

Century Plyboards ACCUMULATE

Laminates segment strong; Outlook steady

Summary

In Q2FY20, Century Plyboard's Plywood and Laminates segment profitability was better than expected; however, MDF sales and margins were disappointing. Century's net sales at Rs5.9 bn (+4.4% YoY, +2.7% QoQ) was in line with our forecast. EBITDA at Rs928 mn (+25.0% YoY, +0.2% QoQ) was slightly below our forecast. Laminates volumes increased 30% QoQ to 1.8 mn sheets; however, MDF volumes fell 19% QoQ to 33,271 cbm. Plywood segment EBIT margin at 14.2% was a beat.

We broadly maintain our FY20/21 estimates. We value the stock at PE multiple of 16x on our FY21E EPS to derive a target price of Rs182. We downgrade the stock to an ACCUMULATE from a BUY given the recent run up in stock price.

Key Investment Rationale

- Laminates strong; MDF weak but likely to recover:** Laminates sales grew 26.2% QoQ to Rs1,351 mn while segment EBIT jumped 85.3% QoQ to Rs178 mn. Plywood segment EBIT margin at 14.2% was a beat. *The company expects Plywood EBIT margins to sustain over 14%.* However, MDF sales fell 15.4% QoQ to Rs777 mn due to maintenance shut down; this should likely recover in Q3FY20. Interestingly, MDF realization improved 5% QoQ to Rs23,342/cbm.
- Net debt falls:** The company has lowered its net debt to Rs3.3 bn as of September 30, 2019 from Rs4.7 bn as of March 31, 2019. In H1FY20, cash flow operating activities increased to Rs1.8 bn (+10% YoY).
- Outlook and valuation:** With weakness in end markets (real estate), FY20 is likely to be a year of consolidation for Century. It will focus on restoring margins in Plywood segment even though volume growth is likely to remain muted (volumes were flattish YoY at 112,510 cbm in H1FY20). MDF realization and margins are likely to remain healthy in H2FY20. We expect Century's EBITDA/PAT to grow at a CAGR of 19%/22%, respectively, over FY19-21E. Stricter implementation of e-way bill by the government can be a key catalyst for the stock.

| | |
|-----------------------------|--------------|
| TP | Rs182 |
| CMP | Rs168 |
| Potential upside / downside | +9% |
| Previous Rating | BUY |

V/s Consensus

| EPS (Rs) | FY20E | FY21E |
|--------------|-------|-------|
| IDBI Capital | 9.0 | 10.7 |
| Consensus | 8.6 | 10.5 |
| % difference | 5.2 | 1.6 |

Shareholding Pattern (%)

| | |
|-----------|------|
| Promoters | 72.9 |
| FII | 7.3 |
| DII | 5.4 |
| Public | 14.4 |

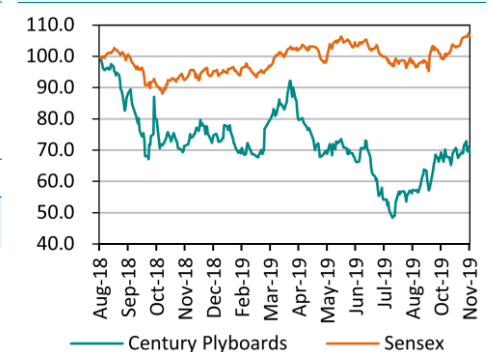
Price Performance (%)

| | -1m | -3m | -12m |
|---------------|-------|------|--------|
| Absolute | 4.6 | 32.8 | (2.8) |
| Rel to Sensex | (1.3) | 25.4 | (18.7) |

Key Stock Data

| | |
|---------------------------------|------------------|
| Bloomberg/Reuters | CPBI IN /CNTP.BO |
| Sector | Midcap |
| Shares o/s (mn) | 222 |
| Market cap. (Rs mn) | 37,247 |
| Market cap. (US\$ mn) | 538 |
| 3-m daily avg Trd value (Rs mn) | 25.9 |
| 52-week high / low | Rs 222 / 112 |
| Sensex / Nifty | 40,345 / 11,914 |

