

Century Plyboards

BUY
Profitability likely to improve in FY20

Summary

Century Plyboards reported disappointing results for Q4FY19 on weaker than expected profitability in Plywood and MDF segments. While Century's net sales at Rs5.8 bn was in line with our forecast, however, EBITDA at Rs637 mn was 26.1% below our forecast as it incurred several exceptional expenses related to donations, sales promotions, etc. Plywood segment EBIT margin fell 95 bps QoQ to 11.3%. MDF sales fell 13.9% QoQ to Rs760 mn; even segment EBIT fell 33.7% QoQ to Rs63 mn.

For FY20, we lower our Plywood segment sales and margin forecasts given weakness in end markets. Nevertheless, we expect Century's EBITDA/PAT to grow at a CAGR of 15%/19%, respectively, over FY19-21E. We introduce FY21 estimates and value the stock at a PE multiple of 20x on our FY21E (earlier 20x on FY20E) EPS estimate to derive a target price of Rs201 (earlier Rs210); Maintain BUY.

Key Investment Rationale

- Plywood margins remain weak:** Plywood segment EBIT margin fell 95bps QoQ to 11.3% (after falling 400bps QoQ in Q3FY19) due to exceptional expenses related to donations, sales promotions, etc. *Sainik* contributed 31% to its FY19 plywood sales compared to 25% in FY18.
- FY20 guidance:** Century targets double digit sales growth in FY20. It expects Plywood segment margins to recover in FY20. Laminates segment margin is expected to improve by 200bps improvement to 10%. Century plans to expand its MDF capacity by 60,000 cbm with a capex of Rs1,500 mn although it is yet to formally announce the project.
- 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 volumes in Plywood segment (reported only 6% YoY growth to 220,442cbm in FY19). Although Q4FY19 margins were weaker than expected, we expect profitability to improve from Q1FY20. Stricter implementation of e-way bill by the government can be a key catalyst for the stock.

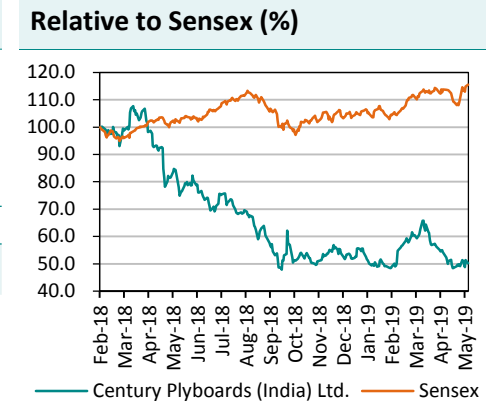
TP	Rs201
CMP	Rs172
Potential upside / downside	+17%
Previous Rating	BUY

V/s Consensus		
EPS (Rs)	FY20E	FY21E
IDBI Capital	8.5	10.1
Consensus	9.5	11.0
% difference	(10.5)	(8.2)

Shareholding Pattern (%)	
Promoters	72.7
FII	7.7
DII	6.3
Public	13.3

Price Performance (%)			
	-1m	-3m	-12m
Absolute	(4.3)	5.2	(36.3)
Rel to Sensex	(6.1)	(5.5)	(50.1)

Key Stock Data	
Bloomberg/Reuters	CPBI IN /CNTP.BO
Sector	Midcap
Shares o/s (mn)	222
Market cap. (Rs mn)	38,247
Market cap. (US\$ mn)	550
3-m daily avg Trd value (Rs mn)	27.0
52-week high / low	Rs 364 / 150
Sensex / Nifty	39,750 / 11,941



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	3,542	4,062
EBITDA (%)	17.7	15.9	13.5	14.3	14.8
Adj. PAT	1,856	1,567	1,588	1,894	2,234
EPS (Rs)	8.4	7.1	7.1	8.5	10.1
EPS Growth (%)	9.2	(15.6)	1.3	19.3	18.0
PE (x)	20.8	24.6	24.3	20.3	17.2
Dividend Yield (%)	0.6	0.8	0.6	0.9	1.0
EV/EBITDA (x)	13.8	13.9	14.0	11.8	10.2
RoE (%)	30.1	20.3	17.6	18.2	18.7
RoCE (%)	24.5	17.7	18.4	19.8	21.6

