

Wood Panel

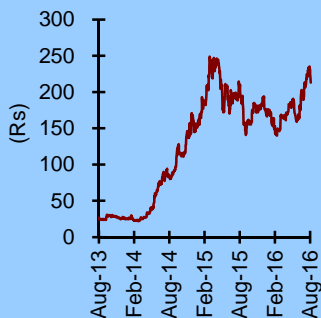
Target price Rs222

Shareholding pattern

	Dec '15	Mar '16	Jun '16
Promoters	73.3	73.3	73.3
Institutional investors	14.0	15.4	13.3
MFs and UTI	3.3	3.3	4.3
FIs/Banks	0.1	0.1	0.5
Insurance	-	-	-
FII	10.6	12.1	8.5
Others	12.7	11.3	13.4

Source: NSE

Price chart



INDIA

Century Plyboards

HOLD

Downgrade from Buy

Rs224

Decent set of numbers

Reason for report: Q1FY17 result review and recommendation change

Century Plyboards (CPBI) reported an impressive topline growth of 10.1% YoY to Rs4bn, in line with our expectations, largely driven by higher volumes in the plywood division. Plywood margins, as anticipated, declined 210 bps YoY, which dragged the overall company margins lower by 140bps YoY. Decent operational performance and lower interest costs led to 7% YoY growth in PAT to Rs431m, a tad higher than our estimate of Rs410mn. With the in-line Q1 performance, we maintain our revenue and earnings estimates and expect the company to report a revenue and PAT CAGR of 19.8% and 21.6% respectively over FY16-FY18E. At the CMP, the stock trades at 20.2x FY18E earnings. With the recent run-up in the stock price, we downgrade it to HOLD from Buy and maintain our target price of Rs222 per share, valuing the stock at 20x FY18E earnings.

- **Plywood division posts strong volume growth.** The plywood division reported an impressive revenue growth of 11.7% YoY to Rs 2.9bn led by 17% volume growth YoY and realisation de-growth of 5.4% YoY. Volume growth in premium plywood, commercial grade plywood and commercial veneer stood at 7.4%, 29.6% and 43.7% respectively. However, aggressive advertising spends and higher discounts, particularly in the premium/commercial grade plywood segment, resulted in 210 bps contraction in plywood margins. With the issues in Laos regarding ban on export of processed veneers now behind the company, coupled with commercial veneer operations shifting from India to Myanmar and Laos, and higher capacity utilisation, we expect the plywood segment EBIDTA margins to improve by 70bps over FY16-FY18. We expect the segmental revenues and EBIDTA to grow at CAGRs of 10.8% and 12.9% respectively over the next two years.
- **Laminates division posts lacklustre performance.** CPBI's laminates division posted muted performance in Q1FY17 despite strong volume growth in the core laminate segment as pre-laminated particle board volumes and revenues declined significantly led by the management's conscious decision to go slow in this segment via outsourcing. With the newly set up pre-laminated particle board unit recently commencing operations, we expect the the division's revenues and EBIDTA to recover lost ground in Q2FY17 and 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 Rs 3.8bn 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 Feb'17. It also expects the plant to operate at 70% utilisation so as to achieve PBT breakeven in the first year of operations. We have however factored MDF revenues to the tune of Rs2.6bn (at 50% capacity utilisation) with EBIDTA margins likely at 18% levels vs management expectations of 30% in FY18.

Market Cap	Rs49.8bn/US\$746mn	Year to Mar	FY15	FY16	FY17E	FY18E
Reuters/Bloomberg	CNTP.BO /CPBI IN	Revenue (Rs mn)	15,884	16,637	18,550	23,811
Shares Outstanding (mn)	222.2	Rec. Net Income (Rs mn)	1,490	1,672	2,034	2,473
52-week Range (Rs)	235/140	EPS (Rs)	6.7	7.5	9.1	11.1
Free Float (%)	26.7	% Chg YoY	147.2	12.2	21.7	21.5
FII (%)	12.1	P/E (x)	33.5	29.8	24.5	20.2
Daily Volume (US\$/'000)	1,176	CEPS (Rs)	8.9	9.7	11.2	14.2
Absolute Return 3m (%)	17.7	EV/E (x)	20.2	18.3	17.3	13.0
Absolute Return 12m (%)	8.1	Dividend Yield (%)	0.8	0.9	1.1	1.1
Sensex Return 3m (%)	12.0	RoCE (%)	25.0	26.2	24.6	26.1
Sensex Return 12m (%)	1.0	RoE (%)	42.6	35.7	33.4	32.3

