still be at a discount to the other building-material operators.

Other concall highlights

Ahead, the new particle plant would yield high EBIDTA margins and fetch revenue of ~₹1.25bn. Raw material costs for the particle-board unit would be as low as ₹3 a kg. The new unit would not require additional infrastructure. Also, the company is shifting its Kolkata plant to Chennai; hence, overall margins are likely to improve, by 0.5%.

The decline in phenol prices has benefited the company during the quarter.

Due to ad-spend on laminates, the segment margins were a bit stressed. But margins ahead are likely to come in the range of 10—12%. The company has been maintaining decent, 20—25%, revenue growth.

It has forecast volume growth of about 15% in both laminates and plywood, and expects to maintain a sustainable overall EBIDTA margin of around 16—19%.

Risks

- **High degree of currency volatility.** Since the company imports most of its raw materials, currency fluctuations would cut into its margins. At present, raw material costs constitute about 60% of its net sales.
- **Threat from substitutes:** The shifting focus of the consumer from plywood to multi-density fiberboard (MDF, less expensive than plywood) would pose a threat to the company.
- **Higher interest rate:** Century Plyboards' exposure to interest-rate fluctuations in its foreign-currency borrowing could affect it.

Appendix

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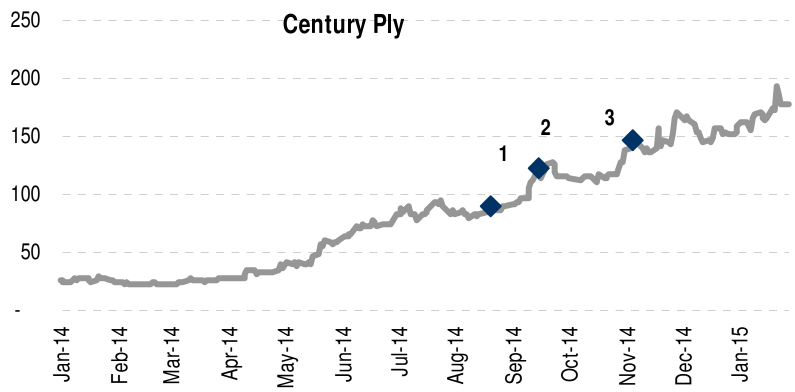

	Date	Rating	TP (₹)	Share Price (₹)
1	19-Aug-14	Buy	115	82
2	15-Sep-14	Buy	131	111
3	05-Nov-14	Buy	184	139

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