

Century Plyboards

BUY
Maintained
Rs174
Mixed bag

Reason for report: Q4FY16 result review and earnings revision

Century Plyboards (CPBI) reported an impressive topline growth of 11.4% YoY to Rs4.5bn, above our expectation of Rs 4.2bn, largely driven by higher volumes in the plywood division. However, lower than expected plywood margins, which were down 470bps YoY, dragged the overall margins lower by 240bps YoY. This, along with higher tax outgo, resulted in decline in Q4FY16 PAT by 15.5% YoY to Rs405mn as against our expectation of Rs485mn. Considering the beat on revenues and lower than expected plywood margins during the quarter, we have revised our revenue and PAT estimates by 4% and -1% respectively for both FY17 and FY18. We now expect the company to report revenue and PAT CAGRs of 19.8% and 21.6% from FY16-18E, respectively. At the CMP, the stock trades at 15.7x FY18E earnings. We maintain our BUY rating on the stock with a revised target price of Rs222 per share (earlier: Rs225) valuing it at 20x FY18E earnings.

- ▶ **Plywood margins disappoint despite strong volume growth.** The plywood segment reported impressive revenue growth of 10% YoY to Rs3.2bn led by 10.9% volume growth YoY and realisation degrowth of 0.9% YoY. However, higher than expected discount payouts and aggressive advertising spends resulted in 470bps contraction in plywood margins. Going forward, with the expected pickup in demand and the company's intensified focus on *Sainik* plywood, we expect CPBI's plywood revenues to grow at a CAGR of 10.8% over FY16-FY18. Further, shift in commercial veneer operations from India to Myanmar and Laos and higher capacity utilisation in the plywood segment over the next two years, is expected to improve EBIDTA margins by 70bps over FY16-FY18. We expect plywood division revenues and EBIDTA to grow at CAGRs of 10.8% and 12.9% respectively over the next two years.
- ▶ **Laminates division continues to post healthy performance.** The laminates division posted another strong performance in Q4FY16 as its revenues grew 14.7% YoY to Rs923mn with the EBIT margin expanding 670bps YoY. The quarter performance also witnessed strong volume growth of 23% YoY. With the pre-laminated particle board unit expected to be operational by Jun'16, we expect the laminate division revenues and EBIDTA to grow at CAGRs of 21.8% and 26.5% respectively over the next two years.
- ▶ **MDF project to be fast-tracked.** CPBI is investing close to Rs3.8bn on putting up a MDF plant in Punjab. With the assurance from its Chinese machinery supplier for timely delivery, the management expects the plant to commence production in Q4FY16. It also expects the plant to operate at 70% utilisation so as to achieve PBT breakeven in the first year of its operations. We have however factored MDF revenues at Rs2.6bn (at 50% capacity utilisation) with EBIDTA margins likely at 18% levels in FY18E.

Wood Panel

Target price Rs222

Earnings revision

(%)	FY17E	FY18E
Sales	↑ 3.9	↑ 4.1
EBITDA	↑ 0.2	↑ 1.3
PAT	↓ 1.0	↓ 1.0

Target price revision

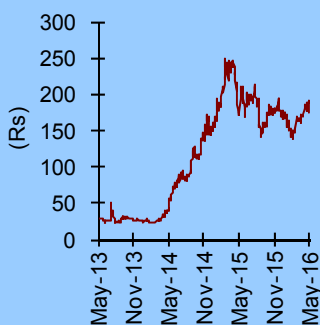
Rs222 from Rs225

Shareholding pattern

	Sep '15	Dec '15	Mar '16
Promoters	73.3	73.3	73.3
Institutional investors	14.1	14.0	15.4
MFs and UTI	3.4	3.3	3.3
FIs/Banks	0.0	0.1	0.1
Insurance	-	-	-
FII	10.7	10.6	12.1
Others	12.5	12.7	11.3

