

28 May 2019

Century Plyboards

Weak quarter, optimistic outlook; maintaining a Buy

Century's Q4 belied our estimates, with EBITDA/PAT down 23%/4% y/y, held back primarily by lower plywood/MDF revenue and poor margins in most segments (non-recurring expenses, inferior mix, etc.). We cut our FY20e/21e earnings 9%/7% owing to lower revenues/margins. Expecting a gradual recovery in margins (on a price hike in laminates, steady raw-material prices and normalising pricing pressure in MDF), we now expect a 34% EPS CAGR over FY19-21. We maintain a Buy with a lower target of ₹202 (16x FY21e P/E) earlier ₹216.

PAT missed; low growth, higher other expenses. Despite 7% y/y revenue growth, EBITDA/PAT declined 23%/4%. While the gross margin at 48.1% improved q/q, the 10.9% EBITDA margin contracted (down 437bps y/y, 220bps q/q) on the rise in other expenses from the bunching-up of a few expenses. While laminate, MDF and particle-board revenues grew 15%-30% (except in plywood, which was flat), EBITDA margins of all declined y/y, except in particle boards (up 730bps to 25.4%). Weak demand and an inferior mix led to the poor performance in plywood.

Balance sheet broadly stable. Despite a weak FY19, the balance sheet was broadly stable (net WC cycle up five days, debt shrank ₹338m to ₹4.7bn. FY20 will see low capex (~₹500m) on particle boards (at 100% utilisation) and others after ₹8bn investment over FY15-19.

Outlook. Considering high demand in the mid-segment plywood coming from affordable housing, Century is aiming at more outsourcing of the *Sainik* brand. It plans further capex in MDF and particle board at present locations. While short-term challenges such as rising input costs and keener competition in MDF can be seen, the structural long-term growth outlook is intact.

Valuation. We like Century for its diversified product range, leading position in key product lines and disciplined balance sheet. At 13.3x FY21e P/E, the stock is attractively valued, considering a 34% PAT CAGR over FY19-21 and the RoE crossing 20%. **Risks:** Rising input costs, currency fluctuations.

Key financials (YE Mar)	FY17	FY18	FY19	FY20e	FY21e
Sales (₹ m)	17,825	19,672	22,638	25,152	28,460
Net profit (₹ m)	1,856	1,566	1,588	2,207	2,807
EPS (₹)	8.3	7.0	7.1	9.9	12.6
PE (x)	20.4	24.2	23.8	17.1	13.5
EV / EBITDA (x)	14.7	14.0	14.1	11.0	9.0
PBV (x)	5.3	4.5	4.0	3.3	2.7
RoE (%)	26.2	18.7	16.6	19.6	20.5
RoCE (%) – after tax	20.2	14.8	14.6	17.5	19.3
Dividend yield (%)	0.6	0.9	0.6	0.9	0.9
Net debt / equity (x)	0.7	0.6	0.5	0.4	0.3

Source: Company, Anand Rathi Research

Rating: **Buy**

Target Price: ₹202

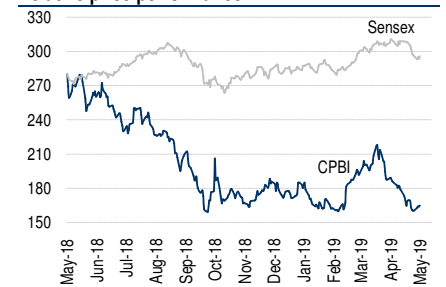
Share Price: ₹172

Key data	CPBI IN / CNTP.BO
52-week high / low	₹284 / 150
Sensex / Nifty	39750 / 11929
3-m average volume	\$0.6m
Market cap	₹38bn / \$552.5m
Shares outstanding	222m

Shareholding patter (%)	Mar'19	Dec'18	Sep'18
Promoters	72.7	72.7	72.3
- of which, Pledged	-	-	-
Free float	27.3	27.3	27.7
- Foreign institutions	7.7	8.7	10.0
- Domestic institutions	7.3	6.2	5.2
- Public	12.3	12.4	12.6

Estimates revision (%)	FY19e	FY20e
Sales	(3.6)	(3.4)
EBITDA	(8.7)	(5.7)
PAT	(7.9)	(5.5)

