

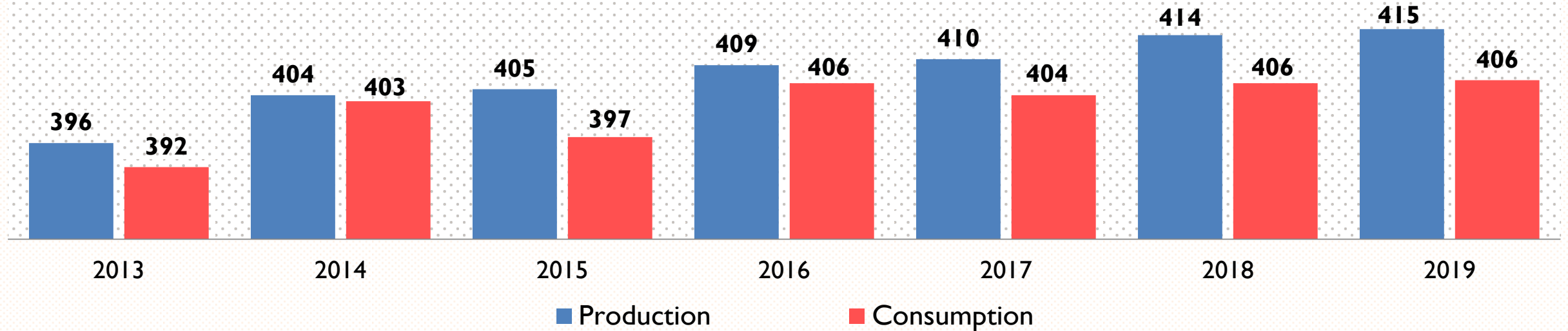
PAPER & PAPER BOARD INDUSTRY

November, 2020



Global Industry Dynamics

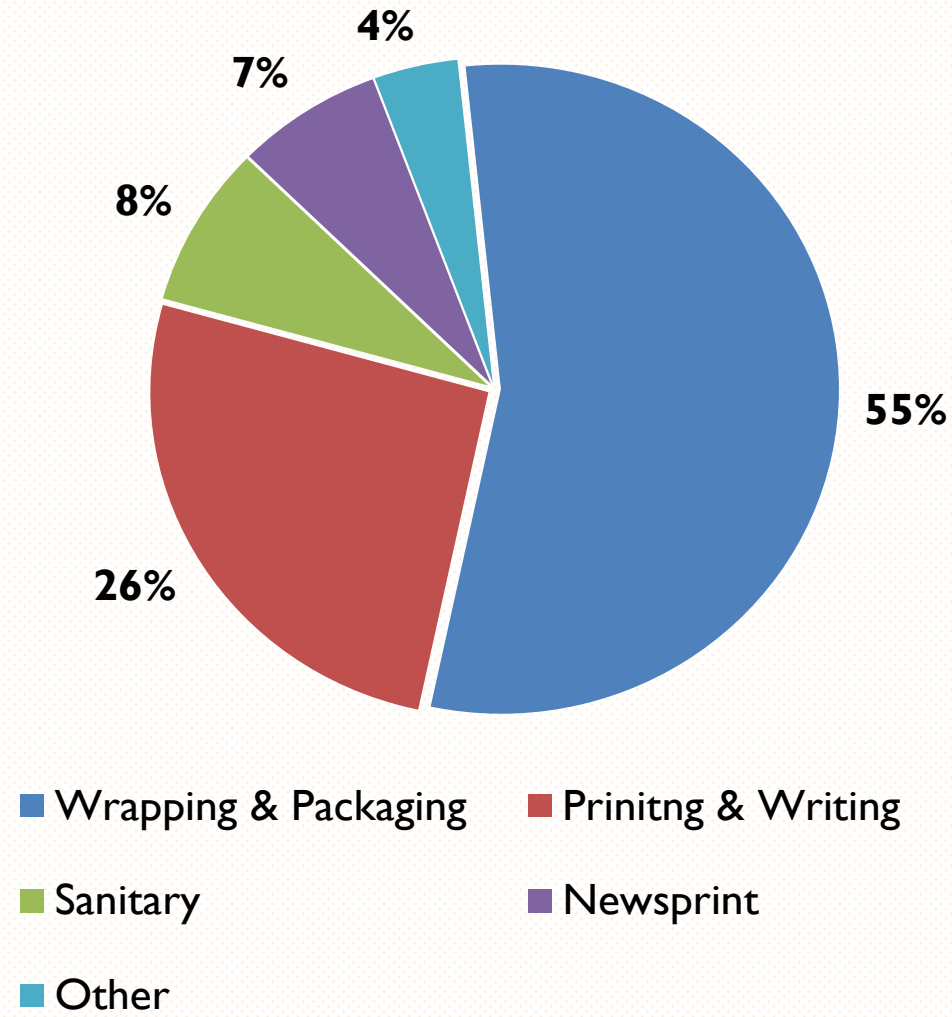
Global Paper & Paperboard Production/Consumption (metric tons)