Source: NSE

Price chart



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Market Cap	Rs38.5bn/US\$578mn	Year to Mar	FY15	FY16P	FY17E	FY18E
Reuters/Bloomberg	CPBI IN/CNTP.BO	Revenue (Rs mn)	15,884	16,637	18,435	23,686
Shares Outstanding (mn)	222.2	Rec. Net Income (Rs mn)	1,490	1,672	2,034	2,473
52-week Range (Rs)	215/140	EPS (Rs)	6.7	7.5	9.1	11.1
Free Float (%)	26.7	% Chg YoY	147.2	12.2	21.7	21.6
FII (%)	12.1	P/E (x)	26.0	23.2	19.0	15.7
Daily Volume (US\$/'000)	687	CEPS (Rs)	8.9	9.7	11.6	14.7
Absolute Return 3m (%)	24.5	EV/E (x)	16.1	14.5	13.4	10.0
Absolute Return 12m (%)	1.9	Dividend Yield (%)	1.0	1.1	1.4	1.4
Sensex Return 3m (%)	12.6	RoCE (%)	25.0	26.2	24.6	26.2
Sensex Return 12m (%)	(2.6)	RoE (%)	42.6	35.7	33.4	32.4

Please refer to important disclosures at the end of this report

Table 1: Q4FY16 result review*(Rs mn, year ending March 31)*

Particulars	Q4FY16	Q4FY15	YoY (%)	Q3FY16	QoQ (%)	FY16	FY15	YoY (%)
Net Sales	4,512	4,049	11.4	3,886	16.1	16,469	15,525	6.1
Other Op. Income	34.9	42.8	(18.6)	20	71.5	116	123	(6.0)
Total Op. Income	4,547	4,092	11.1	3,906	16.4	16,585	15,648	6.0
Expenditure	3,774	3,299	14.4	3,210	17.6	13,710	13,015	5.3
Raw Materials	1,605	1,506	6.6	1,226	30.9	6,256	6,584	(5.0)
Cost of traded goods	689.8	597.4	15.5	611.5	12.8	2,175.9	1,926.6	12.9
Staff Cost	626	524	19.5	595	5.2	2,306	1,943	18.7
Other Expenditure	853	671	27.1	778	9.8	2,971	2,562	16.0
Operating Profit	773	793	(2.5)	696	11.1	2,875	2,633	9.2
OPM (%)	17.0	19.4	-240bps	17.8	-80bps	17.3	16.8	50bps
Other Income	0.9	8.7	(89.9)	7.2	(87.9)	16.3	46.2	(64.7)
Interest	103.1	90.2	14.3	106.8	(3.5)	467.3	432.9	7.9
Depreciation	122	119	3.0	116	5.1	446	448	(0.4)
Exceptional income	0	0		0		0	0	
PBT	549	593	(7.5)	480	14.4	1,978	1,798	10.0
Tax	144	114	26.6	64	124.7	297	290	2.4
PAT	405	480	(15.5)	416	(2.6)	1,681	1,508	11.4
Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reported PAT	405	480	(15.5)	416	(2.6)	1,681	1,508	11.4
NPM (%)	9.0	11.8	-280bps	10.7	-170bps	10.2	9.7	50bps