Relative price performance



Source: Bloomberg

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹ m)

Year-end: Mar	FY17	FY18	FY19	FY20e	FY21e
Net revenues	17,825	19,672	22,638	25,152	28,460
Growth (%)	9.0	10.4	15.1	11.1	13.2
Direct costs	9,181	10,230	11,816	13,079	14,742
SG&A	5,723	6,382	7,819	8,269	9,129
EBITDA	2,920	3,060	3,004	3,804	4,589
EBITDA margins (%)	16.4	15.6	13.3	15.1	16.1
- Depreciation	524	810	500	561	600
Other income	227	67	61	91	101
Interest expenses	286	327	446	391	347
PBT	2,337	1,990	2,119	2,943	3,743
Effective tax rate (%)	20.6	21.3	25.1	25.0	25.0
+ Associates / (Minorities)	-	-	-	-	-
Net income	1,856	1,566	1,588	2,207	2,807
Adjusted income	1,856	1,566	1,588	2,207	2,807
WANS	223	223	223	223	223
FDEPS (₹ / sh)	8.3	7.0	7.1	9.9	12.6
FDEPS growth (%)	9.3	(15.6)	1.4	39.0	27.2
Gross margins (%)	48.5	48.0	47.8	48.0	48.2

Fig 3 – Cash-flow statement (₹ m)

Year-end: Mar	FY17	FY18	FY19	FY20e	FY21e
EBIT (excluding other income)	2,397	2,250	2,504	3,243	3,989
+ Non-cash items	524	810	500	561	600
Oper. prof. before WC	2,920	3,060	3,004	3,804	4,589
- Incr. / (decr.) in WC	65	(161)	774	414	547
Others incl. taxes	481	424	531	736	936
Operating cash-flow	2,374	2,797	2,464	2,526	3,106
- Capex (tang. + intang.)	2,955	2,092	1,357	450	650
Free cash-flow	(581)	706	1,108	2,076	2,456
Acquisitions					
- Div.(incl. buyback & taxes)	267	417	260	391	391
+ Equity raised	-	-	-	-	-
+ Debt raised	1,524	(544)	(338)	(500)	(500)
- Fin investments	463	0	17	900	1,300
- Misc. (CFI + CFF)	(155)	118	453	320	266
Net cash-flow	366	(373)	39	(35)	(0)

Source: Company, Anand Rathi Research

Fig 5 – Price movement


Source: Bloomberg

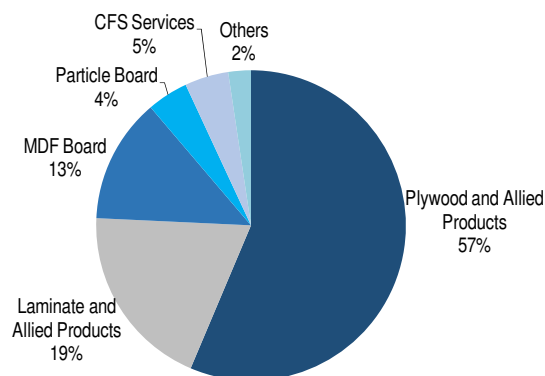
Fig 2 – Balance sheet (₹ m)

Year-end: Mar	FY17	FY18	FY19	FY20e	FY21e
Share capital	223	223	223	223	223
Net worth	7,086	8,379	9,563	11,380	13,796
Debt	5,573	5,029	4,692	4,192	3,692
Minority interest	-	-	-	-	-
DTL / (Assets)	(689)	(690)	(615)	(635)	(655)
Capital employed	11,971	12,718	13,640	14,936	16,833
Net tangible assets	2,480	5,412	7,278	7,217	7,317
Net intangible assets	7	-	-	-	-
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	2,849	1,205	196	146	96
Investments (strategic)	960	960	978	1,878	3,178
Investments (financial)	0	-	-	-	-
Current assets (ex cash)	8,032	8,168	8,274	9,173	10,188
Cash	530	157	196	161	161
Current liabilities	2,888	3,184	3,282	3,639	4,107
Working capital	5,144	4,983	4,992	5,534	6,081
Capital deployed	11,971	12,718	13,640	14,936	16,833
Contingent liabilities	841	-	-	-	-

