

BUY

TP: Rs 325 | ▲ 16%

**CENTURY
PLYBOARDS**

| Industrials

| 01 November 2017

Mega capex program to yield rich dividends – initiate with BUY

We initiate coverage on Century Plyboards (CPBI) with BUY and a Sep'18 target of Rs 325. CPBI is the largest organised plywood player (along with Greenply) and third largest laminate player in India. A mega Rs 4.4bn capex program, which includes India's largest MDF plant commissioned in Oct'17, has transformed CPBI into a comprehensive wood panel solution provider. We expect a robust 16%/20% revenue/PAT CAGR over FY17-FY20, buttressed by a wide network (~16,500 dealers), diverse products and strong brands (A&P 3.5-4% of sales).

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Set to reap benefits from the capex drive: CPBI will complete its Rs 4.4bn capex drive in FY18, which includes commissioning of an MDF plant and a 50% expansion of laminate capacity (to 7.2mn sheets). With this, the company will be in a position to offer one-stop wood panel solutions and consolidate its market dominance across product categories.

FY18 to be muted but recovery ahead: GST implementation and higher raw material prices for plywood will likely hit FY18 performance, but we expect CPBI to deliver a robust 20% earnings CAGR over FY17-FY20 driven by MDF and laminate expansion as well as the gradual shift to the organised market induced by GST (as much as 75% of India's Rs 180bn plywood market is unorganised).

Q2FY18 results subdued: CPBI reported tepid revenue growth of 2.6% YoY to Rs 4.7bn due to an 11.8% YoY drop in plywood revenues amid weak demand and a delay in re-stocking post GST. Operating margins contracted 57bps YoY – this coupled with higher interest and taxes caused PAT to drop 18.6% to Rs 401mn.

Initiate with BUY: CPBI is a play on the growing organised wood panel market in India. Our Sep'18 target price of Rs 325 is set at 27x Sep'19E EPS, which is in line with building material peers and the stock's 3-year average forward multiple.

Ticker/Price	CPBI IN/Rs 280
Market cap	US\$ 964mn
Shares o/s	222mn
3M ADV	US\$ 1.7mn
52wk high/low	Rs 314/Rs 154
Promoter/FPI/DII	72%/11%/17%

Source: Bloomberg

STOCK PERFORMANCE



Source: Bloomberg

KEY FINANCIALS

Y/E Mar	FY16	FY17	FY18E	FY19E	FY20E
Net profit (Rs mn)	1,631	1,690	1,615	2,330	2,902
EPS (Rs)	7.3	7.6	7.4	10.6	13.2
EPS growth (%)	22.8	3.6	(2.6)	43.5	24.3
ROE (%)	34.4	27.2	21.0	24.8	24.9
P/E (x)	38.1	36.8	37.8	26.3	21.2
EV/EBITDA (x)	23.1	21.2	21.2	15.7	13.4

Source: Company, BOBCAPS Research

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Subdued growth in Q2FY18, MDF holds the key

CPBI reported lacklustre revenue growth of 2.6% YoY to Rs 4.7bn in Q2FY18, with the plywood segment declining 11.8% whereas laminates increased by 9.4% YoY. Lower plywood profitability caused a 57bps YoY dip in EBITDA margin to 15.6%, keeping EBITDA flat YoY while PAT decreased by 18.6% YoY.

QUARTERLY PERFORMANCE

(Rs mn)	Q2FY18	Q2FY17	YoY (%)	Q1FY18	QoQ (%)
Total revenues	4,746	4,627	2.6	4,386	8.2
Total raw material consumed	2,545	2,404	5.8	2,339	8.8
% of sales	53.6	52.0	-	53.3	-
Employee exps	676	624	8.3	689	(1.9)
% of sales	14.2	13.5	-	15.7	-
Other exp	784	850	(7.7)	747	4.9
% of sales	16.5	18.4	-	17.0	-
Total expenditure	4,005	3,879	3.3	3,775	6.1
% of sales	84.4	83.8	57bps	86.1	-
EBIDTA	740.5	748.2	(1.0)	610.7	21.3
% of sales	15.6	16.2	(57bps)	13.9	168bps
Depreciation	138.2	126.2	9.5	131.9	4.8
Other income	6.2	22.1	(71.9)	5.5	13.6
Interest cost	79.2	60.3	31.4	62.9	25.8
PBT	529.2	583.8	(9.3)	421.4	25.6
Taxes	127.8	90.9	40.7	80.2	59.5
Effective tax rate (%)	24.2	15.6	-	19.0	-
APAT	401.4	492.9	(18.6)	341.2	17.6

