

Century Plyboards

BUY

CMP Rs291

Target Rs356

Upside 22%

Firing on all cylinders; upgrade TP from Rs 270 to Rs 356

Valuation and Outlook

- ✓ Century Ply delivered robust performance during Q3FY21 driven by (1) sturdy growth in plywood segment (volumes +12% y/y) – pent-up demand and market share gains, (2) sharp increase in operating margins of laminates (+538 bps y/y to 19.2%) – price hike of 3% y/y and absorption of low cost inventory and (3) sustained growth trajectory of MDF segment (volumes +18% y/y) – OEM driven demand combined with pick-up of premium MDF segment. Further, company has turned debt free during the quarter with net cash of Rs 106 Mn.
- ✓ In terms of key developments, Century has announced brownfield expansion in MDF segment at Hoshiarpur unit from 600 cbm/day to 1000 cbm/day (to be commissioned by Q4FY22E). Moreover, company is contemplating to setup a Greenfield MDF plant in South with capacity of 700 cbm/day (likely to be commissioned by FY23E).
- ✓ Based on sublime performance during Q3FY21 and announcement of brownfield expansion in MDF, we upgrade our EPS estimates for FY21E/FY22E/FY23E by 18%/18%/32% respectively. Accordingly, we factor in sales/EBITDA/PAT CAGR of 21.4%/28.2%/33.3% respectively over FY21E-FY23E.
- ✓ **Assigning DCF derived P/E multiple of 23.5x on FY23E EPS of Rs 15, we arrive at TP of Rs 356 (22% potential upside) and we maintain our BUY rating on the stock.**

Exhibit 1: Exit level price range

(CPBI Share Price)	Base P/E	Bull P/E
	23.5x	30x
...on EPS FY23E	356	454
...on EPS FY25E	529	676

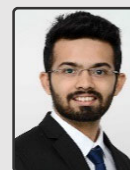
Key Result highlights

- ✓ **Sales:** Company's revenue grew by 26.4% q/q and 9.1% y/y to Rs 6,601 Mn which was majorly backed by strong volume growth across segments (refer exhibit 2). Sales were above our estimates of Rs 5,956 Mn. Plywood coupled with laminates & MDF (~90% of total sales) reported stellar sequential growth. Plywood sales stood at Rs 3,571 Mn (est Rs 3,159 Mn) reporting a growth of 10.6% y/y and 33.2% q/q. Laminates grew by 4.4% y/y & 17.9% q/q to Rs 1,200 Mn (est Rs 1,092 Mn). MDF sales stood at Rs 1,165 Mn (est Rs 1,130 Mn) registering a strong 20.6% y/y & 24.6% q/q growth.
- ✓ **EBITDA:** For Q3FY21, EBITDA stood at Rs 1,237 Mn reporting a massive growth of 47% y/y & 42.9% q/q on account of expansion in margins from 13.9%/16.6% in Q3FY20/Q2FY21 respectively to 18.7% (multi-quarter high). Overall margins expanded mainly on account of improvement in margins of Laminates which came in at 19.2% Vs 13.9%/13.4% in Q3FY20/Q2FY21 respectively. Further, plywood division witnessed impressive improvement in margins from 14.1%/13.1 in Q3FY20/Q2FY21 respectively to 15.1%. EBITDA margins of MDFs improved as compared to 25.9% in Q3FY20 to 27.7% in Q3FY21, however remained stable q/q.

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- ✓ **Net Profit:** Net profit stood at Rs 658 Mn vs Rs 4 mn in Q3FY20 (includes impairment of Rs 511 mn) while it grew by ~31% sequentially. Net profit margins came in at 9.8% Vs 8.8% in Q2FY21.

Key Con-call highlights

- ✓ **Demand** scenario was buoyant across all segments led by pent-up demand and pick-up in tier 1 real estate market. Company expects demand to further strengthen going ahead as surge in possession of homes will provide boost to building material industry.
- ✓ **Plywood:** Healthy demand in Plywood is expected to continue, management expects to achieve double digit growth in coming years. During the quarter realizations were flat as Sainik reported higher growth as compared to premium plywood. Moreover, in plywood company has gained some market share with their ViroKill brand. Management stated they have made plans to enhance capacity in plywood, however no formal decision has been made.
- ✓ **MDF Capex:** Company announced Rs 2 Bn capex (Rs 0.3 Bn in Q4FY21E & Rs 1.7 Bn in FY22E) to enhance MDF capacity at their Hoshiarpur unit from 600 cbm/day to 1,000 cbm/day. This Brownfield plant is expected to commission by Q4FY22E. Company expects to achieve 2X A/To (~Rs 4 Bn revenue) from the new capacity and EBITDA margins of the same are likely to be 3% lower Vs current plant as cost of wood is expected to be higher by 25-30 paisa/Kg. Commenting on the greenfield plant which is likely to come up in south with 700 cbm/day capacity, the plans should be finalized in couple of months. However, management expects to achieve EBITDA margins similar to new brownfield line.
- ✓ **Laminate** margins were higher as company revised some discounting policies and undertook significant cost cutting measures. Management expects to maintain 17-18% margins. During Q3FY21 company increased prices of laminates by 7-8%.
- ✓ **MDF demand** has been strong. Though 85% of the demand comes from OEMs, company is witnessing signs of shift in preference from unbranded marine plywood to premium segment MDFs. During the quarter company took a price increase of 10% (industry ~2-5%). Management expects margins to expand further as there is only one new capacity coming-up in south of 600 cbm/day. Also, imports have declined due to absurd surge in shipping rates and therefore the price hikes have been absorbed in the market.
- ✓ In **Particle Boards** as well, company took a price hike of 8-10%. Century has debottlenecked its particle board capacity from 180 cbm/day to 250 cbm/day during Q4FY21.
- ✓ **Capex:** Total capex in coming 2 years will be ~Rs 6.5Bn-7Bn (Rs 6-6.5Bn in MDF & Rs 0.5-0.6 Bn in Plywood).
- ✓ **Net Debt Free:** With Treasury assets at Rs 1.40 Bn more than Debt of Rs 1.29 Bn, company is Net-debt free.
- ✓ **Working Capital Cycle** stood at 51 days (historically low), however this is likely to be stable at ~60-65 days.
- ✓ Myanmar political issues has not impacted company's factory there. However, the new face veneer unit in Gabon will make up for any loss (if happens) at Myanmar. The new Gabon unit will fulfill company's internal requirement for face veneers.