Fig 4 – Ratio analysis

Year-end: Mar	FY17	FY18	FY19	FY20e	FY21e
P/E (x)	20.4	24.2	23.8	17.1	13.5
EV / EBITDA (x)	14.7	14.0	14.1	11.0	9.0
EV / Sales (x)	2.4	2.2	1.9	1.7	1.5
P/B (x)	5.3	4.5	4.0	3.3	2.7
RoE (%)	26.2	18.7	16.6	19.6	20.5
RoCE (%) - after tax	20.2	14.8	14.6	17.5	19.3
RoIC	20.9	15.2	14.8	17.7	19.5
DPS (₹ / sh)	1.0	1.6	1.0	1.5	1.5
Dividend yield (%)	0.6	0.9	0.6	0.9	0.9
Dividend payout (%) - incl. DDT	12.0	22.7	14.0	15.1	11.9
Net debt / equity (x)	0.7	0.6	0.5	0.4	0.3
Receivables (days)	69	58	50	50	50
Inventory (days)	54	63	58	58	58
Payables (days)	57	57	38	40	40
CFO : PAT %	127.9	178.6	155.2	114.5	110.7

Source: Company, Anand Rathi Research

Fig 6 – FY19 revenue break-up (standalone)


Source: Company

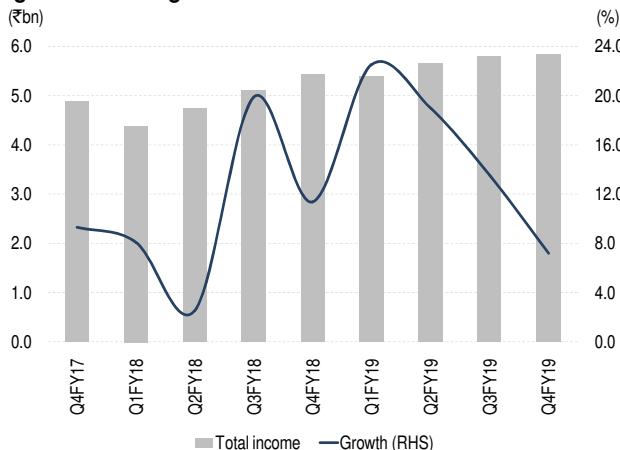
Financial highlights

Fig 7 – Financials (standalone)