Source: Company, BOBCAPS Research

SEGMENTAL REVENUES

(Rs mn)	Q2FY18	Q2FY17	YoY (%)	Q1FY18	QoQ (%)
Revenue					
Plywood & Allied products	3,059	3,467	(11.8)	3,427	(10.8)
Laminates	1,246	1,139	9.4	891	39.8
MDF	1	12	(87.6)	6	(75.6)
Particle Board	145	32	350.6	111	30.1
Container Freight Station	250	213	17.5	239	4.6
Others	110	115	(4.2)	94	16.7
Total	4,811	4,977	(3.3)	4,769	0.9
Less: Inter Segment revenue	65.62	16.80	290.6	35	87.0
Net revenues	4,746	4,961	(4.3)	4,734	0.2
Profit before interest & tax					
Plywood & Allied products	403	492	(18.1)	385	4.8
Laminates	210	171	22.7	92	129.1
MDF	0	3	(84.2)	(2)	(122.2)
Particle Board	2	(12)	(120.1)	(37)	(106.4)
Container Freight Station	68	56	20.1	67	0.8
Others	1	(24)	(102.4)	(4)	(114.4)
Total	684	686	(0.3)	500	36.8
EBIT Margin (%)					
Plywood & Allied products	13.2	14.2	(102bps)	11.2	196bps
Laminates	16.9	15.0	182bps	10.3	657bps
MDF	27.2	21.2	599bps	(29.9)	5712bps
Particle Board	1.7	(37.4)	NA	(33.6)	NA
Container Freight Station	27.1	26.5	59bps	28.1	(103bps)

Source: Company, BOBCAPS Research

Sluggish revenue growth due to decline in plywood sales

CPBI reported tepid revenue growth of 2.6% YoY mainly due to a decline in plywood revenues (-11.8% YoY) amid soft demand and a slower pace of re-stocking by dealers. The laminates segment grew at 9.4% YoY supported by a lower GST rate (~18%) whereas particle board grew at 350% YoY (on a lower base). As per management, dealer re-stocking remains slow as news reports indicate a potential cut in GST rates.

Management has guided for 20% growth in laminates and revenues of Rs 1.5bn-2bn from MDF in FY18. For FY19, the company expects laminates to post steady ~20% growth with stable operating margins and ~Rs 4bn in revenues from MDF accompanied by ~25% margins.

EBITDA flattish, PAT declines

CPBI reported flattish EBITDA at Rs 741 mn due to a 57bps YoY dip in operating margin. Higher raw material cost (+166 bps YoY) and employee cost (+75 bps YoY) hit margins, cushioned partly by lower operating expenses (-185bps YoY).

Plywood margins fell 156bps YoY due to raw material pressure in face veneer and some supply disruptions in the Assam unit. As per management, face veneer supply issues from Myanmar and also in the Assam unit will be resolved in Q4FY18, which should aid profitability. Laminate margins increased by ~10bps YoY. Management expects the company to deliver better blended margins ahead as the contribution from higher-value products such as MDF and particle board increases.

Q2 PAT declined 18.6% YoY on weak margins, higher interest cost (+31% YoY) and a higher tax rate YoY.

Earnings call highlights

Plywood

- CPBI witnessed continued competition from the unorganised segment in its plywood business as: (1) the e-way bill system under the GST regime, which could aid movement of goods, has not yet been introduced (expected in Apr'18) and (2) plywood attracts a higher GST rate of 28%.
- Management expect GST rates for plywood to be reduced from 28% to 18% over the next few months, which will be a big boost for the sector.
- CPBI is not looking to take any price hikes in the plywood segment in the near term due to tepid market conditions.

Laminates

- In laminates, the company saw increased traction in demand due to lower GST rates.

- Management plans to have the enhanced capacity operational in Q4FY18 which should aid 20%+ growth in FY19.
- The company has started to export low value laminates which should result in higher volume growth with lower realisations.