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Table 1: Q1FY17 result review*(Rs mn, year ending March 31)*

Particulars	Q1FY17	Q1FY16	YoY (%)	Q4FY16	QoQ (%)	FY16	FY15	YoY (%)
Net Sales	4,036	3,666	10.1	4,512	(10.6)	16,469	15,525	6.1
Other Op. Income	21.3	29.4	(27.4)	35	(38.8)	116	123	(6.0)
Total Op. Income	4,058	3,695	9.8	4,547	(10.8)	16,585	15,648	6.0
Expenditure	3,374	3,024	11.6	3,774	(10.6)	13,710	13,015	5.3
Raw Materials	1,439	1,526	(5.7)	1,605	(10.3)	6,256	6,584	(5.0)
Cost of traded goods	606.4	429.9	41.1	689.8	(12.1)	2,175.9	1,926.6	12.9
Staff Cost	638	510	25.1	626	1.9	2,306	1,943	18.7
Other Expenditure	691	558	23.8	853	(19.0)	2,971	2,562	16.0
Operating Profit	683	671	1.8	773	(11.6)	2,875	2,633	9.2
OPM (%)	16.8	18.2	-140bps	17.0	-20bps	17.3	16.8	50bps
Other Income	8.0	4.1	97.4	0.9	823.4	16.3	46.2	(64.7)
Interest	88.7	122.2	(27.4)	103.1	(13.9)	467.3	432.9	7.9
Depreciation	93	99	(6.6)	122	(24.2)	446	448	(0.4)
Exceptional income	0	0	-	0	-	0	0	-
PBT	510	454	12.4	549	(7.0)	1,978	1,798	10.0
Tax	80	53	50.9	144	(44.5)	297	290	2.4
PAT	431	401	7.3	405	6.3	1,681	1,508	11.4
Minority Interest	0.0	0.0	-	0.0	-	0.0	0.0	-
Reported PAT	431	401	7.3	405	6.3	1,681	1,508	11.4
NPM (%)	10.7	10.9	-20bps	9.0	170bps	10.2	9.7	50bps

Source: Company data, I-Sec research

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

Particulars	Q1FY17	Q1FY16	YoY (%)	Q4FY16	QoQ (%)	FY16	FY15	YoY (%)
Segment revenue								
Plywood & allied products	2,865.5	2,565.9	11.7	3,206.9	(10.6)	11,735.1	11,470.8	2.3
Laminate & allied products	794.9	768.4	3.4	922.6	(13.8)	3,353.0	2,935.4	14.2
CFS	234.3	174.2	34.5	238.2	(1.6)	848.5	708.0	19.8
Others	147.7	164.5	(10.2)	149.9	(1.4)	562.8	440.2	27.9
Total	4,035.4	3,666.0	10.1	4,512.5	(10.6)	16,468.6	15,524.7	6.1
Segment EBIT								
Plywood & allied products	436.1	444.2	(1.8)	482.3	(9.6)	1,835.2	1,866.9	(1.7)
Laminate & allied products	117.6	102.9	14.2	135.9	(13.5)	447.3	229.6	94.8
CFS	78.6	54.0	45.5	87.1	(9.8)	281.8	217.7	29.4
Others	(3.7)	1.5	(349.0)	(10.5)	(65.3)	(16.8)	(27.7)	(39.1)
Total	628.7	602.6	4.3	694.9	(9.5)	2,547.4	2,286.5	11.4
EBIT margin (%)								
Plywood & allied products	15.2	17.3	-209	15.0	18	15.6	16.3	-64
Laminate & allied products	14.8	13.4	140	14.7	6	13.3	7.8	552
CFS	33.6	31.0	254	36.6	-303	33.2	30.8	246
Others	-2.5	0.9	-337	-7.0	455	-3.0	-6.3	329
Total	15.6	16.4	-86	15.4	18	15.5	14.7	74
RoCE (%)								
Plywood & allied products	26.5%	27.5%	-104	38.5	-1,199	36.6	33.3	323
Laminate & allied products	24.4%	19.9%	450	34.6	-1,018	28.4	13.5	1,498
CFS	52.4%	34.3%	1,802	58.6	-621	47.4	36.3	1,105
Others	-11.7%	2.5%	-1,425	-35.8	2,404	-14.3	-88.6	7,428
Total	27.2%	25.7%	154	38.1	-1,086	34.9	28.8	606