Relative to Sensex (%)



Financial snapshot

| Year | FY17 | FY18 | FY19 | FY20E | FY21E |
|--------------------|--------|--------|--------|--------|--------|
| Net sales | 17,825 | 19,672 | 22,638 | 24,699 | 27,457 |
| EBITDA | 3,147 | 3,127 | 3,064 | 3,695 | 4,253 |
| EBITDA (%) | 17.7 | 15.9 | 13.5 | 15.0 | 15.5 |
| Adj. PAT | 1,856 | 1,567 | 1,588 | 2,008 | 2,377 |
| EPS (Rs) | 8.4 | 7.1 | 7.1 | 9.0 | 10.7 |
| EPS Growth (%) | 9.2 | (15.6) | 1.3 | 26.5 | 18.4 |
| PE (x) | 20.1 | 23.8 | 23.5 | 18.5 | 15.7 |
| Dividend Yield (%) | 0.6 | 0.8 | 0.6 | 0.9 | 1.1 |
| EV/EBITDA (x) | 13.4 | 13.5 | 13.6 | 10.9 | 9.5 |
| RoE (%) | 30.1 | 20.3 | 17.6 | 19.2 | 19.7 |
| RoCE (%) | 24.5 | 17.7 | 18.4 | 20.7 | 22.6 |

Source: Company; IDBI Capital Research

Exhibit 1: Quarterly Snapshot (Standalone)

(Rs mn)

| Year-end: March | Q2FY20 | Q1FY20 | QoQ (%) | Q2FY19 | YoY (%) |
|------------------------------|--------------|--------------|----------------|--------------|---------------|
| Net sales | 5,894 | 5,737 | 2.7 | 5,644 | 4.4 |
| Expenditure | 4,966 | 4,811 | 3.2 | 4,902 | 1.3 |
| EBITDA | 928 | 926 | 0.2 | 742 | 25.0 |
| <i>EBITDA margin (%)</i> | <i>15.7</i> | <i>16.1</i> | <i>(40)bps</i> | <i>13.2</i> | <i>259bps</i> |
| Interest | 108 | 90 | 20.7 | 155 | (30.3) |
| Depreciation | 170 | 169 | 0.5 | 113 | 51.2 |
| PBT | 735 | 679 | 8.3 | 485 | 51.6 |
| Tax | 213 | 197 | 8.1 | 106 | 100.4 |
| PAT | 521 | 481 | 8.3 | 378 | 37.9 |
| Adj. diluted EPS (Rs) | 2.4 | 2.2 | 8.6 | 1.7 | 38.3 |

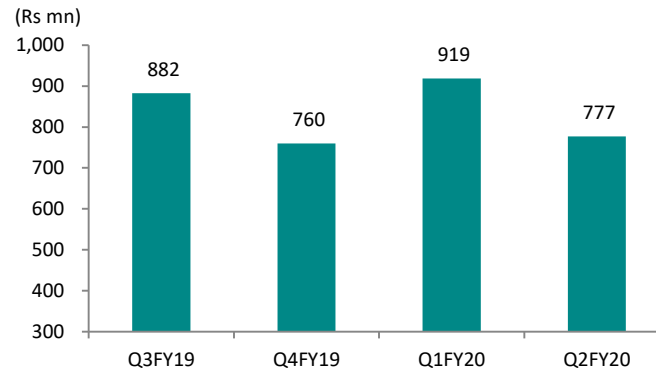
Source: Company; IDBI Capital Research

Exhibit 2: Actual vs. Estimates

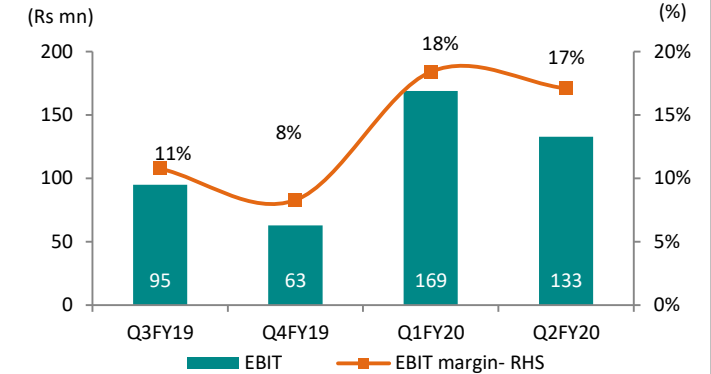
(Rs mn)