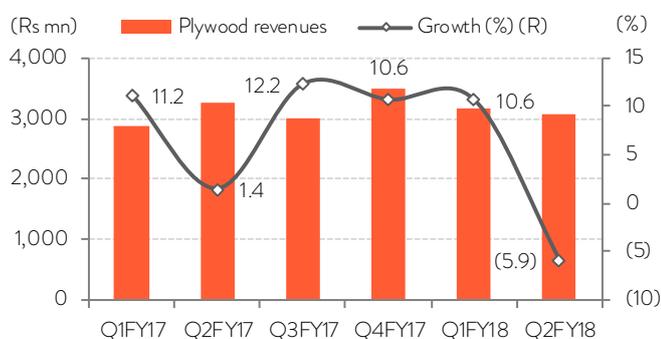
MDF

- The MDF plant has begun production and is expected to run at 75% capacity utilisation in Q3FY18. Management indicated that the response on product quality has been positive. CPBI plans to manufacture value-added MDF which should aid revenues and margins in future.
- The company currently earns an average realisation of Rs 23,000/cbm on MDF and has priced its product marginally lower (by ~1%) than Greenply Industries, the market leader in the segment.

Guidance

- Management is targeting Rs 1.5bn-2bn in revenues from MDF in FY18 and ~Rs 4 bn in FY19.
- The tax rate was higher in Q2 due to lower profitability from exempt units. The company believes its tax rate would be ~21% for the next few years.

Plywood quarterly revenues



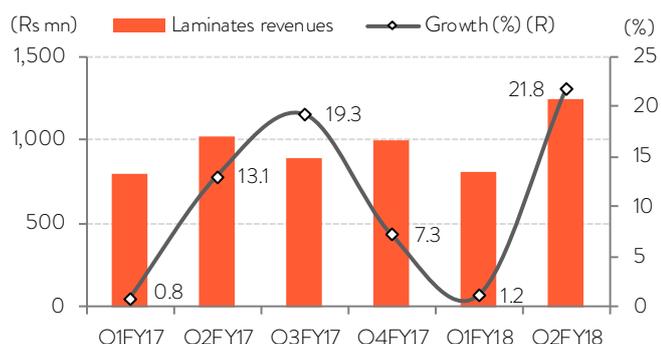
Source: Company, BOBCAPS Research

Plywood quarterly margins



Source: Company, BOBCAPS Research

Laminates quarterly revenues



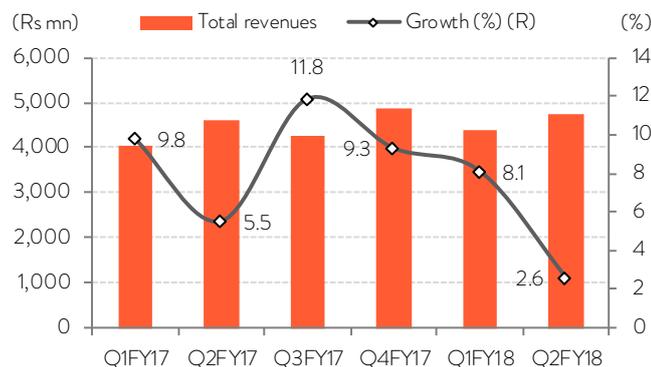
Source: Company, BOBCAPS Research

Laminates quarterly margins



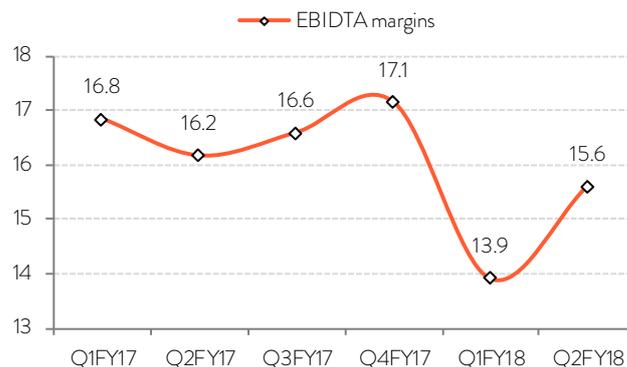
Source: Company, BOBCAPS Research

Overall quarterly revenues



Source: Company, BOBCAPS Research

Overall quarterly margins



Source: Company, BOBCAPS Research

KEY ASSUMPTIONS

(Rs mn)	FY17	FY18E	FY19E	FY20E
Plywood revenues	12,618	12,999	14,337	16,057
Growth (%)	8.9	3.0	10.3	12.0
Laminates revenues	3,707	4,223	4,973	5,868
Growth (%)	12.1	13.9	17.8	18.0
MDF	33.7	1,139	3,643	4,326
Growth (%)	-	3,283.3	220.0	18.8

Source: Company, BOBCAPS Research

Valuation methodology

CPBI is the joint market leader in India's organised plywood industry along with Greenply Industries. It is also the third largest laminate player in India and has recently set up the largest 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.