Source: Company data, I-Sec research

Table 2: Segment reporting*(Rs mn, year ending March 31)*

Particulars	Q4FY16	Q4FY15	YoY (%)	Q3FY16	QoQ (%)	FY16	FY15	YoY (%)
Segment revenue								
Plywood & allied products	3,206.9	2,917.9	9.9	2,752.9	16.5	11,735.1	11,470.8	2.3
Laminate & allied products	922.6	804.6	14.7	773.8	19.2	3,353.0	2,935.4	14.2
CFS	238.2	174.3	36.6	235.2	1.3	848.5	708.0	19.8
Others	149.9	160.3	(6.5)	133.9	12.0	562.8	440.2	27.9
Total	4,512.5	4,049.4	11.4	3,885.8	16.1	16,468.6	15,524.7	6.1
Segment EBIT								
Plywood & allied products	482.3	576.3	(16.3)	408.2	18.2	1,835.2	1,866.9	(1.7)
Laminate & allied products	135.9	64.6	110.4	103.9	30.9	447.3	229.6	94.8
CFS	87.1	59.6	46.1	84.4	3.3	281.8	217.7	29.4
Others	(10.5)	(8.0)	32.2	(0.6)	1,760.6	(16.8)	(27.7)	(39.1)
Total	694.9	692.6	0.3	595.8	16.6	2,547.4	2,286.5	11.4
EBIT Margin (%)								
Plywood & allied products	15.0	19.8	-471	14.8	21	15.6	16.3	-64
Laminate & allied products	14.7	8.0	670	13.4	131	13.3	7.8	552
CFS	36.6	34.2	237	35.9	71	33.2	30.8	246
Others	-7.0	-5.0	-206	-0.4	-660	-3.0	-6.3	329
Total	15.4	17.1	-171	15.3	7	15.5	14.7	74
Segment ROCE (%)								
Plywood & allied products	38.5	41.2	-273	29.2	930	36.6	33.3	323
Laminate & allied products	34.6	15.2	1,942	18.0	1,660	28.4	13.5	1,498
CFS	58.6	39.8	1,879	53.5	512	47.4	36.3	1,105
Others	-35.8	-102.0	6,626	-1.5	-3,431	-14.3	-88.6	7,428
Total	38.1	34.9	314	27.4	1,065	34.9	28.8	606