(₹ m)	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	% Y/Y	% Q/Q	FY19	FY18	% Y/Y
Total income	5,441	5,373	5,644	5,789	5,832	7	1	22,638	19,672	15
RM costs	2,738	2,754	2,945	3,088	3,029	11	(2)	11,816	10,230	16
Employee costs	752	790	840	810	837	11	3	3,277	2,839	15
Other expenses	1,119	963	1,117	1,132	1,330	19	17	4,542	3,543	28
EBITDA	832	865	742	759	637	(23)	(16)	3,004	3,060	(2)
Depreciation	277	108	113	136	143	(48)	5	500	810	(38)
Interest cost	122	134	155	62	94	(23)	50	446	327	36
Other income	13	6	10	16	29	124	85	61	67	(10)
PBT	445	628	485	577	429	(4)	(26)	2,119	1,990	6
Tax	88	175	106	162	87	(1)	(46)	531	424	25
PAT	357	454	378	414	342	(4)	(18)	1,588	1,566	1
EPS (calculated) (₹)	1.6	2.0	1.7	1.9	1.5	(4)	(18)	7.1	7.0	1
As % of income						bps y/y	bps q/q			bps y/y
Gross margins	49.7	48.7	47.8	46.7	48.1	(161)	140	47.8	48.0	(19)
Employee costs	13.8	14.7	14.9	14.0	14.3	53	36	14.5	14.4	4
Other expenses	20.6	17.9	19.8	19.6	22.8	223	325	20.1	18.0	205
EBITDA margins	15.3	16.1	13.2	13.1	10.9	(437)	(220)	13.3	15.6	(229)
Depreciation	5.1	2.0	2.0	2.3	2.5	(264)	10	2.2	4.1	(191)
EBIT margin	10.2	14.1	11.2	10.8	8.5	(172)	(230)	11.1	11.4	(38)
Interest	2.2	2.5	2.7	1.1	1.6	(63)	53	2.0	1.7	31
Other income	0.2	0.1	0.2	0.3	0.5	26	23	0.3	0.3	(7)
PBT	8.2	11.7	8.6	10.0	7.4	(83)	(261)	9.4	10.1	(76)
Effective tax rate	19.8	27.8	22.0	28.2	20.4	57	(782)	25.1	21.3	377
PAT margins	6.6	8.4	6.7	7.2	5.9	(71)	(130)	7.0	8.0	(95)
Segment-wise results										
Revenue (₹ m)										
Plywood and allied products	3,230	3,179	3,224	3,143	3,235	0.1	2.9	12,781	12,944	(1)
Laminate and allied products	1,056	915	1,106	1,138	1,231	16.6	8.2	4,390	4,094	7
Medium-density fibre boards	648	699	612	882	760	17.3	(13.8)	2,954	1,131	161
Particle boards	190	182	286	265	241	27.0	(8.9)	975	616	58
CFS services	233	304	264	250	219	(5.8)	(12.3)	1,037	997	4
Others	98	99	160	121	154	57.2	27.2	534	378	42
Revenue mix (%)										
Plywood and allied products	59.2	59.1	57.0	54.2	55.4	(384)	118	56.4	64.2	(783)
Laminate and allied products	19.4	17.0	19.6	19.6	21.1	173	146	19.4	20.3	(95)
Medium-density fibre boards	11.9	13.0	10.8	15.2	13.0	114	(220)	13.0	5.6	742
Particle boards	3.5	3.4	5.1	4.6	4.1	65	(44)	4.3	3.1	125
CFS services	4.3	5.7	4.7	4.3	3.7	(51)	(55)	4.6	4.9	(37)
Others	1.8	1.8	2.8	2.1	2.6	84		2.4	1.9	48
EBITDA margins (%)						bps yoy	bps qoq			bps yoy
Plywood and allied products	16.1	17.3	15.5	12.1	9.7	(634)	(233)	13.6	14.3	(63)
Laminate and allied products	12.6	9.4	8.0	9.0	8.9	(366)	(3)	8.8	10.6	(179)
Medium-density fibre boards	15.6	12.9	5.9	15.9	15.3	(32)	(63)	13.0	17.9	(489)
Particle boards	18.1	26.6	18.9	20.8	25.4	730	456	22.4	19.0	344
CFS services	37.7	40.2	33.9	29.0	23.9	(1,381)	(512)	32.4	38.4	(597)

