AMBIT RESULTS INSIGHTS

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RESULTS

Results Update

Century Plyboards (BUY)

Ply disappoints; strong growth in laminates

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Century Plyboards

Ply disappoints; strong growth in laminates

Century Plyboards' revenue was flat YoY (as against 8% revenue growth of its closest peer, Greenply) and EBIT margin dropped 80bps YoY (15.1%), which could be a function of weaker-than-expected industry demand and higher mix of mid-segment products (Sainik). Laminates revenue increased 18% YoY and EBIT margin (16.4%) was its highest ever, which signifies strengthening laminates franchise. Overall EBITDA margin declined 75bps YoY to 16.3% and PAT grew 3% YoY (3% lower than expected). Whilst slowdown in building materials could affect revenue growth in the near-term, we believe that, Century's strong brand, raw material security and product extension (in MDF/particle boards) will help to gain market share from unorganised peers, thereby ensuring growth longevity; working capital cycle would shrink as bargaining power with channel improves (103 days in FY16). Our estimates imply 23%/26% revenue/EBITDA CAGR over FY16-20 (assuming full utilisation of MDF plant); stock trades at 22x FY18E EPS. Our TP implies 26x FY18E EPS.

Results overview: flat revenues and margin contraction in ply

Century's sales grew by 5% YoY, despite ply revenue remaining flat. Strong growth in laminates (+18% YoY) drove 5% overall growth for the company. Its CFS revenue expanded by 5% YoY. The company's EBITDA margin (ex-forex) declined by 75bps YoY to 16.3% while PAT increased by 3% YoY (ex-forex). Depreciation increased to Rs126mn as against Rs107mn last year. Century's PAT was Rs485mn as against Rs471mn.

Plyboard segment: Sales remained flat as against 8% revenue growth posted by Greenply, due to a weaker-than-expected industry growth, higher mix of mid-segment plyboards and lower sales of face veneer. EBIT margin in this segment declined by 77bps YoY, which could be on account of lower margin on face veneer and increasing mix of mid-segment ply. Whilst the management is yet to share the volume details, we believe that volume growth will be in low single digits. The company's particle board unit operated at low utilisation and generated revenues of Rs32mn, implying utilisation rate of ~10%. We believe that poor power availability resulted in low utilisation in this segment.

Laminates segment: The segment posted its highest ever revenue (Rs1.04bn; +18% YoY) and EBIT margin (16.4%; +440ps YoY), which is a testament of its growing franchise in this segment. We believe that margin expansion has been led by savings in crude-linked RM costs (40% of overall RM cost for the company) and superior realisation due to improving brand recall post aggressive marketing for the last one year.

CFS segment: The segment's revenue grew by 5% YoY, while EBIT margin contracted by 130bps and absolute EBIT remained flat.

Balance sheet and cash flow statement: The company's cash conversion cycle shortened to 98 days in 1HFY17 as against 117 days in 1HFY16 and 104 days in FY16. The company generated CFO of ~Rs1bn in 1HFY17. D/E for 1HFY17 was 0.8x (including buyer's credit), similar to the levels as of FY16 year end. Overall debt increased by Rs750mn. The company's gross block increased by Rs600mn (likely on account of commissioning of the particle board plant), other assets increased by Rs1,310mn, due to capital advances given for the MDF plant.

Where do we go from here?

Despite an evident slowdown in building materials space, our preference for Century Plyboards is premised on the company's initiatives, such as scale and channel expansion, continuous improvement in marketing and distribution architecture, and securing long-term availability of raw material. The company has built the largest capacity of face veneer by an Indian player, in Myanmar (32,000 CBM) and Laos (currently 48,000 CBM, likely to double over the next 2-3 years), with low capital intensity (Rs500mn invested in Laos). It has strategically partnered with a local player in Laos for physical infrastructure (barring machinery) and managing production.