Source: Company data, I-Sec research

Plywood division trends

Chart 1: Revenue growth

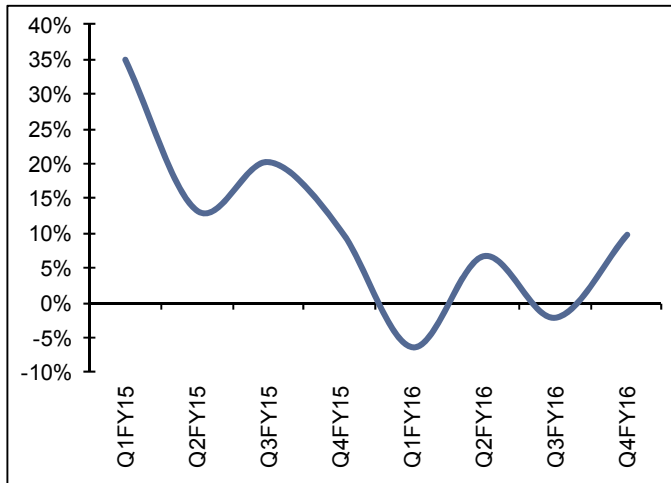


Chart 2: EBITDA margin

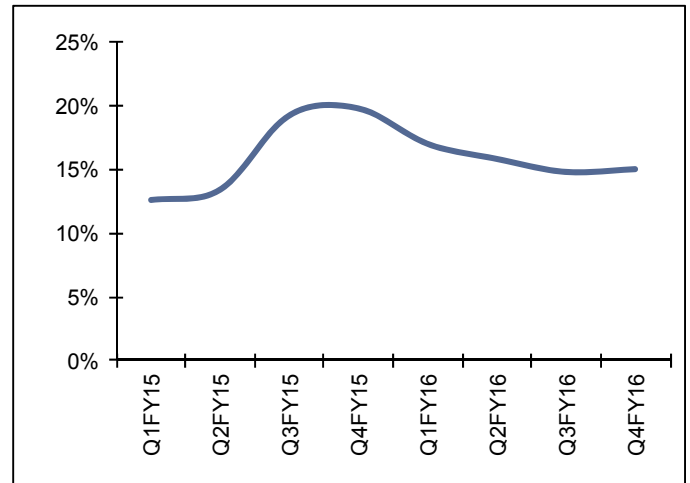


Chart 3: Volume growth

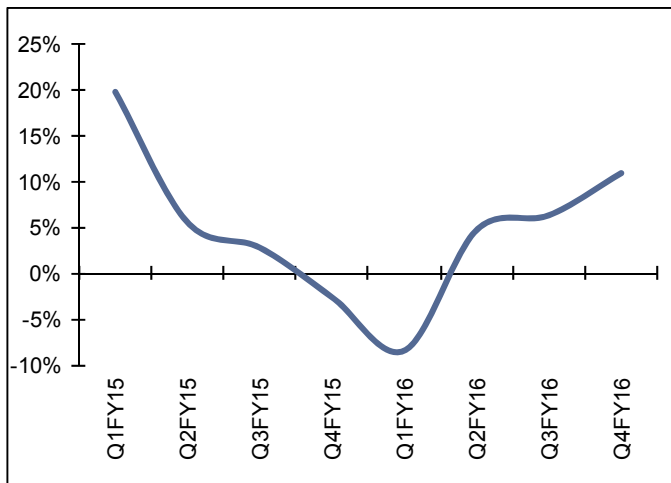
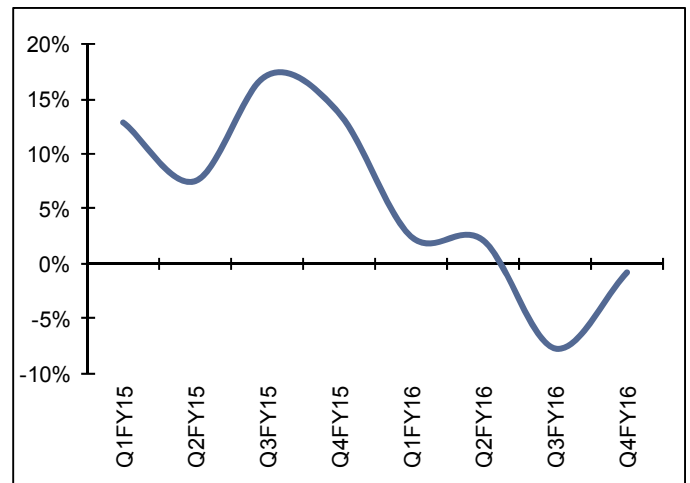