- Global paper products market is expected to decline from \$897b in 2019 to \$868b in 2020 mainly due to economic slowdown across countries owing to COVID-19 outbreak and the measures to contain it. The market is then expected to recover and grow at a CAGR of 7% from 2021 and cross \$1 Trillion by 2023.
- New market outlets stemming from a rising middle class in emerging markets, and increasing demand for hygiene products (in post Covid-19 period), will be the key drivers for industry growth.
- Globally, the paper industry is generally focusing towards value addition and environmental sustainability.

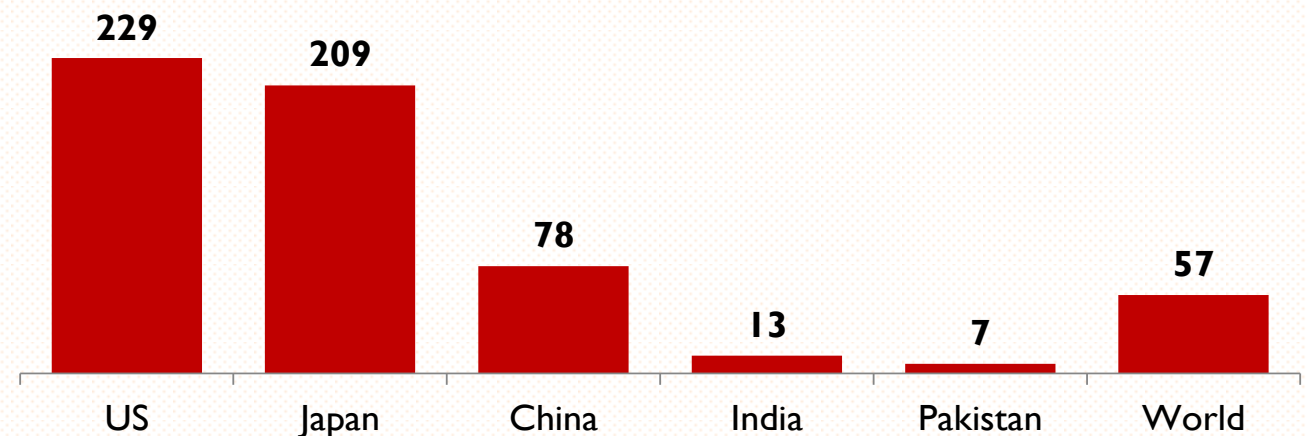
Global Industry Dynamics

Global Consumption By Paper Category