BUY

Result Update

Stock Information

Bloomberg Code:	CPBI IN
CMP (Rs):	251
TP (Rs):	282
Mcap (Rs bn/US$ bn):	56/0.8
3M ADV (Rs mn/US$ mn):	63.5/1.0

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	0	9	44	48
Rel. to Sensex	0	10	39	41

Source: Bloomberg, Ambit Capital research

Ambit Estimates (Rs bn)

	FY16	FY17E	FY18E
Revenues	16.6	18.8	26.0
EBITDA	2.9	3.2	4.5
EPS (Rs)	7.5	8.0	11.1

Source: Bloomberg, Ambit Capital research

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Preparing for the disruption

Rising acceptance of MDF (as seen in Greenply's success) suggests industry will face disruptions. Whilst entry into MDF will raise capital intensity, Century could generate >20% ROEs as the plant hits full utilisation by FY20. After establishing the third-largest franchise in laminates (4.8mn sheets; 20% revenue CAGR over FY10-16), it is extending its brand to panel products like PVC sheets, cement fibre boards and allied products like wooden flooring and doors.

Full benefits of brand yet to be realised

Century will capture allied benefits of brand as market gets more organised, which will cut WC cycle to 80 days in FY20 from 103 now. Product extensions and market-share gains would drive 24%/26%/27% sales/EBITDA/EPS CAGR over FY16-19E; RoCE to hit 26% by FY20E as MDF plant reaches full utilisation.

Our estimates imply 23%/26%/28% revenue/EBITDA/PAT CAGR and 25-30% RoEs over FY16-20, post full utilisation of the MDF plant. That said, slowdown in the building material sector persists and hence we might re-assess our near-term assumptions once we get further clarity post its conference call.

Valuation: Multiples will evolve with the franchise

As Century climbs the evolution curve, it will mirror traits of champion building material franchises – sustained growth/margins, improving RoCEs and P/E re-rating. Our TP (Rs282), implies 18x FY19E EPS, assuming quick ramp-up and 20%+ margin of the MDF plant. At 22.0x FY18E EPS, Century's 10% premium to Greenply is justified by superior RoEs (30% vs 20% for Greenply).

Questions for the management

We urge investors to understand the following from the management in the earnings conference call:

- **Growth in plyboards**: After a strong volume growth in 1QFY17, the company's volume growth in plyboards has tapered off in 2Q. What led to this? Why is the company unable to gain market share from the unorganised manufacturers?
- **Raw material:** The company has set up a large face veneer capacity in Laos and it is also contemplating expansions in Indonesia. How is this business progressing and is the company committing further capital in expanding its face veneer capacities? Does the company see the face veneer business as an alternate revenue source or a raw material linkage – what is the long-term plan here? Is there a likelihood of disruption in raw material sources, such as Myanmar and Laos and the company's strategy to combat that? We also hear that face veneer despatches from Myanmar were affected in 1QFY17 due to regulatory headwinds, what is the progress on that?
- **Particle board:** How soon can the company reach full utilisation in its particle board business? Can the company post revenues in line with management's initial estimates (Rs800-1,000mn annual revenues)? The company seems to be struggling to ramp-up utilisation here.
- **Laminates business:** The growth in the laminates business was significantly stronger than previous quarters. What was the reason behind this? Is it sustainable? Now with the company nearing full utilisation in laminates, is it planning a capacity expansion?
- **Margin compression:** What has resulted in low EBIT margin for plyboards for the third consecutive quarter? Has the margin on face veneer sales reduced materially?
- **Forex exposure:** What is the current forex exposure of the company and what is the unhedged buyers credit? Why is the company not hedging its forex exposure, despite volatile INR?
- **Capex and funding**: The company has a large capex commitment in the next two years (Rs4.5-5bn), how does it plan to fund it, especially given that internal accruals might remain weak if demand weakness persists? Is the company looking to add capacities in the laminates business as well?