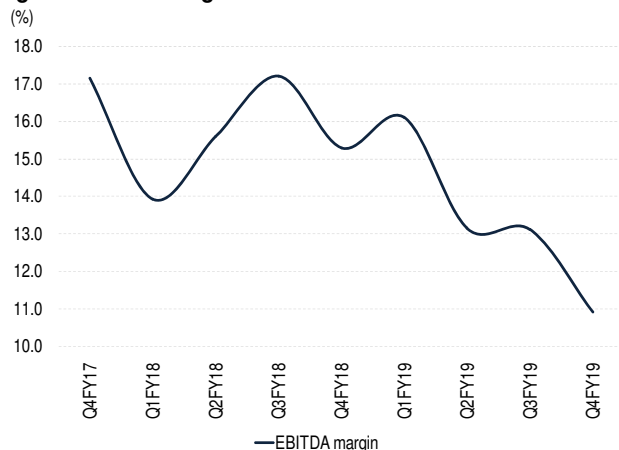
Source: Company, Anand Rathi Research

Fig 8 – Revenue-growth trend



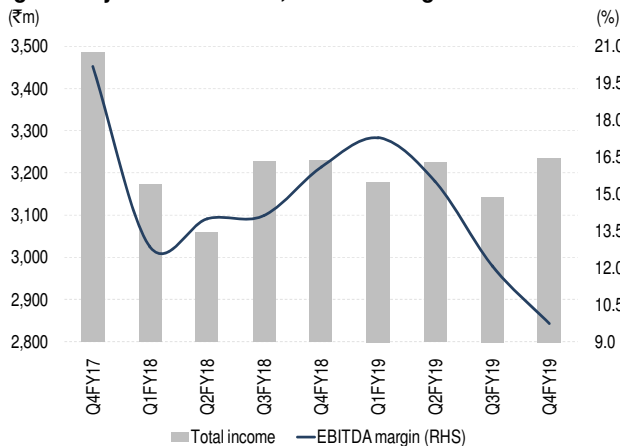
Source: Company, Anand Rathi Research

Fig 9 – EBITDA-margin trend



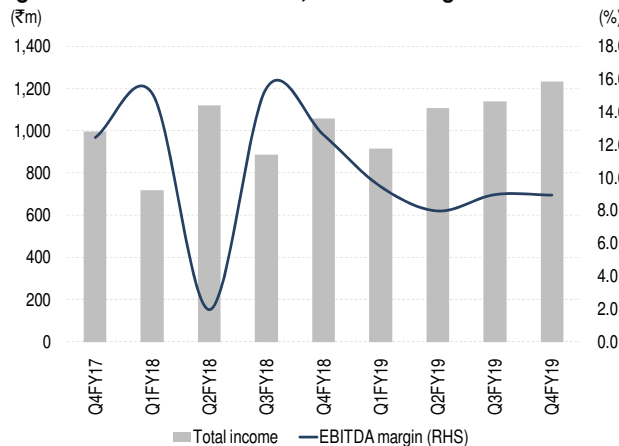
Source: Company, Anand Rathi Research

Fig 10 – Plywood – revenue, EBITDA-margin trends



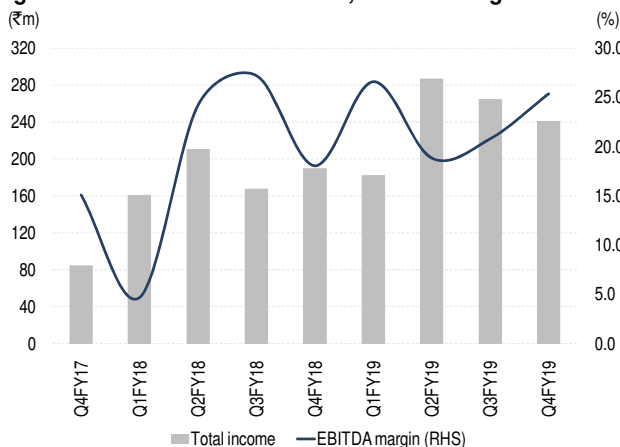
Source: Company, Anand Rathi Research

Fig 11 – Laminates – revenue, EBITDA-margin trends



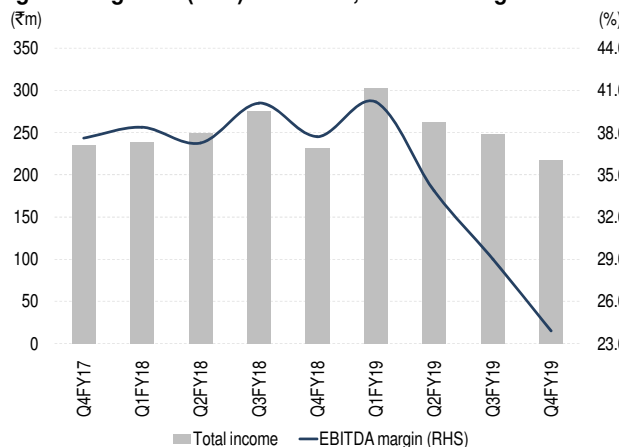
Source: Company, Anand Rathi Research

Fig 12 – Particle boards – revenue, EBITDA-margin trends



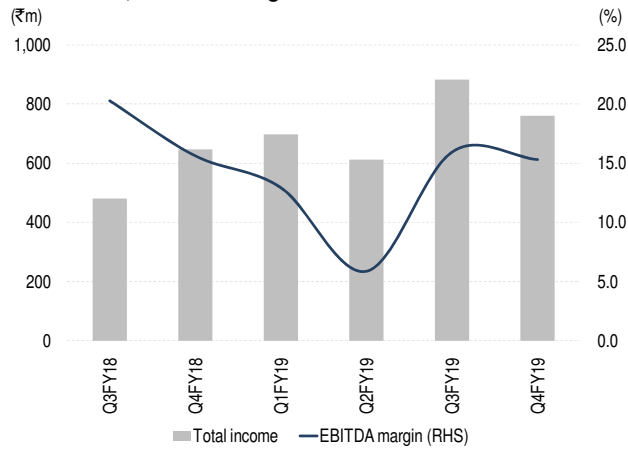
Source: Company, Anand Rathi Research

Fig 13 – Logistics (CFS) – revenue, EBITDA-margin trends



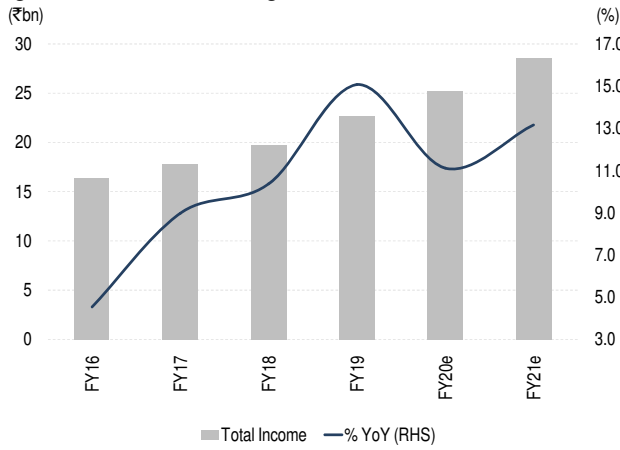
Source: Company, Anand Rathi Research

Fig 14 – MDF - revenue, EBITDA-margin trends



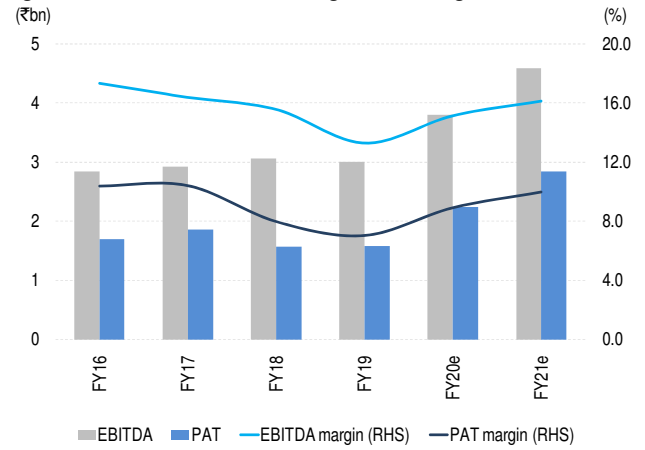
Source: Company, Anand Rathi Research

Fig 15 – Income – annual growth trend



Source: Company, Anand Rathi Research

Fig 16 – EBITDA, PAT – annual growth, margin trends



Source: Company, Anand Rathi Research

Valuation

The building materials sector is faced with several challenges. Yet, we believe in Century’s long-term structural growth, supported by macro-economic factors (rising disposable incomes, the government’s focus on housing for all, etc.). With its strong brand image (premium-range *Century Club* and the mid-range *Sainik* under plywood) and diversified product range, it is set to gain from demand revival. The lower GST and successful e-way bill implementation would aid demand shifting to the regulated sector. On the other hand, huge MDF capacity additions by domestic manufacturers are squeezing margins, expected only gradually to improve. While some short-term challenges persist, the structural long-term growth outlook is intact.