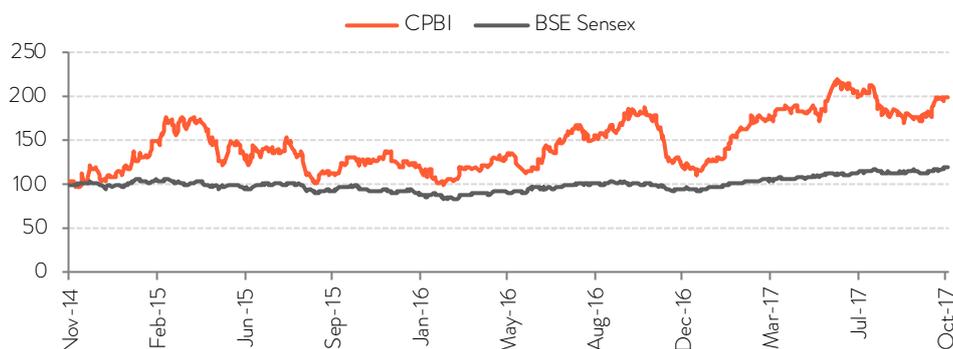
CPBI's peer set comprises building material companies, which trade at an average FY19E P/E of ~27.4x. We believe the stock can attract a premium to peers given its high growth prospects and superior return profile (FY19 ROE of 24.8%) – our Sep'18 target price of Rs 325 is set at 27x Sep'19E EPS (vs. the 3-year average P/E of ~26x). Initiate with BUY.

PEER COMPARISON

Company name	Mkt Cap (Rs mn)	PAT CAGR (%) FY17-19E	P/E (x) FY19E	ROE (%) FY19E
Somany Ceramics	36,188	21.3	25.5	20.9
Greenply Industries	35,623	4.2	23.4	15.2
Kajaria Ceramics	1,06,957	17.5	30.7	20.6
Cera Sanitaryware	41,826	17.8	28.5	20.6
HSIL Td	30,802	24.8	19.7	10.3
Pidilite	3,96,192	12.4	36.6	24.6
Average	-	16.3	27.4	18.7
Century Ply	62,297	17.4	26.4	24.8

Source: Bloomberg, BOBCAPS Research

RELATIVE STOCK PERFORMANCE



Source: Bloomberg

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/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 Mar (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Total revenue	16,409	18,187	20,250	25,109	28,661
EBITDA	2,896	3,130	3,181	4,334	5,028
EBIT	2,422	2,537	2,425	3,355	3,982
Net interest income/(expenses)	(479)	(302)	(372)	(403)	(311)
Other income/(expenses)	0	0	30	36	43
Exceptional items	0	0	0	0	0
EBT	1,943	2,235	2,083	2,989	3,714
Income taxes	(304)	(515)	(437)	(628)	(780)
Extraordinary items	58	215	0	0	0
Min. int./Inc. from associates	(8)	(30)	(31)	(31)	(32)
Reported net profit	1,689	1,905	1,615	2,330	2,902
Adjustments	(58)	(215)	0	0	0
Adjusted net profit	1,631	1,690	1,615	2,330	2,902

Source: Company, BOBCAPS Research

Balance Sheet

Y/E Mar (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Accounts payables	864	1,410	1,276	1,651	1,963
Other current liabilities	715	855	888	1,101	1,256
Provisions	91	187	203	251	287
Debt funds	4,696	6,114	6,300	5,200	3,100
Other liabilities	0	0	0	0	0
Equity capital	223	223	223	223	223
Reserves & surplus	5,066	6,927	8,301	10,298	12,780
Shareholders' fund	5,288	7,149	8,523	10,521	13,002
Total liabilities and equities	11,745	15,835	17,340	18,906	19,822
Cash and cash eq.	389	672	371	92	338
Accounts receivables	2,842	3,422	3,495	4,127	4,554
Inventories	2,975	3,006	3,329	4,059	4,633
Other current assets	1,299	1,949	1,664	1,926	2,042
Investments	63	61	61	61	61
Net fixed assets	2,481	3,041	7,726	7,947	7,501
CWIP	1,022	2,991	0	0	0
Intangible assets	22	18	18	18	18
Deferred tax assets, net	653	675	675	675	675
Other assets	0	0	0	0	0
Total assets	11,745	15,835	17,340	18,906	19,822

