

Q2FY19 Result Update Century Plyboards Ltd.

Laminates and MDF pain intensifies; Plywood strong

Century Ply has reported a weak quarter after 2 strong quarters. Sales at INR 565 cr grew 19% YoY and were in line with our estimates driven by strong growth in plywood and contribution from the MDF segment. EBITDA at INR 75 cr was flat YoY but below our and street estimates of INR 90 Cr. EBITDA margins fell from 15.7% in Q2FY18 to 13.3% in Q2FY19. The negative margin surprise was due to higher than expected pain in the laminates and MDF segments. Reported PAT of INR 38 Cr degrew 5% on YoY basis and was below estimates due to the miss in margins and forex losses. We have cut our EPS estimates by ~15% for FY19E and FY20E to factor in the pain in laminates and MDF. Given the volatile earnings environment in laminates and MDF, we also cut our target multiple by 10% from 25x P/E FY20E to 22.5x FY20 P/E. However due to strong topline and bottomline growth over FY18-20E and strong RoCE of 25%, we maintain BUY with a revised TP of 287.

Improving margins in plywood; other segments stable

Plywood reported good volume growth of 13%, and margins at 15.5% were much higher than Q2FY18 margins of 14%. Our last quarterly report mentioned of how this improvement in plywood margins is sustainable and now 3 consecutive quarters have witnessed strong plywood margins (16-17% reported margins, which are in line with historical margin trend). Volume growth in plywood is likely to remain strong due to shift from unorganised to organised in the mid premium segment. Other segments such as particle board, CFS, etc. reported stable revenues and margins.

Laminates and MDF margins remain key monitorable

The key underperforming segments are laminates and MDF for 2 quarters in a row. Laminates reported flat revenues on account of a high base whilst margins were lower than muted expectations plagued by rising input prices (paper, phenol). MDF is also facing a severe demand mismatch which led to reduced capacity utilization of 55% (vs 60% plus utilization in Q1FY19). MDF margins crashed to 6% (13% in Q1FY19) on account of lower realization and utilization. Going forward, improvement in margins in laminates and MDF will be key. We feel that the reported margins in these 2 segments, which are 600-800 bps lower than the earlier trajectory, are unsustainable and we do expect an improvement.

Outlook and valuations: 'BUY'

Century is a leader across various wood panel segments and is expected to outpace industry growth. GST at 18% and government's thrust on affordable housing are potent tailwinds for this segment. In spite of superior return ratios compared to other building material peers and high free cash flow generation, Century is trading at attractive valuations than most peers. We value it at 22.5x FY20E P/E and thus arrive at a revised target price of INR 287.

Year to March	Q2FY19	Q2FY18	% change	Q1FY19	% change	FY18	FY19E	FY20E
Net sales (INR cr)	565	475	19%	537	5%	2,025	2,263	2,553
Growth (%)						11.3	11.8	12.8
EBITDA (INR cr)	75	75	0%	86	-13%	331	351	433
Adj PAT (INR cr)	38	40	-5%	45	-16%	168	198	284
Growth (%)						-13	18	44
Dil. EPS (INR)						8	9	13
Diluted P/E (x)						23	20	14
EV/EBITDA (x)						13	12	9
ROAE (%)						21	21	24

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CMP INR: 180

Rating: BUY

Target Price INR: 287

Upside: 58%

Bloomberg:	CPBI:IN
52-week range (INR):	363/157
Share in issue (cr):	22
M cap (INR cr):	4,000
Avg. Daily Vol. BSE/NSE :('000):	200
Promoter Holding (%)	72