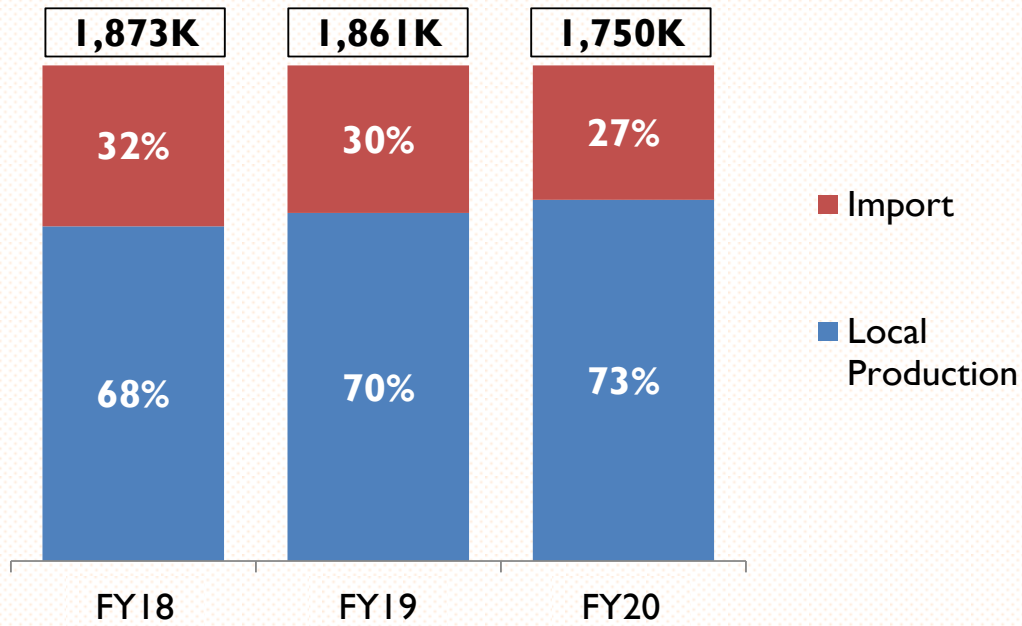
- China and US are the largest consumers of P&B products. More than half of world's paper is consumed in China, followed by Europe, USA and Japan.
- 7 of the 10 countries with largest per capita consumption of P&PB are in Europe while 26 countries in the world have more than double the global average of per capita paper consumption.
- Proportion of wrapping and packaging segment is expected to grow while printing, newsprint and writing paper demand would shrink given increasing trend towards digitization and paperless environment.

Per Capita Consumption of Paper (Kg)

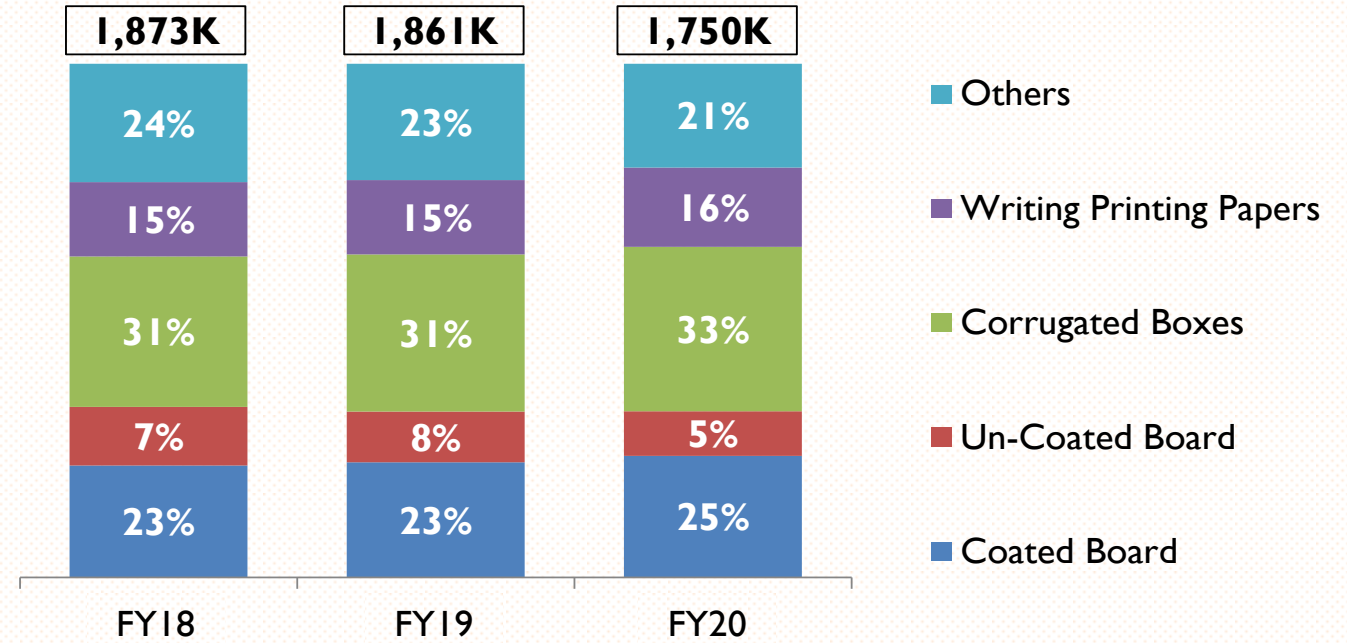


Pakistan's Paper & Paperboard Industry

P&PB Industry (Local & Import composition)



