

Century Plyboards ACCUMULATE

MDF outperforms; Plywood remains weak

Summary

Century Plyboards reported better than expected adjusted net profit due to higher than expected profitability in MDF and Laminates segments. MDF EBIT jumped to Rs196 mn (+106.3% YoY, +47.4% QoQ). Also, Laminates segment EBIT increased 59.0% YoY to Rs141 mn. However, Plywood segment sales growth continued to remain weak with sales growing only 2.7% YoY to Rs3,229 mn. The company reported non-recurring loss related to impairment loss on investment in Laos subsidiaries of Rs456 mn. Excluding this exceptional loss, adjusted net profit increased 57.2% YoY to Rs651 mn.

We raise our profitability estimates for FY20 as we factor better than expected MDF margin reported in Q3FY20. We continue to value the stock at a PER of 17x on our FY21E EPS to derive a target price of Rs187 (Rs182 earlier). We maintain our ACCUMULATE rating on the stock.

Key Investment Rationale

- MDF segment leads the profitability growth:** MDF sales increased 9.4% YoY to Rs965 mn and segment EBIT margin expanded 949bps YoY to 20.3% on higher realizations (+6.0% YoY to Rs23,342/cbm). While Plywood segment sales was weak, its adjusted EBIT (excluding impairment related loss) margin at 12.2% (-10 bps YoY) also remained weak mainly due to lower prices of commercial veneer. *The company does not foresee meaningful improvement in Plywood segment in the near-term.*
- New MDF plant in UP delayed:** The company aims to set up a new MDF and Particle Board plant in UP. However, a PIL filed against all wood based industry licences issued by the state government has delayed setting up this unit.
- Outlook and valuation:** Century's MDF sales and margins have peaked in our view. With weakness in end markets (real estate), its Plywood sales and profitability is likely to remain muted in FY21. Nevertheless, we expect Century's EBITDA/PAT to grow at a CAGR of 18%/24%, respectively, over FY19-21E. Stricter implementation of e-way bill by the government can be a key catalyst for the stock.

TP	Rs187
CMP	Rs169
Potential upside / downside	+10%
Previous Rating	ACCUMULATE

V/s Consensus

EPS (Rs)	FY20E	FY21E
IDBI Capital	9.8	11.0
Consensus	9.0	10.9
% difference	8.5	1.0

Shareholding Pattern (%)

Promoters	72.8
FII	7.2
DII	6.0
Public	14.0

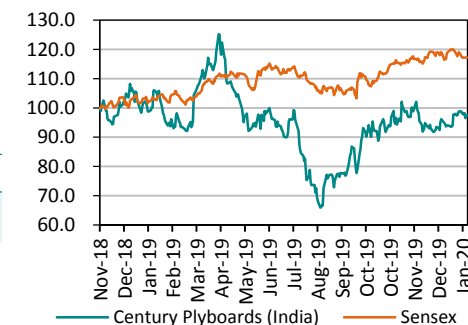
Price Performance (%)

	-1m	-3m	-12m
Absolute	1.5	0.4	1.2
Rel to Sensex	3.2	(1.2)	(10.6)

Key Stock Data

Bloomberg/Reuters	CPBI IN /CNTP.BO
Sector	Midcap
Shares o/s (mn)	222
Market cap. (Rs mn)	37,614
Market cap. (US\$ mn)	543
3-m daily avg Trd value (Rs mn)	25.9
52-week high / low	Rs 222 / 112
Sensex / Nifty	40,789 / 11,980

Relative to Sensex (%)



Financial snapshot

Year	FY17	FY18	FY19	FY20E	FY21E
Net sales	17,825	19,672	22,638	23,619	27,457
EBITDA	3,147	3,127	3,064	3,876	4,293
EBITDA (%)	17.7	15.9	13.5	16.4	15.6
Adj. PAT	1,856	1,567	1,588	2,176	2,450
EPS (Rs)	8.4	7.1	7.1	9.8	11.0
EPS Growth (%)	9.2	(15.6)	1.3	37.1	12.6
PE (x)	20.3	24.0	23.7	17.3	15.4
Dividend Yield (%)	0.6	0.8	0.6	1.0	1.1
EV/EBITDA (x)	13.6	13.6	13.7	10.4	9.1
RoE (%)	30.1	20.3	17.6	20.8	20.1
RoCE (%)	24.5	17.7	18.4	21.7	23.2

Source: Company; IDBI Capital Research

Exhibit 1: Quarterly Snapshot (Standalone)

(Rs mn)

Year-end: March	Q3FY20	Q2FY20	QoQ (%)	Q3FY19	YoY (%)
Net sales	5,954	5,894	1.0	5,789	2.9
Expenditure	5,012	4,966	0.9	5,030	(0.4)
EBITDA	943	928	1.6	759	24.1
<i>EBITDA margin (%)</i>	<i>15.8</i>	<i>15.7</i>	<i>9bps</i>	<i>13.1</i>	<i>271bps</i>
Interest	92	108	(14.7)	62	47.5
Depreciation	173	170	1.8	136	27.4
PBT	690	735	(6.1)	577	19.7
Tax	43	213	(80.0)	162	(73.7)
Net profit	191	522	(63.4)	414	(53.9)
Adjusted net profit	651	522	24.8	414	57.2
Adj. diluted EPS (Rs)	2.9	2.4	25.2	1.9	58.1