Chart 4: Realisation growth



Source: Company data, I-Sec research

Laminate division trends

Chart 5: Revenue growth

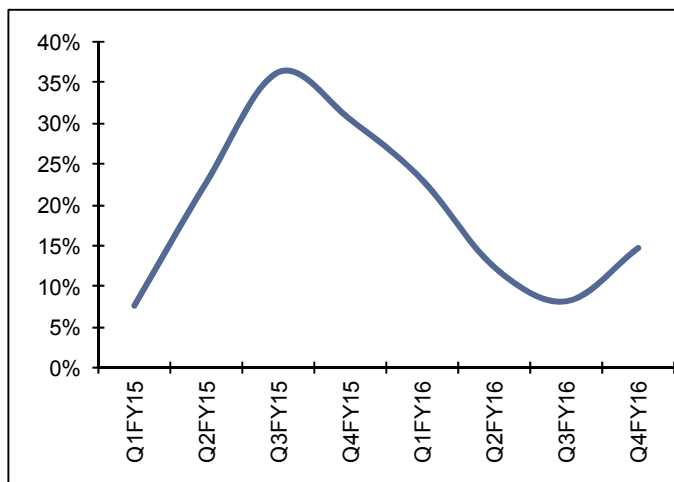


Chart 6: EBITDA margin

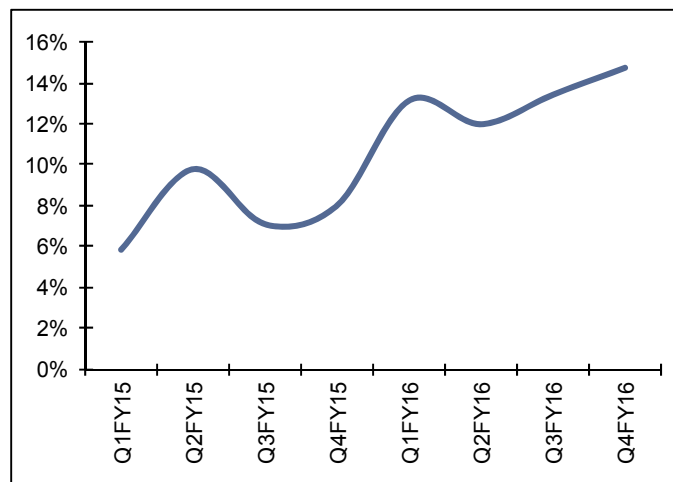


Chart 7: Volume growth

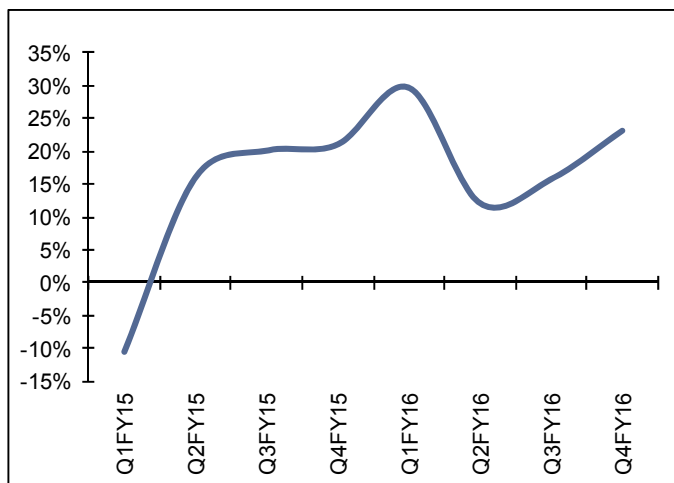
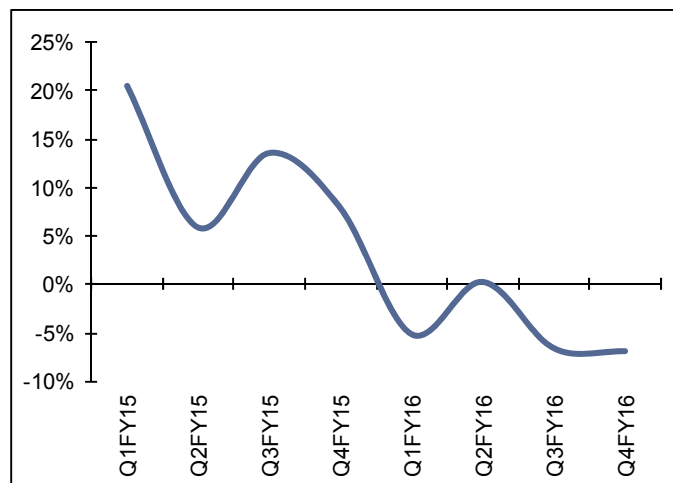


Chart 8: Realisation growth



Source: Company data, I-Sec research

Table 3: Earnings revision

(Rs mn)	FY17E			FY18E		
	Previous	Revised	% change	Previous	Revised	% change
Revenues	17,744	18,435	3.9	22,755	23,686	4.1
EBIDTA	3,354	3,362	0.2	4,363	4,419	1.3
PAT	2,054	2,034	(1.0)	2,498	2,473	(1.0)

Source: I-Sec research

Financial summary

Table 4: Profit & Loss statement

(Rs mn, year ending March 31)

	FY15	FY16P	FY17E	FY18E
Net Revenues	15,884	16,637	18,435	23,686
Operating Expenses	13,181	13,702	15,074	19,267
EBITDA	2,703	2,935	3,362	4,419
<i>% margins</i>	17.0%	17.6%	18.2%	18.7%
Depreciation & Amortisation	485	484	532	792
Gross Interest	456	481	411	651
Other Income	33	11	12	14
Recurring PBT	1,796	1,981	2,431	2,989
Less: Taxes	296	301	389	508
Less: Minority Interest	9	8	8	8
Add: Share of Profit of Associates	(1)	-	-	-
Net Income (Reported)	1,490	1,672	2,034	2,473
Extraordinaries (Net)	-	-	-	-
Recurring Net Income	1,490	1,672	2,034	2,473

Source: Company data, I-Sec research

Table 5: Balance sheet

(Rs mn, year ending March 31)