Exhibit 2: Results Summary

Y/e 31 Mar (Rs mn)	Q3FY21*	Q2FY21	qoq(%)	Q3FY20**	yoy (%)
Revenue	6,601	5,222	26.4	6,050	9.1
Gross Profit	3,379	2,664	26.8	2,915	15.9
GP margin (%)	51.2	51.0	17.1bps	48.2	302bps
Operating Profit	1,237	866	42.9	841	47.0
OPM (%)	18.7	16.6	216bps	13.9	483bps
Depreciation	176	177	(0.3)	200	(11.9)
Interest	16	24	(33.6)	96	(83.7)
PBT	1058	678	55.9	48	-
Tax	281	175	60.4	44	537.4
Reported PAT	658	503	30.8	4	-

*includes exceptional charge of Rs 118 mn in Q3FY21

**impairment charge incurred to the tune of Rs 511 mn in Q3FY20

Exhibit 3: Segmental Volumes

Volumes	Q3FY21	Q2FY21	% q-o-q	Q3FY20	% y-o-y
Plywood (CBM)	71,977	53,682	34.1	63,996	12.5
Laminates (Nos)	15,91,300	14,17,215	12.3	15,53,737	2.4
MDF(CBM)	49,207	39,599	24.3	41,553	18.4
Particle Board (CBM)	15,885	16,966	(6.4)	16,333	(2.7)
Logistics (CFS)	13,803	12,932	6.7	15,176	(9.0)

Exhibit 4: Segmental Revenue

(Rs Mn)	Q3FY21	Q2FY21	% q-o-q	Q3FY20	% y-o-y
Ply & allied products	3,571	2,681	33.2	3,229	10.6
Laminate and allied	1,200	1,018	17.9	1,149	4.4
Medium Density Fiber Board	1,165	935	24.6	966	20.6
Particle Board	262	256	2.0	250	4.8
CFS	209	199	4.6	220	(5.2)
Others	138	110	25.4	141	(2.3)

Exhibit 5: Segmental EBITDA

(Rs Mn)	Q3FY21	Q2FY21	% q-o-q	Q3FY20	% y-o-y
Ply & allied products	539	350	53.8	455.7	18.2
Margin (%)	15.1	13.1	201.6 bps	14.1	97.5 bps
Laminate and allied	231	136	69.5	159.2	45.0
Margin (%)	19.2	13.4	585bps	13.9	537.8bps
Medium Density Fiber Board	323	263	23.0	250.6	28.9
Margin (%)	27.7	28.1	(35)bps	25.9	180.1bps
Particle Board	61	56	8.4	59.7	1.3
Margin (%)	23.1	21.8	137bps	23.9	(79.1)bps
CFS	55	59	(5.8)	76.4	(27.6)
Margin (%)	26.5	29.4	(293)bps	34.7	(821.5)bps
Others	26	20	34.4	15.0	74.7
Margin (%)	19.0	17.7	126bps	10.6	835.6bps

Exhibit 6: Financial Summary

Financial Overview (Rs mn)	FY20	FY21E	FY22E	FY23E
Net sales	23,170	20,247	25,648	29,835
EBITDA	2,797	3,276	4,291	5,389
EBITDA%	12.1	16.2	16.7	18.1
Net Profit	1,254	1,894	2,675	3,367
Net Profit %	5.4	9.4	10.4	11.3
EPS (Rs)	6.5	8.5	12.0	15.1
CFI	(245)	(620)	(3,342)	(4,466)
Net Debt	2,689	(200)	1,228	2,856
Net Debt/Equity (x)	0.2	(0.0)	0.1	0.2
Net Debt/EBITDA (x)	1.0	(0.1)	0.3	0.5
ROE (%)	11.5	15.1	18.1	19.1
ROCE (%)	15.9	21.4	22.7	22.6
P/E (x)	31.0	34.1	24.1	19.2
P/B (x)	4.1	5.2	4.4	3.7

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