

Equity Research

July 8, 2020

BSE Sensex: 36675

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Company update and TP
change

Wood Panel

Target price: Rs198

Target price revision

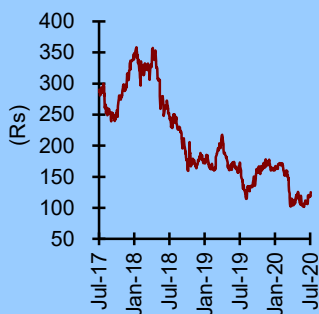
Rs198 from Rs180

Shareholding pattern

	Sep '19	Dec '19	Mar '20
Promoters	72.9	72.9	73.1
Institutional investors	14.1	14.5	15.1
MFs and others	5.4	4.8	6.5
FIs/Banks	0.1	0.1	0.1
Insurance	-	1.0	1.3
FIIIs	8.6	8.6	7.2
Others	13.0	12.6	11.8

Source: NSE

Price chart



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INDIA



Century Plyboards

BUY

Maintained

Compelling BUY; top pick in building materials

Rs130

In the recent rally on the bourses, majority of building material stocks seem priced-in and in some cases expensively valued. Century Plyboards (CPBI) however provides a rare combo of compelling valuations (14.4x FY22E earnings) amid sharp improvement in its fundamentals – impressive strengthening of balance sheet in FY20 with sharply improved CFO and significant debt repayment. CPBI is also well positioned to witness a swift earnings recovery in FY22E driven by a) its best-in-class execution capabilities; b) expected faster recovery in categories like laminates, MDF and particle boards; c) cost cutting initiatives undertaken by the company and; d) rolling out of initiatives like ILP (influencer loyalty programme) and SFA (sales force automation) recently. Maintain BUY.

- ▶ **Top pick in building materials space.** While majority of BM stocks have rallied in the current run-up in the bourses and largely seem priced-in (PIDI, ASTRA, KJC, SOMC and GRLM having HOLD rating) and in some cases expensively valued (CRS, SIL and GNPL with REDUCE rating), CPBI offers an impressive investment proposition with 50%+ upside (highest upside in the space) amid superior cashflow management (witnessed in FY20) and likely earnings recovery in FY22E. Maintain BUY with a revised target price of Rs198 (22x FY22 earnings) vs Rs180 earlier.
- ▶ **Strict working capital discipline and niche initiatives to enable CPBI to recover faster than competition in plywood segment.** CPBI's plywood has failed to impress the street with the segment delivering -0.8% CAGR over the past three years. The performance is largely attributed to the decline in growth in its commercial veneer business which has seen a 37% fall in growth in the last three years. With the CV segment now largely confined to internal consumption and lower grades (of Okoume and Gurjan) for commercial sale, the pain in CV business is largely over. Also, with the company recently introducing ILP and SFA-led initiatives, this is likely to lead to a significant productivity improvement and aid volume traction over the next few years. Also, sound receivable management over its competitor (MTLM) would also allow CPBI to grow faster than the latter in the near term.
- ▶ **Laminates and MDF segments likely to recover faster.** Post Covid-19 crisis, we expect laminates to recover faster driven by opening up of export opportunities and market share gains in domestic space with few large/semi-organised players largely dealing with extended credit/aggressive pricing likely to get impacted in these testing times. With demand for modular furniture expected to increase post Covid-19 crisis, we expect its MDF segment to come back strongly in FY22E. Margins, too, are likely to remain firm in both these segments led by benign input costs (resin costs in particular) and initiation of cost cutting initiatives.
- ▶ **Strict balance sheet discipline holds CPBI in good stead despite near-term capex initiatives.** CPBI's balance sheet discipline amid stricter working capital management and significant debt repayment in FY20 would enable it to keep its debt under check despite its planned Sitapur (UP) greenfield project (currently on hold due to delay in grant of license). We expect its RoCEs (which surged 200bps in FY20 – one of the few building material companies to report so) to remain firm in FY22E driven by higher profitability and stricter working capital discipline.

Market Cap	Rs28.9bn/US\$385mn	Year to Mar	FY19	FY20	FY21E	FY22E
Reuters/Bloomberg	CNTP.BO /CPBI IN	Revenue (Rs mn)	22,804	23,170	17,112	22,056
Shares Outstanding (mn)	222.2	Rec. Net Income (Rs mn)	1,484	1,506	1,357	2,002
52-week Range (Rs)	178/102	EPS (Rs)	6.7	8.4	6.1	9.0
Free Float (%)	26.9	% Chg YoY	(9.0)	1.4	(9.9)	47.6
FII (%)	7.2	P/E (x)	19.5	15.5	21.3	14.4
Daily Volume (US\$/'000)	716	CEPS (Rs)	9.4	9.1	8.2	11.5
Absolute Return 3m (%)	24.5	EV/E (x)	11.3	9.4	13.0	9.2
Absolute Return 12m (%)	(21.7)	Dividend Yield (%)	0.8	0.8	1.5	1.5
Sensex Return 3m (%)	22.5	RoCE (%)	16.7	18.7	12.8	18.0
Sensex Return 12m (%)	(6.0)	RoE (%)	15.9	14.4	11.9	15.6

