

Wood Panel

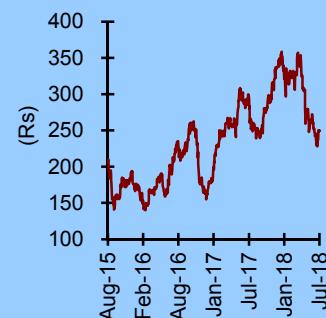
Target price Rs296

Shareholding pattern

	Dec '17	Mar '18	Jun '18
Promoters	72.0	72.0	72.3
Institutional investors	15.8	16.1	15.6
MFs and UTI	4.6	4.6	4.8
Insurance	0.0	0.0	0.0
FII	11.2	11.5	10.8
Others	12.2	11.9	12.1

Source: NSE

Price chart



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Century Plyboards

BUY

Maintained

Rs250

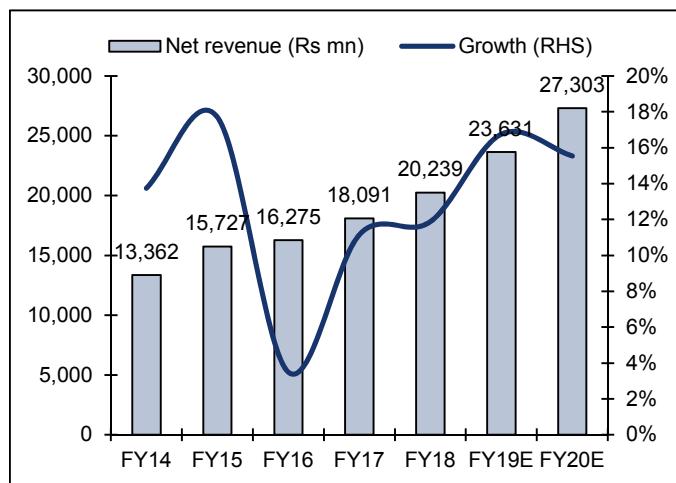
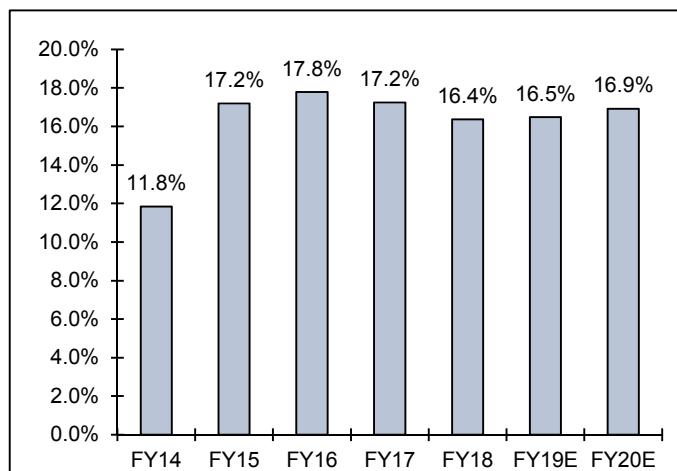
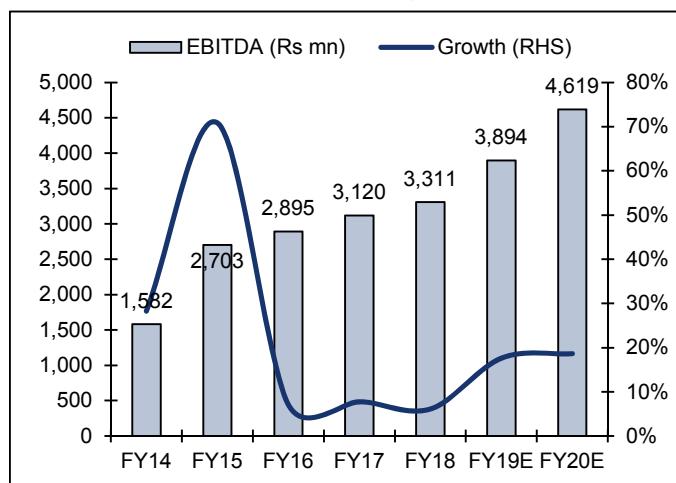
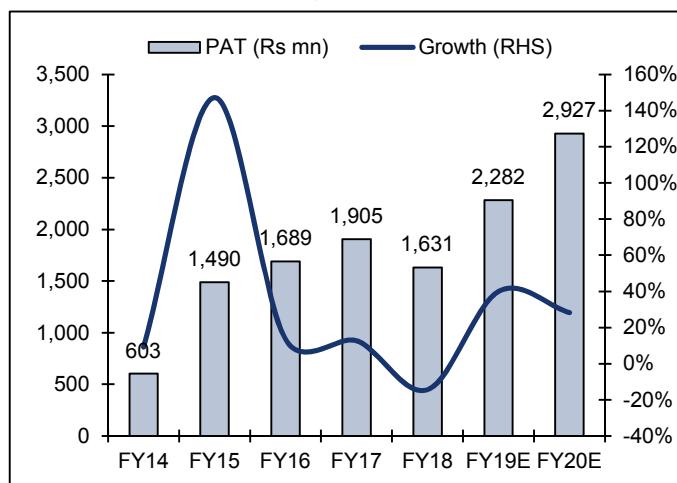
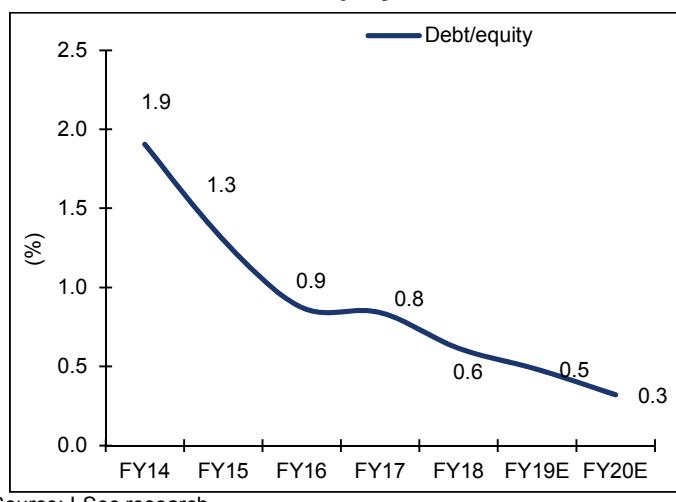
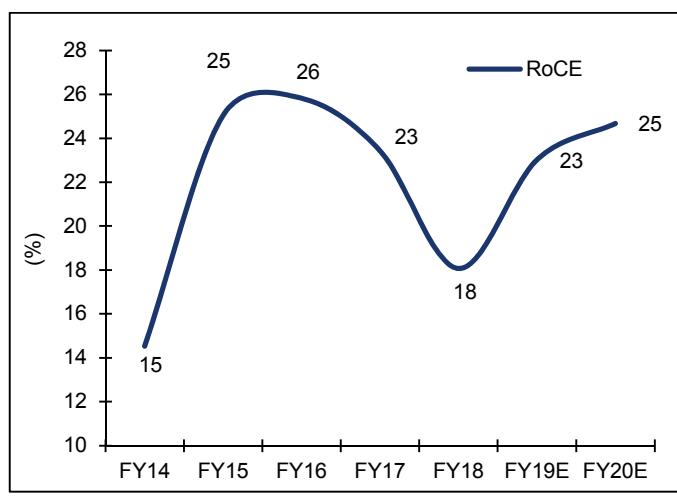
Core business to offset near-term MDF pricing woes

