

12 October 2017

## Century Plyboards – BUY

**CMP** : 266  
**Target Price** : 325  
**Upside** : 22%+  
**Stop Loss** : 232 (closing basis)

### Investment Thesis

Recently, the stock price of Century Plyboards (India) Ltd. (Century Plyboards) corrected by ~15% from 52-week high of Rs.314 primarily due to demonetization and GST led slowdown.

Century Plyboards is India's largest integrated wood panel producer with the entire gamut of product offerings. It owns India's largest plywood manufacturing capacity of 210,000 Cubic Meter (CBM). It is the joint leader, with Greenply, in plywood sales with ~25% revenue market share of India's organised plywood market.

Apart from plywood, Century Plyboards is also a significant player in laminates (3rd largest in India), commercial veneers (largest player in India), decorative veneers and pre-laminated particle boards, which it has recently commissioned the manufacturing capacity. It has also ventured into medium density fiberboard (MDF) recently with capacity of 198,000 CBM commissioned in April 2017.

Apart from six strategically located plywood manufacturing facilities in India, Century Plyboards has set up veneer processing and plywood manufacturing units in Myanmar (through a 100% subsidiary) and Laos (through a JV) ensuring sustainable availability of raw material.

### Financials

- During the past 5 years, revenue of Century Plyboards grew at a CAGR of 2% while PAT grew at a CAGR of 9% in the same period.

Consol. (Rs.Mn.)	FY15	FY16	FY17	FY18E	FY19E
Revenue	15,884	16,409	18,187	20,915	24,053
EBITDA	2,559	2,895	3,120	3,588	4,126
% growth	61.7	13.1	7.8	15.0	15.0
PAT	1,490	1,689	1,905	2,185	2,508
EPS (INR)	6.7	7.6	8.6	9.8	11.3
P/E (x)	40.0	35.3	31.3	27.3	23.8
RoE (%)	38.3%	31.7%	26.6%	27.9%	29.1%

- In 1QFY18, the company's topline grew 8.7% YoY, led by 11% growth in plywood segment, while netprofit declined 21% YoY.
- Margins were lower primarily due to higher raw material costs viz. veneer and allied products.
- Laminate growth was primarily impacted due to demonetization and disruption in supply chain owing to GST. GST is likely to accelerate the pace of shift from unorganized to organized as the price differential comes down.

### Stock Data

Market Cap (INR MN)	58,677
Market Cap (\$ MN)	899.50
Shares O/S (in MN)	222.20
Avg. Volume (6 month)	346,315
52-Week Range (Rs.)	314 /154

### Shareholding Pattern

Promoters	72.0%
FII's	11.4%
Institutions	3.7%
Others (incl. body corporate)	12.9%

Performance (%)	1M	6M	1Yr
Absolute	5.6%	0.2%	5.6%
BSE 500	0.6%	7.8%	13.9%

### Key Ratios

Div Yield	0.4%
TTM PE	33.6x
ROE	26.6%
TTM EPS (INR)	7.6

- The company is setting up a door manufacturing unit in collaboration with a Chinese company with an investment of Rs.60 cr.
- Margins should also improve going forward as MDF proportion increases in the overall revenue.

## Key Business Highlights

- Century Plyboards is India's largest plywood manufacturer, having presence in segments like plywood, laminate and CFS services. Its product portfolio includes doors, decorative veneer, new age products (NAP), fiber cement boards, particle boards, look book, slimline, mono core, magnetic laminates and pre-laminated boards
- Century Plyboards' plywood segment includes plywood, block-board, veneer and timber while the laminate segment includes decorative laminates and pre-laminated boards. The CFS services segment includes container freight station services
- Century Plyboards' manufacturing units are spread across India in Joka (West Bengal), Guwahati (Assam), Kandla (Gujarat), Chennai (Tamil Nadu) and Karnal (Haryana).

## Valuation

- Key drivers for the stock are accelerated shift from the unorganized market (70%) as a result of GST, increased usage of MDF and margin normalization post the spike in raw materials we witnessed in the last couple of quarters.
- Century Plyboards has spent an average 4-5% of net sales on advertisement, publicity and sales promotion in the past 5 years. As a result of high spend, it got a distinct advantage with almost 90% of its plywood sales driven by the retail segment, thus lowering its dependence on the institutional segment. Century Plyboards' distribution network consists of 1,800 distributors/stockists and another 18,000 touch-points (retailers, etc), which gave it an added advantage from its peers.
- We value Century Plyboards at 29x FY19E EPS of Rs.11.3 to arrive at target price of Rs.325, an upside of ~22%.

## Risk & Concern

- Slower than expected recovery from GST transition.
- Higher raw material prices.
- Higher competition from the organized players.

## Graphs & Charts

Figure 1: Net Sales Trend

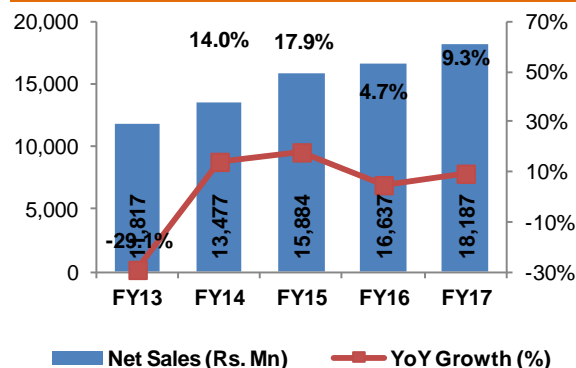
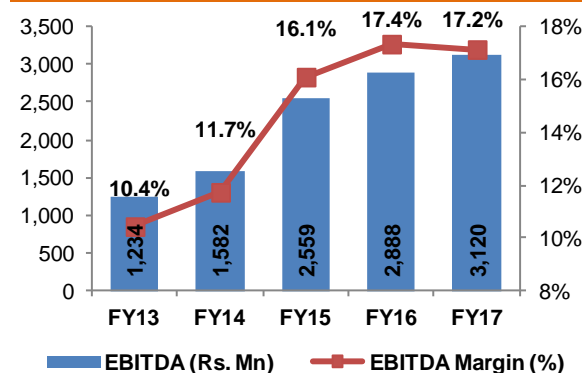


Figure 2: EBITDA & EBITDA Margin Trend



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