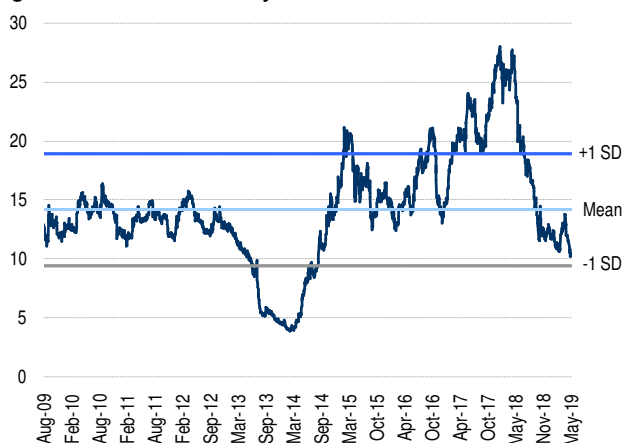
Following a 19% earnings CAGR over FY14-19, the stock has been significantly re-rated. We now expect ~34% PAT CAGR over FY19-21. At the CMP the stock quotes at ~13.3x P/E and ~9x EV/EBITDA on FY21e earnings. We maintain our Buy recommendation on it, with a lower target price of ₹204, valued at 16x FY21e P/E (implying ~10x EV/EBITDA).

Fig 17 – Change in estimates

₹ m	Old estimates		New estimates		% Var	
	FY20e	FY21e	FY20e	FY21e	FY20e	FY21e
Income	26,092	29,463	25,152	28,460	(3.6)	(3.4)
EBITDA	4,167	4,867	3,804	4,589	(8.7)	(5.7)
EBITDA margins %	16.0	16.5	15.1	16.1		
PAT	2,432	3,003	2,207	2,807	(9.2)	(6.5)
EPS (₹)	10.9	13.5	9.9	12.6	(9.0)	(6.5)

Source: Anand Rathi Research

Fig 18 – EV/EBITDA - one-year-forward band



Source: Company, Anand Rathi Research

Fig 19 – P/E - one-year-forward band



Source: Company, Anand Rathi Research

Risks

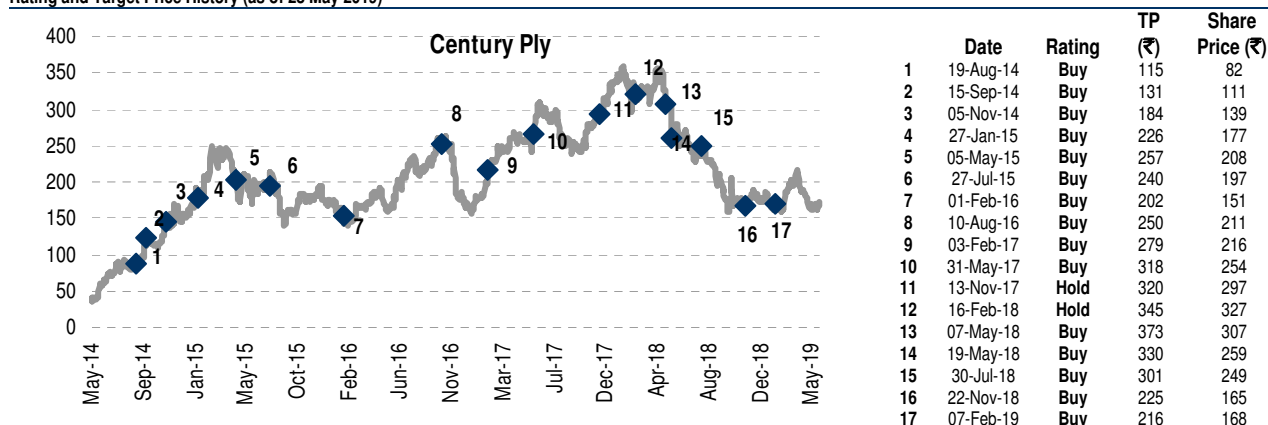
- **Unfavourable price movement, availability of key raw materials.** Sourcing of key raw materials (face veneers, etc.) at reasonable prices is the key challenge due to environmental concerns. Also, a few of the raw materials such as phenol follow crude-oil prices, which are volatile. These pose risks to margins.
- **Currency volatility.** Since the company imports most of its raw material, currency fluctuations could pare its margins.
- **Higher interest rate.** Exposure to interest-rate fluctuations in its foreign-currency borrowing could hurt it.

Appendix

Analyst Certification

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Ratings Guide (12 months)

	Buy	Hold	Sell
Large Caps (>US\$1bn)	>15%	5-15%	<5%
Mid/Small Caps (<US\$1bn)	>25%	5-25%	<5%

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