| | Q2FY20E | Q2FY20A | Variance (%) |
|-----------------------|-------------|-------------|----------------|
| Net sales | 5,899 | 5,894 | (0.1) |
| EBTIDA | 958 | 928 | (3.2) |
| <i>Margin (%)</i> | <i>16.2</i> | <i>15.7</i> | <i>(51)bps</i> |
| PAT | 533 | 521 | (2.1) |
| Adj. diluted EPS (Rs) | 2.4 | 2.4 | (1.8) |

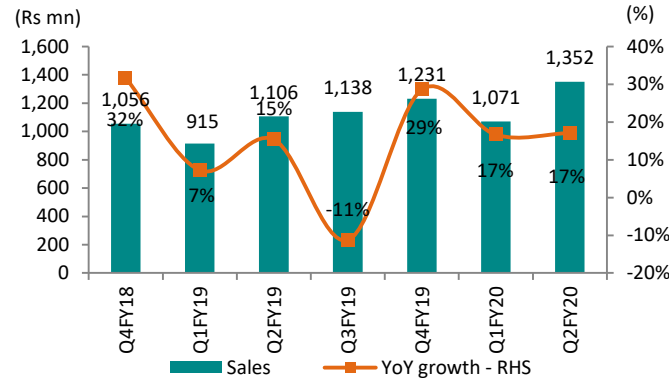
Source: Company; IDBI Capital Research

Exhibit 3: MDF sales falls 15% QoQ..


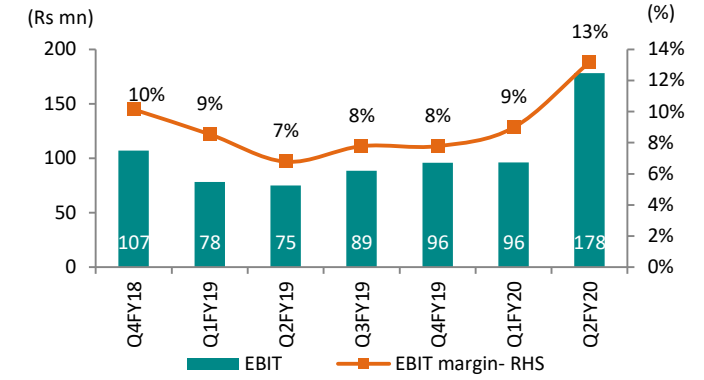
Source: Company; IDBI Capital Research

Exhibit 4: ...and segment EBIT margin also contracts


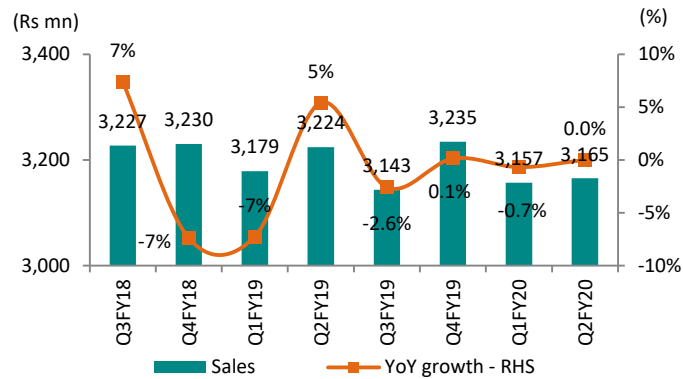
Source: Company; IDBI Capital Research

Exhibit 5: Laminates sales increased by 22% YoY..