Product wise Break-up of P&PB Industry



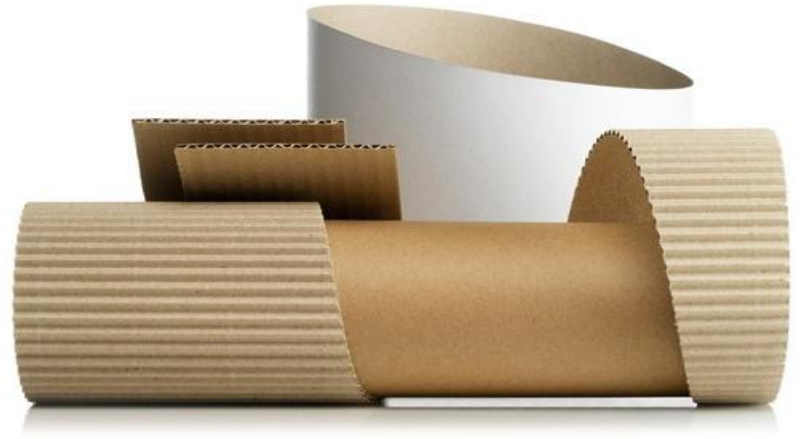
- After 3% drop in market size, paper & paperboard industry further contracted by 6% in the outgoing fiscal year on account of overall economic slowdown and broad based curtailment in consumer demand.
- Continued reduction in imports due to rupee devaluation and lower dumping from China neutralized the negative impact of market size contraction on domestic industry.
- Dumping from China has reduced due to restriction by Chinese government on waste paper imports given rising environmental concerns.

Pakistan's Paper & Paperboard - Market Size

Metric Tons	FY18			FY19			FY20		
	Local	Import	Total	Local	Import	Total	Local	Import	Total
Coated Boards	82%	18%	430K	85%	15%	424K	85%	15%	430K
Liquid Packaging Boards	35%	65%	60K	33%	67%	60K	42%	58%	53K
Corrugated Cartons Boxes	93%	7%	578K	94%	6%	578K	94%	6%	580K
Writing Printing Papers	72%	28%	285K	73%	27%	273K	79%	20%	281K
Un-Coated Boards	100%	-	126K	100%	-	158K	100%	-	93K
Tissue Paper	86%	14%	20K	86%	14%	21K	87%	16%	21K
MG Papers	75%	25%	13K	81%	12%	14K	79%	16%	13K
Art Paper/ Art Cards	-	100%	77K	-	100%	70K	-	100%	58K
New Print	-	100%	80K	-	100%	61K	-	100%	67K
Sack Kraft	-	100%	65K	-	100%	64K	-	100%	43K
Miscellaneous	-	100%	139K	-	100%	139K	-	100%	112K
Total	68%	32%	1,873K	70%	30%	1,862K	73%	27%	1,751K

Paperboard (Coated & Un-Coated)

- In simple terms, paperboard is a thick and stiff cardboard composed of layers of paper or paper pulp compressed together.



- Paperboard industry is broadly segmented into coated and uncoated paperboard with both being used for packaging requirements of fast moving consumer goods (FMCG).
- FMCG sector, a major driver of packaging demand has historically seen double digit growth. Increase in awareness of hygiene and urbanization all boost demand for packaging.
- In addition, Covid-19 crisis has affected consumers' consumption patterns and health consciousness which is expected to favorably impact the packaging industry (specifically in coated board) over medium to long term.

Paperboard – Usage

- Industry provides packaging solutions to all consumer products & industrial products delivered to end users duly packed.