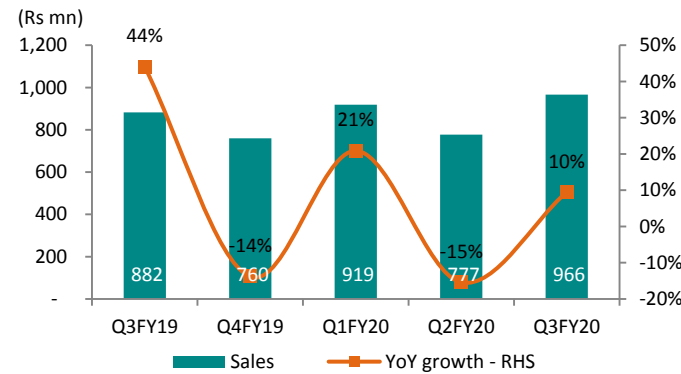
Source: Company; IDBI Capital Research

Exhibit 2: Actual vs. Estimates

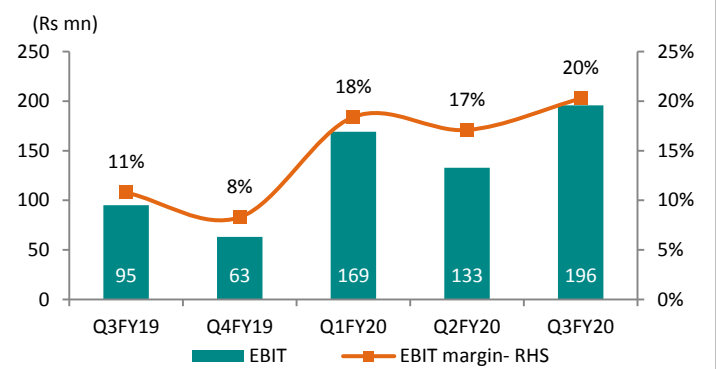
(Rs mn)

	Q3FY20E	Q3FY20A	Variance (%)
Net sales	6,227	5,954	(4.4)
EBTIDA	913	943	3.2
<i>Margin (%)</i>	<i>14.7</i>	<i>15.8</i>	<i>117bps</i>
Adj. PAT	521	651	24.8
Adj. diluted EPS (Rs)	2.35	2.94	25.2

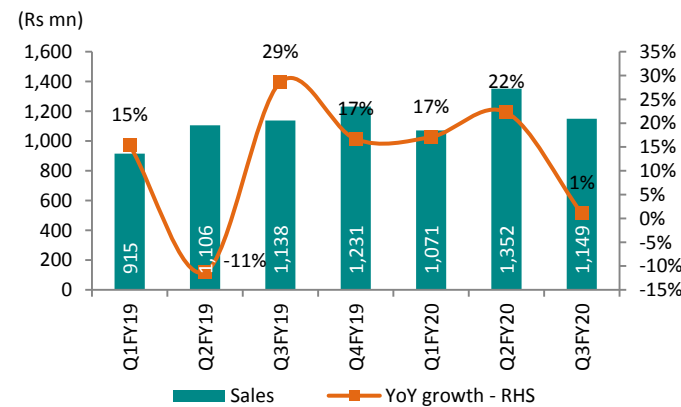
Source: Company; IDBI Capital Research

Exhibit 3: MDF sales jumps 9.5% YoY..


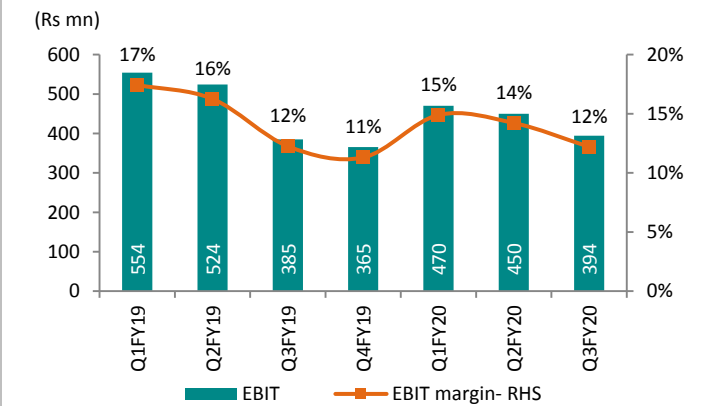
Source: Company; IDBI Capital Research

Exhibit 4: ...and segment EBIT margin expands


Source: Company; IDBI Capital Research

Exhibit 5: Plywood sales remains weak


Source: Company; IDBI Capital Research

Exhibit 6: ...and segment adjusted EBIT remained muted


Source: Company; IDBI Capital Research

Exhibit 7: Change in estimates

	FY20E			FY21E		
	Old	New	(%) Chg	Old	New	(%) Chg
Revenue (Rs mn)	24,699	23,619	(4.4)	27,457	27,457	-
EBITDA (Rs mn)	3,091	3,188	3.1	3,621	3,565	(1.6)
<i>EBITDA margin (%)</i>	12.5	13.5	98bps	13.2	13.0	(21)bps
Net profit (Rs mn)	2,008	2,176	8.4	2,377	2,450	3.1
EPS (Rs)	9.0	9.8	8.4	10.7	11.0	3.1