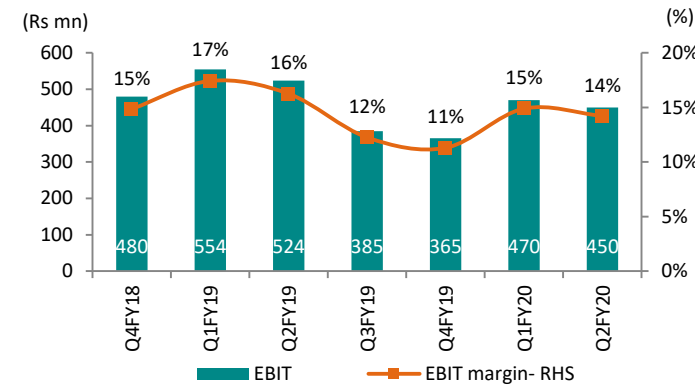
Source: Company; IDBI Capital Research

Exhibit 6: ...and segment EBIT margins jumps QoQ


Source: Company; IDBI Capital Research

Exhibit 7: Plywood sales were flat YoY..


Source: Company; IDBI Capital Research

Exhibit 8: ..but segment EBIT margin remains muted


Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

| Year-end: March | FY18 | FY19 | FY20E | FY21E |
|-------------------------------|---------------|---------------|---------------|---------------|
| Net sales | 19,672 | 22,638 | 24,699 | 27,457 |
| <i>Growth (%)</i> | <i>10.4</i> | <i>15.1</i> | <i>9.1</i> | <i>11.2</i> |
| Operating expenses | (16,612) | (19,635) | (21,071) | (23,278) |
| EBITDA | 3,127 | 3,064 | 3,695 | 4,253 |
| <i>Growth (%)</i> | <i>(0.6)</i> | <i>(2.0)</i> | <i>20.6</i> | <i>15.1</i> |
| Depreciation | (810) | (500) | (604) | (631) |
| EBIT | 2,317 | 2,564 | 3,091 | 3,621 |
| Interest paid | (327) | (446) | (414) | (451) |
| Other income | - | - | - | - |
| Pre-tax profit | 1,990 | 2,119 | 2,677 | 3,170 |
| Tax | (424) | (531) | (669) | (792) |
| <i>Effective tax rate (%)</i> | <i>21.3</i> | <i>25.1</i> | <i>25.0</i> | <i>25.0</i> |
| Minority Interest | - | - | - | - |
| Net profit | 1,567 | 1,588 | 2,008 | 2,377 |
| Adjusted net profit | 1,567 | 1,588 | 2,008 | 2,377 |
| <i>Growth (%)</i> | <i>(15.6)</i> | <i>1.3</i> | <i>26.5</i> | <i>18.4</i> |
| <i>Shares o/s (mn nos)</i> | <i>222</i> | <i>222</i> | <i>222</i> | <i>222</i> |

Cash Flow Statement

(Rs mn)

| Year-end: March | FY18 | FY19 | FY20E | FY21E |
|--------------------------------------|----------------|----------------|--------------|----------------|
| Pre-tax profit | 1,990 | 2,119 | 2,677 | 3,170 |
| Depreciation | 777 | 422 | 622 | 631 |
| Tax paid | (425) | (456) | (669) | (792) |
| Chg in working capital | (282) | (202) | (340) | (1,408) |
| Other operating activities | (223) | (585) | (362) | (149) |
| Cash flow from operations (a) | 1,837 | 1,298 | 1,928 | 1,451 |
| Capital expenditure | (2,058) | (1,279) | (434) | (640) |
| Chg in investments | (0) | (17) | - | - |
| Other investing activities | - | - | - | - |
| Cash flow from investing (b) | (2,058) | (1,296) | (434) | (640) |
| Equity raised/(repaid) | - | - | - | - |
| Debt raised/(repaid) | (544) | (338) | (500) | (500) |
| Dividend (incl. tax) | (392) | (298) | (452) | (535) |
| Chg in minorities | - | - | - | - |
| Other financing activities | - | - | - | - |
| Cash flow from financing (c) | (936) | (635) | (952) | (1,035) |
| Net chg in cash (a+b+c) | (1,157) | (634) | 542 | (224) |