Source: Company; IDBI Capital Research

Exhibit 1: Quarterly Snapshot

(Rs mn)

Year-end: March	Q4Y19	Q3Y19	QoQ (%)	Q4FY18	YoY (%)
Net sales	5,832	5,789	0.7	5,441	7.2
Expenditure	5,196	5,030	3.3	4,610	12.7
EBITDA	637	759	(16.2)	845	(24.6)
<i>EBITDA margin (%)</i>	<i>10.9</i>	<i>13.1</i>	<i>(220)bps</i>	<i>15.5</i>	<i>(457)bps</i>
Interest	94	62	50.0	122	(23.1)
Depreciation	143	136	5.2	277	(48.4)
PBT	429	577	(25.6)	445	(3.7)
Tax	87	162	(46.3)	88	(0.9)
PAT	342	414	(17.5)	357	(4.4)
Adj. diluted EPS (Rs)	1.5	1.9	(17.5)	1.6	(4.4)

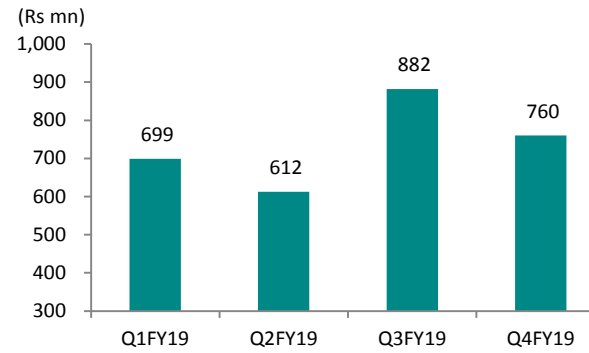
Source: Company; IDBI Capital Research

Exhibit 2: Actual vs. Estimates

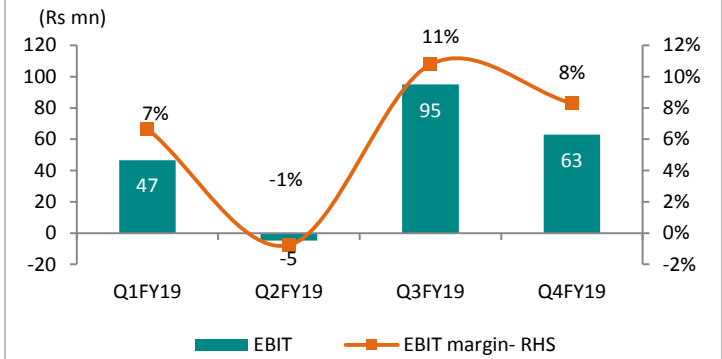
(Rs mn)

	Q4FY19E	Q4FY19A	Variance (%)
Net sales	5,976	5,832	(2.4)
EBTIDA	861	637	(26.1)
<i>Margin (%)</i>	<i>14.4</i>	<i>10.9</i>	<i>(350)bps</i>
PAT	489	342	(30.1)
Adj. diluted EPS (Rs)	2.2	1.53	(30.1)

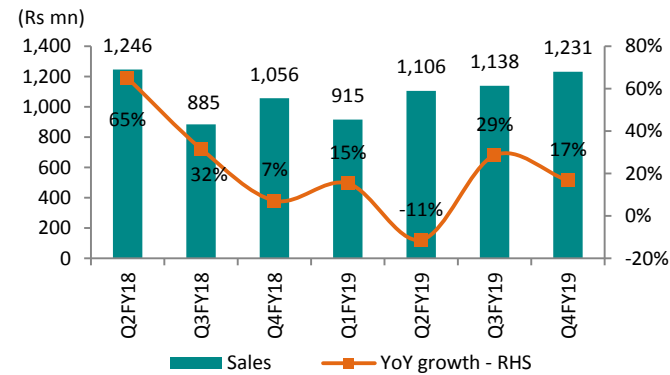
Source: Company; IDBI Capital Research

Exhibit 3: MDF sales fell 14% QoQ...