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	23,619	27,457	
<i>Growth (%)</i>	<i>10.4</i>	<i>15.1</i>	<i>4.3</i>	<i>16.3</i>	
Operating expenses	(16,612)	(19,635)	(19,865)	(23,299)	
EBITDA	3,127	3,064	3,876	4,293	
<i>Growth (%)</i>	<i>(0.6)</i>	<i>(2.0)</i>	<i>26.5</i>	<i>10.8</i>	
Depreciation	(810)	(500)	(688)	(728)	
EBIT	2,317	2,564	3,188	3,565	
Interest paid	(327)	(446)	(382)	(298)	
Other income	-	-	-	-	
Pre-tax profit	1,990	2,119	2,350	3,267	
Tax	(424)	(531)	(630)	(817)	
<i>Effective tax rate (%)</i>	<i>21.3</i>	<i>25.1</i>	<i>26.8</i>	<i>25.0</i>	
Minority Interest	-	-	-	-	
Net profit	1,567	1,588	1,720	2,450	
Adjusted net profit	1,567	1,588	2,176	2,450	
<i>Growth (%)</i>	<i>(15.6)</i>	<i>1.3</i>	<i>37.1</i>	<i>12.6</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	2,350	3,267	
Depreciation	777	422	765	728	
Tax paid	(425)	(456)	(630)	(817)	
Chg in working capital	(282)	(202)	(162)	(634)	
Other operating activities	(223)	(585)	(362)	(149)	
Cash flow from operations (a)	1,837	1,298	1,961	2,395	
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)	(1,000)	(1,000)	
Dividend (incl. tax)	(392)	(298)	(468)	(551)	
Chg in minorities	-	-	-	-	
Other financing activities	-	-	-	-	
Cash flow from financing (c)	(936)	(635)	(1,468)	(1,551)	
Net chg in cash (a+b+c)	(1,157)	(634)	60	204	

Balance Sheet

(Rs mn)

Year-end: March	FY18	FY19	FY20E	FY21E
Net fixed assets	6,618	7,474	7,143	7,055
Investments	960	978	978	978
Other non-curr assets	1,067	990	990	990
Current assets	7,947	8,223	9,255	10,734
Inventories	3,382	4,010	4,183	4,863
Sundry Debtors	3,145	2,936	3,063	3,560
Cash and Bank	165	226	913	1,039
Loans and advances	139	54	56	65
Total assets	16,593	17,665	18,366	19,757
Shareholders' funds	8,379	9,691	11,250	13,088
Share capital	223	223	223	223
Reserves & surplus	8,157	9,469	11,028	12,866
Total Debt	5,029	4,692	3,692	2,692
Secured loans	5,022	4,686	3,686	2,686
Unsecured loans	7	6	6	6
Other liabilities	53	20	20	20
Curr Liab & prov	3,131	3,263	3,404	3,957
Current liabilities	3,068	3,168	3,305	3,842
Provisions	63	95	99	115
Total liabilities	8,213	7,974	7,115	6,668
Total equity & liabilities	16,593	17,665	18,366	19,757
Book Value (Rs)	38	44	51	59

Source: Company; IDBI Capital Research

Financial Ratios

Year-end: March	FY18	FY19	FY20E	FY21E
Adj EPS (Rs)	7.1	7.1	9.8	11.0
Adj EPS growth (%)	(15.6)	1.3	37.1	12.6
EBITDA margin (%)	15.9	13.5	16.4	15.6
Pre-tax margin (%)	10.1	9.4	9.9	11.9
ROE (%)	20.3	17.6	20.8	20.1
ROCE (%)	17.7	18.4	21.7	23.2
Turnover & Leverage ratios (x)				
Asset turnover (x)	1.2	1.3	1.3	1.4
Leverage factor (x)	2.1	1.9	1.7	1.6
Net margin (%)	8.0	7.0	9.2	8.9
Net Debt / Equity (x)	0.6	0.5	0.2	0.1
Working Capital & Liquidity ratio				
Inventory days	63	65	65	65
Receivable days	58	47	47	47
Payable days	39	30	31	31

Valuation

Year-end: March	FY18	FY19	FY20E	FY21E
P/E (x)	24.0	23.7	17.3	15.4
Price / Book value (x)	4.5	3.9	3.3	2.9
PCE (x)	15.8	18.0	13.1	11.8
EV / Net sales (x)	2.2	1.9	1.7	1.4
EV / EBITDA (x)	13.6	13.7	10.4	9.1
Dividend Yield (%)	0.8	0.6	1.0	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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