Balance Sheet

(Rs mn)

| Year-end: March | FY18 | FY19 | FY20E | FY21E |
|---------------------------------------|------------------|---------------|---------------|---------------|
| Net fixed assets | 6,618 | 7,474 | 7,287 | 7,295 |
| Investments | 960 | 978 | 978 | 978 |
| Other non-curr assets | 1,067 | 990 | 990 | 990 |
| Current assets | 7,947.465 | 8,223 | 9,714 | 11,386 |
| Inventories | 3,382 | 4,010 | 4,375 | 4,863 |
| Sundry Debtors | 3,145 | 2,936 | 3,203 | 4,513 |
| Cash and Bank | 165 | 226 | 991 | 739 |
| Loans and advances | 139 | 54 | 59 | 65 |
| Total assets | 16,593 | 17,665 | 18,968 | 20,649 |
| Shareholders' funds | 8,379 | 9,691 | 11,197 | 12,980 |
| Share capital | 223 | 223 | 223 | 223 |
| Reserves & surplus | 8,157 | 9,469 | 10,975 | 12,758 |
| Total Debt | 5,029 | 4,692 | 4,192 | 3,692 |
| Secured loans | 5,022 | 4,686 | 4,186 | 3,686 |
| Unsecured loans | 7 | 6 | 6 | 6 |
| Other liabilities | 53 | 20 | 20 | 20 |
| Curr Liab & prov | 3,131 | 3,263 | 3,560 | 3,957 |
| Current liabilities | 3,068 | 3,168 | 3,456 | 3,842 |
| Provisions | 63 | 95 | 104 | 115 |
| Total liabilities | 8,213 | 7,974 | 7,771 | 7,668 |
| Total equity & liabilities | 16,593 | 17,665 | 18,968 | 20,649 |
| Book Value (Rs) | 38 | 44 | 50 | 58 |

Source: Company; IDBI Capital Research

Financial Ratios

| Year-end: March | FY18 | FY19 | FY20E | FY21E |
|--|--------|------|-------|-------|
| Adj EPS (Rs) | 7.1 | 7.1 | 9.0 | 10.7 |
| Adj EPS growth (%) | (15.6) | 1.3 | 26.5 | 18.4 |
| EBITDA margin (%) | 15.9 | 13.5 | 15.0 | 15.5 |
| Pre-tax margin (%) | 10.1 | 9.4 | 10.8 | 11.5 |
| ROE (%) | 20.3 | 17.6 | 19.2 | 19.7 |
| ROCE (%) | 17.7 | 18.4 | 20.7 | 22.6 |
| Turnover & Leverage ratios (x) | | | | |
| Asset turnover (x) | 1.2 | 1.3 | 1.3 | 1.4 |
| Leverage factor (x) | 2.1 | 1.9 | 1.8 | 1.6 |
| Net margin (%) | 8.0 | 7.0 | 8.1 | 8.7 |
| Net Debt / Equity (x) | 0.6 | 0.5 | 0.3 | 0.2 |
| Working Capital & Liquidity ratio | | | | |
| Inventory days | 63 | 65 | 65 | 65 |
| Receivable days | 58 | 47 | 47 | 60 |
| Payable days | 39 | 30 | 31 | 31 |

Valuation

| Year-end: March | FY18 | FY19 | FY20E | FY21E |
|------------------------|------|------|-------|-------|
| P/E (x) | 23.8 | 23.5 | 18.5 | 15.7 |
| Price / Book value (x) | 4.4 | 3.8 | 3.3 | 2.9 |
| PCE (x) | 15.7 | 17.8 | 14.3 | 12.4 |
| EV / Net sales (x) | 2.1 | 1.8 | 1.6 | 1.5 |
| EV / EBITDA (x) | 13.5 | 13.6 | 10.9 | 9.5 |
| Dividend Yield (%) | 0.8 | 0.6 | 0.9 | 1.1 |



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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