Please refer to important disclosures at the end of this report

Financial summary

Table 1: Profit & loss statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Net Revenues	22,804	23,170	17,112	22,056
Operating Expenses	19,788	19,863	14,747	18,678
EBITDA	3,016	3,307	2,365	3,377
% margins	13.2%	14.3%	13.8%	15.3%
Depreciation & Amortisation	595	763	700	780
Gross Interest	469	389	218	237
Other Income	71	128	86	110
Recurring PBT	2,023	2,283	1,532	2,471
Less: Taxes	535	519	398	692
Less: Minority Interest	4	(253)	(253)	(253)
Add: Share of Profit of Associates	-	-	(30)	(30)
Net Income (Reported)	1,484	2,017	1,357	2,002
Extraordinaries (Net)	-	511	-	-
Recurring Net Income	1,484	1,506	1,357	2,002

Source: Company data, I-Sec research

Table 2: Balance sheet

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Assets				
Total Current Assets	9,421	8,591	7,734	9,523
of which cash & cash eqv.	262	248	92	79
Total Current Liabilities & Provisions	2,785	3,345	2,045	2,505
Net Current Assets	6,636	5,246	5,688	7,018
Investments	3	2	2	2
Net Fixed Assets	8,423	7,847	8,307	9,027
Capital Work-in-Progress	268	160	-	-
Goodwill	3	-	-	-
Total Assets	15,333	13,255	13,997	16,046
Liabilities				
Borrowings	5,319	2,362	2,000	2,300
Deferred Tax Liability	12	5	5	5
Minority Interest	253	(17)	(270)	(523)
Equity Share Capital	223	223	223	223
Face Value per share (Rs)	1	1	1	1
Reserves & Surplus*	9,527	10,684	12,040	14,043
Less: Misc. Exp. n.w.o.	-	-	-	-
Net Worth	9,749	10,906	12,263	14,265
Total Liabilities	15,333	13,255	13,997	16,046

*Excluding revaluation reserves

Source: Company data, I-Sec research

Table 3: Quarterly trend (consolidated)

(Rs mn, year ending March 31)

	Jun-19	Sep-19	Dec-19	Mar-20
Net revenues	5,737	5,894	5,954	5,242
% growth (YoY)	6.8	4.4	2.9	(10.1)
EBITDA	926	928	943	701
Margin (%)	16.1	15.7	15.8	13.4
Other income	11	86	13	1
Extraordinaries (Net)	-	-	(456)	-
Net profit	481	521	191	388

Source: Company data, I-Sec research

Table 4: Cashflow statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Operating Cashflow	2,019	2,188	2,547	3,272
Working Capital Changes	146	1,104	(850)	(1,596)
Capital Commitments	(1,397)	(76)	(1,000)	(1,500)
Free Cashflow	769	3,216	697	176
Cashflow from Investing Activities	(3)	1	-	-
Issue of Share Capital	-	-	-	-
Inc (Dec) in Borrowings	(435)	(2,958)	(362)	300
Dividend paid	(268)	(268)	(490)	(490)
Change in Deferred Tax Liability	(11)	(7)	-	-
Chg. in Cash & Bank balance	51	(15)	(155)	(14)

Source: Company data, I-Sec research

Table 5: Key ratios

(Year ending March 31)

	FY19	FY20	FY21E	FY22E
Per Share Data (in Rs.)				
EPS	6.7	8.4	6.1	9.0
Cash EPS	9.4	9.1	8.2	11.5
Dividend per share (DPS)	1.0	1.0	2.0	2.0
Book Value per share (BV)	44.1	48.1	53.0	60.9
Growth (%)				
Net Sales	12.6	2.4	-26.1	28.9
EBITDA	-8.9	9.7	-28.5	42.8
PAT	-9.0	1.4	-9.9	47.6
Cash EPS	-18.9	-3.2	-9.0	39.5
Valuation Ratios (x)				
P/E	19.5	15.5	21.3	14.4
P/CEPS	13.9	14.3	15.8	11.3
P/BV	2.9	2.7	2.5	2.1
EV / EBITDA	11.3	9.4	13.0	9.2
EV / Sales	1.5	1.3	1.8	1.4
Operating Ratios				
Raw Material / Sales (%)	50.8	50.1	50.8	50.1
Employee cost / Sales (%)	15.3	15.5	15.4	14.6
SG&A / Sales (%)	14.9	20.2	20.0	20.0
Other Income / PBT (%)	3.5	5.6	5.6	4.5
Effective Tax Rate (%)	26.4	29.3	26.0	28.0
Working Capital (days)	96.3	79.3	83.0	80.0
Inventory Turnover (days)	74.4	62.7	65.0	64.0
Receivables (days)	47.7	40.5	43.0	43.0
Payables (days)	25.7	23.9	25.0	27.0
Net D/E Ratio (x)	0.5	0.2	0.2	0.2
Profitability Ratios (%)				
Net Income Margins	6.6	7.0	6.6	8.1
RoACE	16.7	18.7	12.8	18.0
RoAE	15.9	14.4	11.9	15.6
Dividend Payout	18.0	17.8	36.1	24.5
Dividend Yield	0.8	0.8	1.5	1.5
EBITDA Margins	13.3	14.3	13.8	15.3

Source: Company data, I-Sec research

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