Date: 9th November 2018

Q2FY19 Result Highlights

Particulars	Q2FY19	Q2FY18	% change	Q1FY19	% change	H1FY19	H1FY18	% change
Income from operations	565	475	19%	537	5%	1,102	914	21%
Cost of goods sold	295	254	16%	275	7%	570	488	17%
Employee expenses	84	68	24%	79	6%	163	136	19%
Other expenses	111	78	42%	96	15%	207	153	35%
Total operating expenses	490	401	22%	451	9%	941	778	21%
EBITDA	75	75	0%	86	-13%	161	136	19%
Depreciation and amortization	11	14	-20%	11	2%	22	27	-19%
EBIT	64	61	5%	76	-15%	140	109	28%
Interest expenses	16	8	102%	13	19%	29	14	107%
Other income	1	0	NA	1	67%	2	1	191%
PBT	49	53	-7%	63	-22%	112	95	17%
Provision for tax	11	13	-14%	18	-37%	29	21	37%
Core profit	38	40	-5%	45	-16%	83	74	12%
Extraordinary items	0	0	NA	0	NA	0	0	NA
Adjusted net profit	38	40	-5%	45	-16%	83	74	12%

Century Plyboards Ltd.

Financials

Income statement					(INR crs)
Year to March	FY16	FY17	FY18	FY19E	FY20E
Income from operations	1,641	1,819	2,025	2,263	2,553
Direct costs	854	938	986	1,154	1,302
Employee costs	236	273	313	344	383
Other expenses	262	296	395	414	435
Total operating expenses	1,351	1,507	1,694	1,912	2,120
EBITDA	289	312	331	351	433
Depreciation and amortisation	47	59	91	47	50
EBIT	242	253	241	304	383
Interest expenses	48	30	35	51	30
Other income	6	23	8	14	19
Profit before tax	200	245	214	267	371
Provision for tax	30	52	46	69	87
Core profit	170	193	168	198	284
Extraordinary items	0	-0	0	0	0
Profit after tax	170	193	168	198	284
Minority Interest	-1	-3	-3	-3	-3
Share from associates	0	0	0	0	0
Adjusted net profit	169	190	165	195	281
Equity shares outstanding (mn)	22	22	22	22	22
EPS (INR) basic	8	9	8	9	13
Diluted shares (Cr)	22	22	22	22	22
EPS (INR) fully diluted	7.6	8.6	7.5	8.9	12.8
Dividend per share	2	0	1	1	1
Dividend payout (%)	30	0	12	12	12

Common size metrics- as % of net revenues

Year to March	FY16	FY17	FY18	FY19E	FY20E
Operating expenses	82.4	82.8	83.6	84.5	83.1
Depreciation	2.9	3.3	4.5	2.1	2.0
Interest expenditure	2.9	1.7	1.7	2.2	1.2
EBITDA margins	17.6	17.2	16.4	15.5	17.0
Net profit margins	10.3	10.5	8.1	8.6	11.0

Growth metrics (%)

Year to March	FY16	FY17	FY18	FY19E	FY20E
Revenues	3.3	10.8	11.3	11.8	12.8
EBITDA	13.1	7.8	6.2	5.9	23.3
PBT	11.5	22.4	(12.7)	24.8	39.0
Net profit	13.2	14.0	(13.2)	17.7	43.7
EPS	13.5	12.6	(11.8)	17.7	43.7

Century Plyboards Ltd.

Financials

Balance sheet

(INR cr)

As on 31st March	FY16	FY17	FY18	FY19E	FY20E
Equity share capital	22	22	22	22	22
Preference Share Capital	0	0	0	0	0
Reserves & surplus	507	693	841	1,016	1,267
Shareholders funds	529	715	863	1,038	1,289
Secured loans	470	521	436	386	286
Unsecured loans	5	97	97	97	97
Borrowings	474	619	534	484	384
Minority interest	9	12	18	18	18
Sources of funds	1,012	1,345	1,415	1,540	1,691
Gross block	298	412	858	888	928
Depreciation	48	106	197	244	294
Net block	250	306	661	645	635
Capital work in progress	102	299	126	0	0
Total fixed assets	352	605	787	645	635
Unrealised profit	0	0	0	0	0
Investments	6	6	35	35	35
Inventories	298	301	383	403	441
Sundry debtors	284	342	355	391	434
Cash and equivalents	39	67	18	257	391
Loans and advances	90	160	80	80	80
Other current assets	0	0	0	0	0
Total current assets	711	870	835	1,130	1,345
Sundry creditors and others	153	219	272	298	350
Provisions	9	19	30	32	33
Total CL & provisions	162	238	302	329	383
Net current assets	549	633	534	801	962
Net Deferred tax	65	67	59	59	59
Misc expenditure	39	34	0	0	0
Uses of funds	1,012	1,345	1,415	1,540	1,691
Book value per share (INR)	24	32	39	47	58