Source: Company data, I-Sec research

Financial summary

Table 3: Profit & Loss statement

(Rs mn, year ending March 31)

	FY15	FY16	FY17E	FY18E
Net Revenues	15,884	16,637	18,550	23,811
Operating Expenses	13,181	13,702	15,299	19,537
EBITDA	2,703	2,935	3,252	4,275
% margins	17.0%	17.6%	17.5%	18.0%
Depreciation & Amortisation	485	484	442	674
Gross Interest	456	481	411	651
Other Income	33	11	27	29
Recurring PBT	1,796	1,981	2,426	2,979
Less: Taxes	296	301	383	498
Less: Minority Interest	9	8	9	9
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 4: Balance sheet

(Rs mn, year ending March 31)

	FY15	FY16	FY17E	FY18E
Assets				
Total Current Assets	7,890	8,139	8,732	10,205
of which cash & cash eqv.	374	389	138	203
Total Current Liabilities & Provisions	1,581	2,175	2,007	2,380
Net Current Assets	6,309	5,964	6,724	7,825
Investments	4	2	2	2
Net Fixed Assets	2,454	2,396	2,535	6,487
Capital Work-in-Progress	326	1,256	4,126	-
Goodwill	2	-	-	-
Total Assets	9,095	9,618	13,387	14,313
Liabilities				
Borrowings	5,138	4,194	6,625	5,775
Deferred Tax Liability	8	7	7	7
Minority Interest	55	90	99	108
Equity Share Capital	223	223	223	223
Face Value per share (Rs)	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	13,387	14,313

*Excluding revaluation reserves

Source: Company data, I-Sec research

Table 7: Quarterly trend (consolidated)

(Rs mn, year ending March 31)

	Sep-15	Dec-15	Mar-16	Jun-16
Net revenues	4,422	3,906	4,547	4,058
% growth (YoY)	8.6	1.2	11.1	9.8
EBITDA	738	696	773	683
Margin (%)	16.7	17.8	17.0	16.8
Other income	5	7	1	8
Extraordinaries (Net)	-	-	-	-
Net profit	463	416	405	431

Source: Company data, I-Sec research

Table 5: Cashflow statement

(Rs mn, year ending March 31)

	FY15	FY16	FY17E	FY18E
Operating Cashflow	1,846	2,510	2,476	3,146
Working Capital Changes	(976)	395	(1,003)	(1,026)
Capital Commitments	201	(1,354)	(3,450)	(500)
Free Cashflow	1,071	1,550	(1,977)	1,620
Cashflow 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	(251)	66

Source: Company data, I-Sec research

Table 6: Key ratios

(Year ending March 31)

	FY15	FY16	FY17E	FY18E
Per Share Data (in Rs.)				
EPS	6.7	7.5	9.1	11.1
Cash EPS	8.9	9.7	11.2	14.2
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	10.8	31.5
PAT	147.2	12.2	21.7	21.5
Cash EPS	94.5	9.0	14.8	27.0
Valuation Ratios (x)				
P/E	33.5	29.8	24.5	20.2
P/CEPS	25.1	23.0	20.1	15.8
P/BV	13.3	9.2	7.4	5.8
EV / EBITDA	20.2	18.3	17.3	13.0
EV / Sales	3.5	3.3	3.1	2.3
Operating Ratios				
Raw Material / Sales (%)	53.6	54.5	53.5	52.8
Employee cost / Sales (%)	12.8	12.8	12.6	12.8
SG&A / Sales (%)	13.9	19.2	12.5	12.6
Other Income / PBT (%)	1.8	0.6	1.1	1.0
Effective Tax Rate (%)	16.5	15.2	15.8	16.7
Working Capital (days)	125.0	110.1	108.0	100.0
Inventory Turnover (days)	77.1	65.8	64.0	60.0
Receivables (days)	62.3	63.5	64.0	59.0
Payables (days)	14.4	19.2	20.0	19.0
Net D/E Ratio (x)	1.2	0.7	1.0	0.7
Profitability Ratios (%)				
Net Income Margins	9.5	10.2	11.1	10.5
RoACE	25.0	26.2	24.6	26.1
RoAE	42.6	35.7	33.4	32.3
Dividend Payout	31.0	35.5	34.6	28.5
Dividend Yield	0.8	0.9	1.1	1.1
EBITDA Margins	17.2	17.8	17.6	18.0

Source: Company data, I-Sec research

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