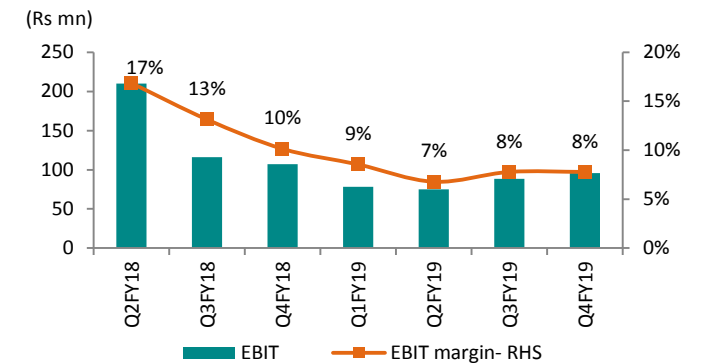
Source: Company; IDBI Capital Research

Exhibit 4: ...and segment EBIT at 8%


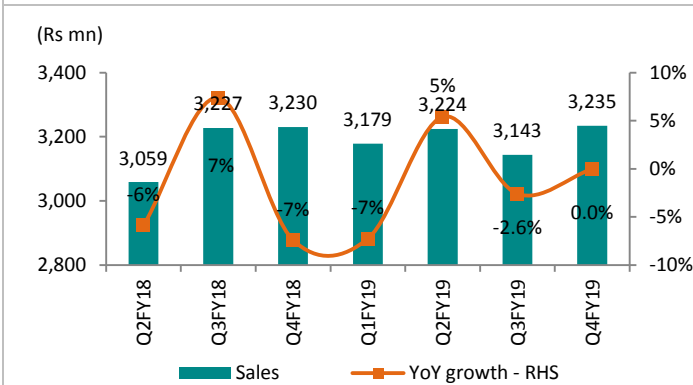
Source: Company; IDBI Capital Research

Exhibit 5: Laminates sales increased by 17% YoY..


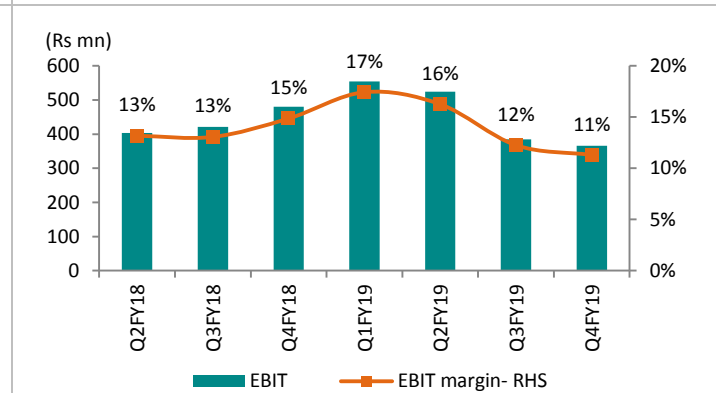
Source: Company; IDBI Capital Research

Exhibit 6: ...and segment EBIT margins remained flat


Source: Company; IDBI Capital Research

Exhibit 7: Plywood sales were flat..