Source: Company, BOBCAPS Research

Cash Flows

Y/E Mar (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Net income + Depreciation	2,164	2,498	2,401	3,340	3,980
Interest expenses	479	302	372	403	311
Non-cash adjustments	0	0	0	0	0
Changes in working capital	332	(479)	(198)	(987)	(613)
Other operating cash flows	(103)	8	31	31	32
Cash flow from operations	2,872	2,329	2,607	2,787	3,710
Capital expenditures	(1,351)	(3,119)	(2,450)	(1,200)	(600)
Change in investments	4	2	0	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(1,347)	(3,118)	(2,450)	(1,200)	(600)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(440)	1,418	186	(1,100)	(2,100)
Interest expenses	(479)	(302)	(372)	(403)	(311)
Dividends paid	(601)	0	(271)	(363)	(453)
Other financing cash flows	9	(44)	0	0	0
Cash flow from financing	(1,511)	1,072	(458)	(1,866)	(2,864)
Changes in cash and cash eq.	14	284	(332)	(311)	214
Closing cash and cash eq.	389	672	340	60	306

Source: Company, BOBCAPS Research

Per Share

Y/E Mar (Rs)	FY16	FY17	FY18E	FY19E	FY20E
Reported EPS	7.6	8.6	7.4	10.6	13.2
Adjusted EPS	7.3	7.6	7.4	10.6	13.2
Dividend per share	1.0	1.0	1.0	1.4	1.7
Book value per share	23.8	32.1	38.3	47.3	58.4

Source: Company, BOBCAPS Research

Valuations Ratios

Y/E Mar (x)	FY16	FY17	FY18E	FY19E	FY20E
EV/Sales	4.1	3.7	3.3	2.7	2.3
EV/EBITDA	23.1	21.2	21.2	15.7	13.4
P/E	38.1	36.8	37.8	26.3	21.2
P/BV	11.8	8.7	7.3	5.9	4.8

Source: Company, BOBCAPS Research

DuPont Analysis

Y/E Mar (%)	FY16	FY17	FY18E	FY19E	FY20E
Tax (Net profit/PBT)	84.0	75.6	79.0	79.0	79.0
Interest burden (PBT/EBIT)	80.2	88.1	85.9	89.1	93.3
EBIT margin (EBIT/Sales)	14.8	13.9	12.0	13.4	13.9
Asset turnover (Sales/Avg. total asset)	146.6	131.9	122.1	138.5	148.0
Leverage (Avg. total asset/Avg. equity)	236.1	221.8	211.7	190.3	164.6
ROE	34.4	27.2	21.0	24.8	24.9

Source: Company, BOBCAPS Research

Ratio Analysis

Y/E Mar	FY16	FY17	FY18E	FY19E	FY20E
YoY growth (%)					
Sales	3.3	10.8	11.3	24.0	14.1
EBITDA	13.2	8.1	1.6	36.3	16.0
EPS	22.8	3.6	(2.6)	43.5	24.3
Profitability & Return ratios (%)					
EBITDA margin	17.7	17.2	15.7	17.3	17.5
EBIT margin	14.8	13.9	12.0	13.4	13.9
Adjusted profit margin	9.9	9.3	8.1	9.4	10.2
Adjusted ROAE	34.4	27.2	21.0	24.8	24.9
ROCE	21.0	16.6	13.5	17.2	19.5
Working capital days					
Receivables (days)	61	63	62	55	55
Inventory (days)	140	122	118	111	115
Payables (days)	20	28	29	26	28
Ratios (x)					
Gross asset turnover	6.3	5.2	3.0	2.5	2.6
Current ratio	1.5	1.3	1.2	1.4	1.5
Net interest coverage ratio	5.1	8.4	6.5	8.3	12.8
Adjusted debt/equity	0.8	0.8	0.7	0.5	0.2

Source: Company, BOBCAPS Research

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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

HOLD – Expected return from -5% to +15%

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NOT RATED (NR) – We have no investment opinion on the stock

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