Cash flow statement

(INR crs)

Year to March	FY16	FY17	FY18	FY19E	FY20E
Net profit	170	194	168	198	284
Add: Depreciation	47	59	91	47	50
Add: Misc expenses written off/Other Assets	23	5	34	0	0
Add: Deferred tax	-59	-2	8	0	0
Add: Others	-1	-3	-3	-3	-3
Gross cash flow	180	252	298	241	331
Less: Changes in W. C.	-14	55	-50	28	27
Operating cash flow	194	197	348	213	304
Less: Capex	121	312	147	30	40
Free cash flow	73	-115	201	183	264

Century Plyboards Ltd.

Financials

Ratios

Year to March	FY16	FY17	FY18	FY19E	FY20E
ROAE (%)	37	31	21	21	24
ROACE (%)	26	23	18	21	25
Debtors (days)	63	69	64	63	62
Current ratio	4.4	4	3	3	4
Debt/Equity	0.9	0.9	0.6	0.5	0.3
Inventory (days)	66	60	69	65	63
Payable (days)	34	44	49	48	50
Cash conversion cycle (days)	95	85	84	80	75
Debt/EBITDA	1.6	2	2	1	1
Adjusted debt/Equity	0.8	0.8	0.6	0.2	(0.0)

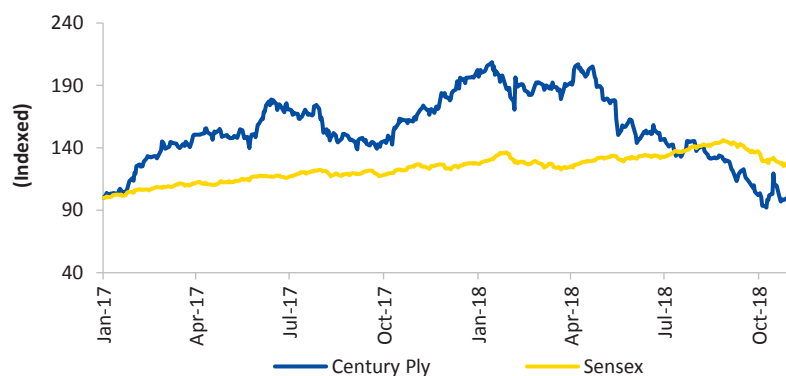
Valuation parameters

Year to March	FY16	FY17	FY18	FY19E	FY20E
Diluted EPS (INR)	7.6	8.6	7.5	8.9	12.8
Y-o-Y growth (%)	13.5	12.6	(11.8)	17.7	43.7
CEPS (INR)	9.7	11.2	11.6	11.0	15.0
Diluted P/E (x)	23.3	20.7	23.4	19.9	13.9
Price/BV(x)	7.4	5.5	4.6	3.8	3.1
EV/Sales (x)	2.7	2.5	2.2	1.8	1.5
EV/EBITDA (x)	15.1	14.4	13.4	11.9	9.1
Diluted shares O/S	22.3	22.3	22.3	22.3	22.3
Basic EPS	7.6	8.6	7.5	8.9	12.8
Basic PE (x)	23.3	20.7	23.4	19.9	13.9
Dividend yield (%)	1.3	0.0	0.4	0.5	0.7

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Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate between 5-15% over a 12-month period
Reduce	Return below 5% over a 12-month period



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