Source: Company; IDBI Capital Research

Exhibit 8: .. and segment profitability declined


Source: Company; IDBI Capital Research

Exhibit 9: Change in estimates

	FY20E			FY21E
	Old	New	(%) Chg	New
Revenue (Rs mn)	26,829	24,699	(7.9)	27,457
EBIT (Rs mn)	3,424	2,939	(14.2)	3,431
EBIT margin (%)	12.8	11.9	(86)bps	12.5
Net profit (Rs mn)	2,201	1,894	(14.0)	2,234
EPS (Rs)	9.9	8.5	(14.0)	10.1

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	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)	(21,224)	(23,468)
EBITDA	3,127	3,064	3,542	4,062
<i>Growth (%)</i>	<i>(0.6)</i>	<i>(2.0)</i>	<i>15.6</i>	<i>14.7</i>
Depreciation	(810)	(500)	(604)	(631)
EBIT	2,317	2,564	2,939	3,431
Interest paid	(327)	(446)	(414)	(451)
Other income	-	-	-	-
Pre-tax profit	1,990	2,119	2,525	2,979
Tax	(424)	(531)	(631)	(745)
<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	1,894	2,234
Adjusted net profit	1,567	1,588	1,894	2,234
<i>Growth (%)</i>	<i>(15.6)</i>	<i>1.3</i>	<i>19.3</i>	<i>18.0</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	2,525	2,979
Depreciation	810	500	544	631
Tax paid	(425)	(456)	(631)	(745)
Chg in working capital	(282)	(202)	(340)	(1,408)
Other operating activities	(223)	(585)	(362)	(149)
Cash flow from operations (a)	1,871	1,376	1,736	1,308
Capital expenditure	(2,092)	(1,357)	(322)	(640)
Chg in investments	(0)	(17)	-	-
Other investing activities	-	-	-	-
Cash flow from investing (b)	(2,092)	(1,374)	(322)	(640)
Equity raised/(repaid)	-	-	-	-
Debt raised/(repaid)	(544)	(338)	(500)	(500)
Dividend (incl. tax)	(392)	(298)	(426)	(503)
Chg in minorities	-	-	-	-
Other financing activities	-	-	-	-
Cash flow from financing (c)	(936)	(635)	(926)	(1,003)
Net chg in cash (a+b+c)	(1,157)	(634)	487	(334)

Balance Sheet

(Rs mn)

Year-end: March	FY18	FY19	FY20E	FY21E
Net fixed assets	6,618	7,474	7,253	7,261
Investments	960	978	978	978
Other non-curr assets	1,067	990	990	990
Current assets	7,947	8,223	9,662	11,227
Inventories	3,382	4,010	4,375	4,863
Sundry Debtors	3,145	2,936	3,203	4,513
Cash and Bank	165	226	939	579
Loans and advances	139	54	59	65
Total assets	16,593	17,665	18,882	20,456
Shareholders' funds	8,379	9,691	11,111	12,787
Share capital	223	223	223	223
Reserves & surplus	8,157	9,469	10,889	12,565
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	16,592.76	17,665.18	18,882	20,456
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	8.5	10.1
Adj EPS growth (%)	(15.6)	1.3	19.3	18.0
EBITDA margin (%)	15.9	13.5	14.3	14.8
Pre-tax margin (%)	10.1	9.4	10.2	10.9
ROE (%)	20.3	17.6	18.2	18.7
ROCE (%)	17.7	18.4	19.8	21.6
Turnover & Leverage ratios (x)				
Asset turnover (x)	1.2	1.3	1.4	1.4
Leverage factor (x)	2.1	1.9	1.8	1.6
Net margin (%)	8.0	7.0	7.7	8.1
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	30	31

Valuation

Year-end: March	FY18	FY19	FY20E	FY21E
P/E (x)	24.6	24.3	20.3	17.2
Price / Book value (x)	4.6	4.0	3.5	3.0
PCE (x)	16.2	18.4	15.4	13.4
EV / Net sales (x)	2.2	1.9	1.7	1.5
EV / EBITDA (x)	13.9	14.0	11.8	10.2
Dividend Yield (%)	0.8	0.6	0.9	1.0



Notes

Dealing

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Key to Ratings Stocks:

BUY: Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto $\pm 5\%$; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

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