COMPANY UPDATE

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CENTURY PLYBOARDS LTD

PRICE: RS. 339 **RECOMMENDATION: BUY**
TARGET PRICE: RS. 398 **FY20E (P/E)X: 23.0X**

- **E-way bill implementation during FY19 is likely to be positive for organized plywood manufacturers.**
- **Company is set to benefit from the incremental shift of unorganized towards organized segment in home building solution with its presence in plywood, laminate and MDF segment.**
- **We tweak our estimates to factor in upcoming laminates capacity and also introduce FY20 estimates. We roll over our valuations on FY20 estimates and arrive at a revised price target of Rs 398 based on 27x FY20 estimates. (Rs 295 earlier on FY19 estimates). We upgrade the stock to BUY from ACCUMULATE earlier.**
- **We believe that with implementation of e-way bill on inter-state movement of goods from Feb, 2018 and intra-state movement of goods from June-2018, ramp up of MDF capacity as well as incremental laminates volume from new capacity will result in valuation re-rating for Century Plyboards.**
- **Key risk to our recommendation would come from lower than expected utilization of MDF plant, delays in e-way bill implementation, continued slowdown in real estate sector.**

Summary table

(Rs mn)	FY18E	FY19E	FY20E
Sales	20,439	24,322	27,241
Growth (%)	15%	19%	12%
EBITDA	3,270	4,378	5,012
EBITDA margin (%)	16.0%	18.0%	18.4%
PBT	2,151	3,360	4,104
Net profit	1,721	2,688	3,283
EPS(Rs)	7.7	12.1	14.8
Growth(%)	-7%	56%	22%
CEPS(Rs)	11.0	15.5	18.4
BVPS(Rs)	41.0	53.0	67.8
ROE (%)	20.9	25.7	24.4
ROCE (%)	19.8	25.6	26.8
Net debt	4,996	3,518	1,600
NWC (Days)	147.0	147.0	147.0
Valuation Parameters			
P/E (x)	43.8	28.1	23.0
P/BV (x)	8.3	6.4	5.0
EV/Sales (x)	3.9	3.2	2.8
EV/EBITDA (x)	24.5	17.9	15.3

Source: Company, Kotak Securities - Private Client Research

Key highlights about the company and industry

E-way bill implementation to benefit organized players

The GST Council has decided to start e-way bill for inter-state movement of goods from February 1 while states have up to June 1. E-way bill is an electronic document that is required if goods worth more than Rs 50,000 is transported and carries the details of supplier, buyers and goods being transported. States have been given the option of choosing when they want to implement the intra-state e-way bill between February 1 and June 1.

A pilot project of e-way bill has been successfully run in Karnataka and the IT system is fully geared to meet any requirement. E-way bill is an electronic way bill for movement of goods which can be generated on the GSTN (common portal). Movement of goods of more than Rs 50,000 in value cannot be made by a registered person without an e-way bill. When an e-way bill is generated, a unique e-way bill number (EBN) is allocated and is available to the supplier, recipient, and the transporter. Trade and transporters can start using this system on a voluntary basis from January 16.

We expect this development to be extremely positive for organized players as the volumes for organized players were continuously impacted by lack of checks for the unorganized players. This is likely to compel the unorganized players to follow tax compliance and hence provide a level playing field for the organized players.

Plywood division growth may remain impacted by real estate slowdown

Plywood division performance was impacted adversely since past few quarters due to real estate slowdown as well as de-stocking due to GST implementation. Channel volumes were also impacted in Q2FY18 due to expectations of cut in the GST rate. Also during Q2FY18, plywood realizations were under pressure on both YoY and QoQ basis. Going ahead, growth in plywood division is likely to come from improvement in volumes while realizations may remain flat.

Going ahead, we expect the premium segment volumes to remain sluggish while we expect GST implementation to benefit the Sainik brand volume sales. We expect plywood division revenues to grow at a CAGR of 4% between FY17-20.

Laminates - incremental capacity to aid volume growth

Century ply is one of the top three laminate producers and has a capacity of 4.8 mn sheets. It offers exotic range of decorative laminates and is continuously introducing new catalogues every year. Company's exports form nearly 29-30% of its total laminates sales with export volumes registering growth in excess of 20%. Export realization had been under pressure since past few quarters owing to volume push towards low priced segment as well as higher competition.

Going forward, the growth in laminate division is likely to be led by commissioning of 2 additional lines totaling 2.4 mn sheets within FY18 itself. We expect laminate revenues to grow at a CAGR of 19% between FY17-20.

MDF capacity utilization set to improve

Company's MDF manufacturing unit in Punjab with an estimated capex of Rs 3.8 bn and capacity of 600 CBM per day had commenced trial production from 29th July, 2017. MDF division is likely to benefit from the demand shift from cheaper plywood towards MDF post GST implementation. Along with this, company is also planning to set up a door unit in collaboration with a world renowned Chinese Company which will enable improved utilization levels for MDF plant.

Post commissioning of MDF plant, we expect a capacity utilization of 35% for Year 1 (FY18) with operating margins of 24% for the MDF plant in year 1. Going ahead, we expect the capacity utilization to move up while margins are expected to remain strong. We expect the plant to break-even at 35% capacity utilization assuming MDF realizations at nearly Rs 25000 per CBM and operating margins of nearly 24%. Company is achieving current sales at realization of Rs 23000 per CBM. We expect capacity utilization to improve to 75%/85% for FY19/20 respectively.

Financial outlook

- We tweak our estimates for FY18/19 and also introduce FY20 estimates. We expect overall revenues to grow at a CAGR of 15% between FY17-20 led by improved utilization in laminates and MDF division.
- Operating margins are set to improve in coming years led by incremental revenues from MDF division. We expect margins to improve to 18%/18.4% by FY19/20 respectively.
- Net profits are expected to grow at a CAGR of 21% between FY17-20 led by margin improvement and ramp up of MDF capacity.

We recommend BUY on Century Plyboards Ltd. with a price target of Rs.398

Valuation and recommendation

At Rs 339, stock is currently trading at 28.1x/23x P/E and 17.9x/15.3x EV/EBITDA on FY19/20 estimates. We tweak our estimates to factor in upcoming laminates capacity and also introduce FY20 estimates. We roll over our valuations on FY20 estimates and arrive at a revised price target of Rs 398 based on 27x FY20 estimates. We believe that with implementation of e-way bill on inter-state movement of goods from Feb, 2018 and intra-state movement of goods from June-2018, ramp up of MDF capacity as well as incremental laminates volume from new capacity will result in valuation re-rating for Century Plyboards.

Rating Scale

Definitions of ratings

BUY	–	We expect the stock to deliver more than 12% returns over the next 9 months
ACCUMULATE	–	We expect the stock to deliver 5% - 12% returns over the next 9 months
REDUCE	–	We expect the stock to deliver 0% - 5% returns over the next 9 months
SELL	–	We expect the stock to deliver negative returns over the next 9 months
NR	–	**Not Rated.** Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
RS	–	**Rating Suspended.** Kotak Securities has suspended the investment rating and price target for this stock, either because there is not a Sufficient fundamental basis for determining, or there are legal, regulatory or policy constraints around publishing, an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon.
NA	–	**Not Available or Not Applicable.** The information is not available for display or is not applicable
NM	–	**Not Meaningful.** The information is not meaningful and is therefore excluded.
NOTE	–	Our target prices are with a 9-month perspective. Returns stated in the rating scale are our internal benchmark.

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