Exhibit 1: Quarterly summary

Particulars (Rs mn unless mentioned)	2QFY16	1QFY17	2QFY17	YoY (%)	QoQ (%)	Ambit Est	Dev (%)
Net Sales	4,391	4,036	4,593	4.6	13.8	4,843	(5.2)
Operating costs	3,683	3,374	3,870	5.1	14.7	4,038	(4.2)
EBITDA	739	683	757	2.5	10.8	825	(8.2)
EBITDA margin	16.8	16.9	16.5	-34 bps	-45 bps	17.0	-55 bps
EBITDA (ex-forex)	748	661	748	0.1	13.1	825	(9.3)
EBITDA margin (ex-forex)	17.0	16.4	16.3	-74 bps	-9 bps	17.0	-74 bps
Other income	5	8	13	166.3	63.5	10	31.4
Depreciation	107	93	126	17.5	36.4	120	5.2
EBIT	636	599	622	(2.2)	3.9	715	(13.0)
Interest cost	135	89	60	(55.3)	(32.1)	100	(39.7)
PBT	501	510	584	16.4	14.4	625	(6.6)
Tax	39	80	91	135.4	14.0	125	
PAT	463	431	493	6.5	14.5	500	(1.4)
PAT (adjusted for forex gains/losses)	471	412	485	3.0	17.9	500	(2.9)
EPS	2.1	1.9	2.2	6.5	14.5	2	(1.4)

Source: Company, Ambit Capital research

Exhibit 2: Segmental performance

Segmental Sales (Rs mn) (Net of excise)	2QFY16	1QFY17	2QFY17	YoY (%)	QoQ (%)
Plyboard	3,199	2,866	3,202	0.1	11.7
Laminates	885	795	1,043	17.9	31.3
CFS	201	234	211	5.0	(9.9)
Others	115	148	113	(1.7)	(23.5)
Segmental EBIT (Rs mn)					
Plyboard	507	436	483	(4.7)	10.6
Laminates	106	118	171	61.5	45.6
CFS	56	79	56	0.2	(28.3)
Segmental EBIT (%)					
Plyboard	15.8	15.2	15.1	-77 bps	-15 bps
Laminates	12.0	14.8	16.4	443 bps	161 bps
CFS	28.0	33.6	26.7	-128 bps	-686 bps
Capital Employed (Rs mn)					
Plyboard	5,277	5,232	7,628	44.5	45.8
Laminates	1,748	1,594	1,549	(11.4)	(2.8)
CFS	558	531	581	4.2	9.5

Source: Company, Ambit Capital research

Balance Sheet

Rs mn unless mentioned	FY15	FY16	FY17E	FY18E	FY19E
Share capital	223	223	223	223	223
Reserves and surplus	3,671	5,104	6,571	8,603	11,287
Total Networth	3,894	5,327	6,794	8,826	11,510
Loans	4,677	4,194	6,494	6,744	6,894
Of which Buyers credit	1,500	1,100	800	800	500
Deferred tax liability (net)	(63)	(130)	(130)	(130)	(130)
Sources of funds	**8,564**	**9,481**	**13,256**	**15,547**	**18,391**
Net block	2,456	2,627	6,707	8,022	8,095
Investments	4	2	31	31	31
Cash and bank balances	374	389	235	1,462	3,183
Sundry debtors	2,683	2,873	2,757	3,155	3,691
Inventories	3,322	2,975	3,008	3,512	4,197
Loans and advances	1,349	1,523	1,504	1,786	2,171
Total Current Assets	7,819	8,002	7,746	10,157	13,484
Current liabilities and provisions	2,041	2,175	2,254	2,663	3,219
Net current assets	5,777	5,827	5,492	7,494	10,265
Application of funds	**8,564**	**9,481**	**13,256**	**15,547**	**18,391**

Source: Company, Ambit Capital research

Income statement

Rs mn unless mentioned	FY15	FY16	FY17E	FY18E	FY19E
Revenue	15,884	16,637	18,837	25,990	31,612
Plyboards	*12,431*	*12,796*	*14,048*	*16,835*	*20,700*
Laminates	*3,213*	*3,669*	*4,278*	*5,127*	*6,249*
MDF	-	-	-	*3,159*	*4,044*
Total expenses	13,326	13,749	15,130	18,034	21,866
EBITDA	2,559	2,888	3,241	4,519	5,639
Depreciation	485	484	701	787	847
EBIT	2,251	2,462	2,612	3,840	4,998
Other income	177	58	72	108	205
Adj PBT	1,796	1,981	2,231	3,207	4,345
Provision for taxation	338	364	446	738	1,086
Adjusted PAT	1,491	1,672	1,776	2,460	3,249
EPS basic (Rs)	6.7	7.5	8.0	11.1	14.6