Reason for report: Company update

Unlike MTLM, the excess MDF supply scenario over the next 2-3 years is unlikely to impact Century Plyboards (CPBI) to that extent with: a) its MDF revenues currently accounting for a mere 13% of overall revenues, and b) the company calling off its brownfield expansion plans citing the excess supply scenario. Considering the over-supply situation in MDF segment, we have modeled-in lower realisations and margins for its MDF segment over the next two years. Despite increase in utilisation levels to 95% by FY20, we expect MDF margins to remain in mid-teens in F19/FY20 led by the expected increase in competitive intensity, particularly in the Northern region. In the plywood segment, we expect CPBI to report a muted 9.3% CAGR over FY18-FY20 largely led by lower sale of commercial veneers. We expect the company to exhibit revenue and PAT CAGRs of 16.1% and 34% over FY18-FY20. Maintain BUY with a target price of Rs296, valuing the stock at 22.5x FY20E earnings. We have assigned a higher multiple to CPBI vs MTLM (16x P/E multiple) due to the former now being looked upon as a unique, diversified and a highly scalable business model in the wood panel segment and also having higher RoCEs.

- ▶ Margin pressure to sustain over the next two years in MDF segment. Post the aggressive price cuts by Action Group in Apr'18, CPBI has finally followed suit with price cuts of 6-8% across its MDF portfolio. The current price action in MDF is largely led by large capacity additions by CPBI and Action Group in North India in the last 12 months. Besides, our ground checks suggest that a few semi-organised players are likely to set up greenfield capacities in North India over the next 12-18 months, which is likely to put further pressure on the existing glut in North India. This is expected to trigger lower realisations and margin pressure in the MDF segment for CPBI in the near term. We have modeled-in 15/14% segmental margins in FY19/FY20 respectively.
- ▶ Core business to post 12.3% revenue CAGR; margins likely to remain firm. CPBI's core (plywood and laminate) segment revenues and EBIDTA are expected to grow at 12.3% and 16.5% CAGRs over FY18-FY20. While plywood margins are likely to remain firm at 16-17%, largely led by lower mix of commercial veneer revenues, the growth is likely to be in single digit. Volume growth in the laminate segment is however likely to remain strong led by recent capex initiatives. Laminate margins too are likely to recover to 15% by FY20 led by operating leverage and price hike taken in Jun'18.
- ▶ RoCEs likely to remain firm. Despite expected pressure in MDF RoCEs over the next two years led by pricing woes, the overall RoCEs are likely to claw back to 25% levels by FY20 led by: a) strong profitability also aided by recent change in depreciation policy from WDV to SLM basis, b) improvement in working capital led by increasing contribution from the MDF segment (having significantly lower working capital requirement compared to the core business of plywood and laminates), and c) expected reduction in debt over the next two years.

Market Cap	Rs55.5bn/US\$808mn	Year to Mar	FY17	FY18	FY19E	FY20E
Reuters/Bloomberg	CNTP.BO/CPBI IN	Revenue (Rs mn)	18,187	20,239	23,631	27,303
Shares Outstanding (mn)	222.2	Rec. Net Income (Rs mn)	1,905	631	2,282	2,927
52-week Range (Rs)	358/228	EPS (Rs)	8.6	7.3	10.3	13.2
Free Float (%)	27.7	% Chg YoY	12.7	(14.4)	39.9	28.2
FII (%)	10.8	P/E (x)	29.2	34.1	24.4	19.0
Daily Volume (US\$/'000)	1,272	CEPS (Rs)	11.4	11.5	12.4	15.7
Absolute Return 3m (%)	(23.3)	EV/E (x)	19.6	18.4	15.5	12.9
Absolute Return 12m (%)	(16.3)	Dividend Yield (%)	0.4	1.4	0.6	0.8
Sensex Return 3m (%)	7.3	RoCE (%)	23.4	18.1	23.0	24.7
Sensex Return 12m (%)	17.4	RoE (%)	30.1	20.4	23.6	24.7

Chart 1: Revenue and revenue growth trend**Chart 2: EBIDTA margin trend****Chart 3: EBIDTA and EBIDTA growth trend****Chart 4: PAT and PAT growth trend****Chart 5: Trend in Debt/Equity ratio****Chart 6: Trend in RoCE**

Source: I-Sec research

Financial summary

Table 1: Profit & Loss statement

(Rs mn, year ending March 31)

	FY17	FY18	FY19E	FY20E
Net Revenues	18,187	20,239	23,631	27,303
Operating Expenses	15,068	16,929	19,737	22,684
EBITDA	3,120	3,311	3,894	4,619
% margins	17.2%	16.4%	16.5%	16.9%
Depreciation & Amortisation	593	907	539	637
Gross Interest	302	358	393	326
Other Income	226	79	83	104
Recurring PBT	2,450	2,124	3,045	3,760
Less: Taxes	515	463	822	902
Less: Minority Interest	30	31	31	31
Add: Share of Profit of Associates	-	-	90	100
Net Income (Reported)	1,905	1,631	2,282	2,927
Extraordinaries (Net)	-	-	-	-
Recurring Net Income	1,905	1,631	2,282	2,927

Source: Company data, I-Sec research

Table 2: Balance sheet

(Rs mn, year ending March 31)