	FY15	FY16P	FY17E	FY18E
Assets				
Total Current Assets	7,890	8,139	8,821	10,413
<i>of which cash & cash eqv.</i>	374	389	227	217
Total Current Liabilities & Provisions	1,581	2,175	2,007	2,380
Net Current Assets	6,309	5,964	6,814	8,033
Investments	4	2	2	2
Net Fixed Assets	2,454	2,396	2,444	6,278
Capital Work-in-Progress	326	1,256	4,126	-
Goodwill	2	-	-	-
Total Assets	9,095	9,618	13,386	14,312
Liabilities				
Borrowings	5,138	4,194	6,625	5,775
Deferred Tax Liability	8	7	7	7
Minority Interest	55	90	98	106
Equity Share Capital	223	223	223	223
<i>Face Value per share (Rs)</i>	1	1	1	1
Reserves & Surplus*	3,671	5,104	6,434	8,202
Less: Misc. Exp. n.w.o.	-	-	-	-
Net Worth	3,894	5,327	6,656	8,424
Total Liabilities	9,095	9,618	13,386	14,312

*Excluding revaluation reserves

Source: Company data, I-Sec research

Table 8: Quarterly trend (consolidated)

(Rs mn, year ending March 31)

	Jun-15	Sep-15	Dec-15	Mar-16
Net revenues	3,709	4,422	3,906	4,547
% growth (YoY)	2.3	8.6	1.2	11.1
EBITDA	668	738	696	773
Margin (%)	18.0	16.7	17.8	17.0
Other income	3	5	7	1
Extraordinaries (Net)	-	-	-	-
Net profit	397	463	416	405

Source: Company data, I-Sec research

Table 6: Cashflow statement

(Rs mn, year ending March 31)

	FY15	FY16P	FY17E	FY18E
Operating Cash flow	1,846	2,510	2,566	3,265
Working Capital Changes	(976)	395	(1,004)	(1,221)
Capital Commitments	201	(1,354)	(3,450)	(500)
Free Cash Flow	1,071	1,550	(1,887)	1,544
Cash flow from Investing Activities	27	2	-	-
Issue of Share Capital	-	-	-	-
Inc (Dec) in Borrowings	(663)	(944)	2,431	(850)
Dividend paid	(462)	(593)	(705)	(705)
Change in Deferred Tax Liability	15	(1)	-	-
Chg. in Cash & Bank balance	(13)	14	(161)	(11)

Source: Company data, I-Sec research

Table 7: Key ratios

(Year ending March 31)

	FY15	FY16P	FY17E	FY18E
Per Share Data (in Rs.)				
EPS	6.7	7.5	9.1	11.1
Cash EPS	8.9	9.7	11.6	14.7
Dividend per share (DPS)	1.8	2.0	2.5	2.5
Book Value per share (BV)	16.9	24.3	30.4	38.3
Growth (%)				
Net Sales	17.7	4.9	11.7	28.5
EBITDA	70.8	8.6	14.5	31.4
PAT	147.2	12.2	21.7	21.6
Cash EPS	94.5	9.0	19.0	27.1
Valuation Ratios (x)				
P/E	26.0	23.2	19.0	15.7
P/CEPS	19.5	17.9	15.0	11.8
P/BV	10.3	7.1	5.7	4.5
EV / EBITDA	16.1	14.5	13.4	10.0
EV / Sales	2.8	2.6	2.4	1.9
Operating Ratios				
Raw Material / Sales (%)	53.6	54.5	51.6	51.7
Employee cost / Sales (%)	12.8	12.8	12.8	12.8
SG&A / Sales (%)	13.9	19.2	13.1	12.6
Other Income / PBT (%)	1.8	0.6	0.5	0.5
Effective Tax Rate (%)	16.5	15.2	16.0	17.0
Working Capital (days)	125.0	110.1	108.0	103.0
Inventory Turnover (days)	77.1	65.8	64.0	61.0
Receivables (days)	62.3	63.5	64.0	61.0
Payables (days)	14.4	19.2	20.0	19.0
Net D/E Ratio (x)	1.2	0.7	0.9	0.7
Profitability Ratios (%)				
Net Income Margins	9.5	10.2	11.1	10.5
RoACE	25.0	26.2	24.6	26.2
RoAE	42.6	35.7	33.4	32.4
Dividend Payout	31.0	35.5	34.6	28.5
Dividend Yield	1.0	1.1	1.4	1.4
EBITDA Margins	17.2	17.8	18.2	18.7

Source: Company data, I-Sec research

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