Source: Company, Ambit Capital research

Cash flow statement

Rs mn unless mentioned	FY15	FY16	FY17E	FY18E	FY19E
PBT	**1,796**	**1,981**	**2,231**	**3,207**	**4,345**
Depreciation	485	484	701	787	847
Interest paid	456	481	381	632	652
CFO before change in WC	2,701	3,037	3,241	4,519	5,639
Change in working capital	(877)	359	181	(776)	(1,049)
Direct taxes paid	(337)	(468)	(446)	(738)	(1,086)
CFO	**1,488**	**2,928**	**2,975**	**3,005**	**3,504**
Net capex	751	1,533	4,781	1,076	920
CFI	**128**	**(1,389)**	**(4,739)**	**(968)**	**(715)**
Proceeds from borrowings	(649)	(461)	2,300	250	450
Change in share capital	-	20	-	-	-
Interest & finance charges paid	(335)	(272)	(381)	(632)	(652)
Dividends paid	(462)	(601)	(309)	(428)	(565)
CFF	**(1,577)**	**(1,525)**	**1,610**	**(811)**	**(1,068)**
Net increase in cash	39	14	(154)	1,227	1,721
FCF	**737**	**1,395**	**(1,806)**	**1,929**	**2,584**

Source: Company, Ambit Capital research

Ratio analysis / Valuation parameters

Particulars	FY15	FY16	FY17E	FY18E	FY19E
Revenue growth	17.9	4.7	13.2	38.0	21.6
EBITDA growth	45	13	12	39	25
PAT growth	137	12	6	38	32
EPS norm (dil) growth	90	12	6	39	32
EBITDA margin	16	17	17	17	18
EBIT margin	14	15	14	15	16
Net margin	9	10	9	9	10
RoCE	22	22	18	20	22
RoIC	24	19	22	25	31
RoE	43	36	29	31	32
Working capital turnover	3.0	2.9	3.2	3.3	3.0
Debt/Equity(x)	1.2	0.8	0.9	0.8	0.6
Net debt/Equity(x)	1.1	0.7	0.9	0.6	0.3
Valuation metrics					
P/E (x)	37.4	33.4	28.8	20.8	15.7
P/B(x)	14.1	10.3	7.4	5.7	4.4
EV/Sales(x)	3.8	3.6	3.1	2.6	2.1
EV/EBITDA(x)	23.5	20.6	17.7	12.5	9.7

Source: Company, Ambit Capital research

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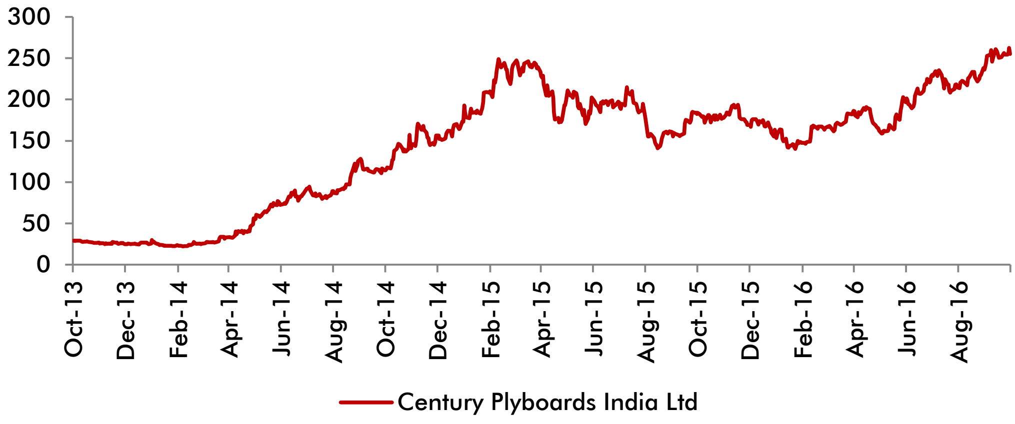

Source: Bloomberg, Ambit Capital research

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