	FY17	FY18	FY19E	FY20E
Assets				
Total Current Assets	9,738	9,439	11,127	12,988
of which cash & cash eqv.	672	211	270	148
Total Current Liabilities &				
Provisions	2,452	3,186	3,921	4,604
Net Current Assets	7,286	6,254	7,205	8,384
Investments	0	0	0	0
Net Fixed Assets	3,118	6,548	8,576	8,939
Capital Work-in-Progress	2,991	1,264	-	-
Goodwill	3	3	-	-
Total Assets	13,397	14,069	15,781	17,323
Liabilities				
Borrowings	6,114	5,346	5,125	4,200
Deferred Tax Liability	14	23	23	23
Minority Interest	120	184	215	246
Equity Share Capital	223	223	223	223
Face Value per share (Rs)	1	1	1	1
Reserves & Surplus*	6,927	8,293	10,196	12,632
Less: Misc. Exp. n.w.o.	-	-	-	-
Net Worth	7,149	8,516	10,419	12,855
Total Liabilities	13,397	14,069	15,781	17,323

*Excluding revaluation reserves

Source: Company data, I-Sec research

Table 3: Quarterly trend

(Rs mn, year ending March 31)

	Sep-17	Dec-17	Mar-18	Jun-18
Net revenues	4,746	5,099	5,441	5,373
% growth (YoY)	2.6	19.9	11.4	22.5
EBITDA	740	878	832	865
Margin (%)	15.6	17.2	15.3	16.1
Other income	6	42	13	6
Extraordinaries (Net)	-	-	-	-
Net profit	401	467	357	454

Source: Company data, I-Sec research

Table 4: Cashflow statement

(Rs mn, year ending March 31)

	FY17	FY18	FY19E	FY20E
Operating Cashflow	2,714	2,730	2,821	3,564
Working Capital Changes	(478)	635	(862)	(1,270)
Capital Commitments	(3,112)	(2,610)	(1,300)	(1,000)
Free Cashflow	(876)	755	659	1,293
Cashflow from Investing Activities				
Issue of Share Capital	-	(189)	-	-
Inc (Dec) in Borrowings	1,418	(768)	(221)	(925)
Dividend paid	(267)	(268)	(379)	(490)
Change in Deferred Tax Liability				
Chg. in Cash & Bank balance	7	9	-	-

Source: Company data, I-Sec research

Table 5: Key ratios

(Year ending March 31)

	FY17	FY18	FY19E	FY20E
Per Share Data (in Rs.)				
EPS	8.6	7.3	10.3	13.2
Cash EPS	11.4	11.5	12.4	15.7
Dividend per share (DPS)	1.0	1.0	1.5	2.0
Book Value per share (BV)	31.8	39.1	47.8	58.9
Growth (%)				
Net Sales	11.2	11.9	16.8	15.5
EBITDA	7.8	6.1	17.6	18.6
PAT	12.7	-14.4	39.9	28.2
Cash EPS	16.4	1.6	7.5	26.5
Valuation Ratios (x)				
P/E	29.2	34.1	24.4	19.0
P/CEPS	22.0	21.7	20.1	15.9
P/BV	7.9	6.4	5.2	4.2
EV / EBITDA	19.6	18.4	15.5	12.9
EV / Sales	3.4	3.0	2.6	2.2
Operating Ratios				
Raw Material / Sales (%)	49.5	48.7	53.8	53.4
Employee cost / Sales (%)	15.1	15.5	13.4	13.3
SG&A / Sales (%)	14.1	19.5	12.1	12.4
Other Income / PBT (%)	9.2	3.7	2.7	2.8
Effective Tax Rate (%)	21.0	21.8	27.0	24.0
Working Capital (days)	101.2	101.8	97.0	95.0
Inventory Turnover (days)	60.7	69.0	65.0	60.0
Receivables (days)	69.0	64.4	65.0	65.0
Payables (days)	28.4	31.6	33.0	30.0
Net D/E Ratio (x)	0.7	0.6	0.5	0.3
Profitability Ratios (%)				
Net Income Margins	10.7	8.2	9.4	10.5
RoACE	23.4	18.1	23.0	24.7
RoAE	30.1	20.4	23.6	24.7
Dividend Payout	14.0	16.4	16.6	16.8
Dividend Yield	0.4	0.4	0.6	0.8
EBITDA Margins	17.2	16.4	16.5	16.9

Source: Company data, I-Sec research

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