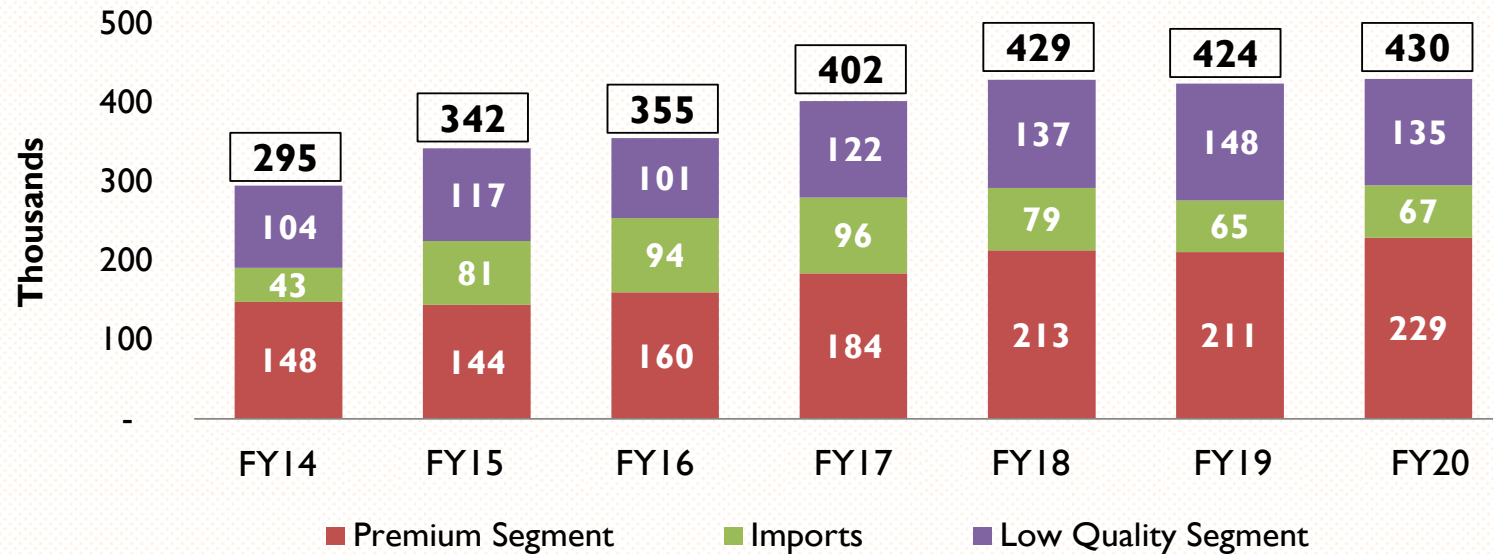
- Tea
- Pharmaceutical
- Confectionary
- Cosmetics
- Toothpaste
- Spices
- Auto parts
- Cigarettes
- Fast food items



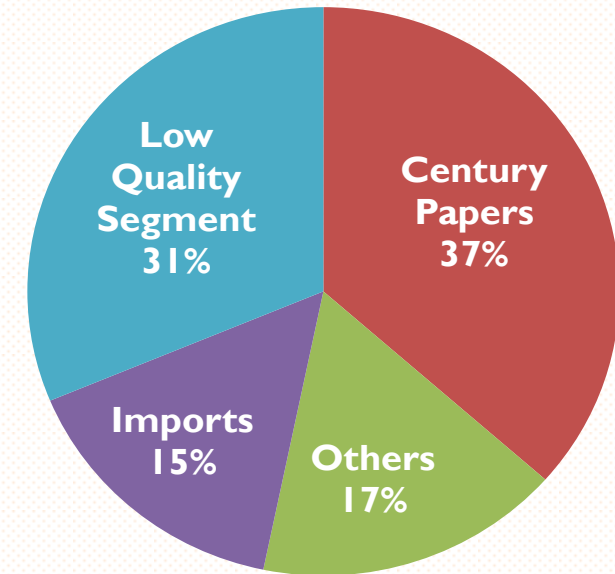
Exposure to fast growing pharmaceutical and FMCG segment will support revenue growth over the medium term

Coated Paperboard

Timeline - Coated Paperboard Market Size (metric tons)



Coated Paperboard Market Share – FY20



- Despite another challenging year for paper & paperboard industry given shrinking market size, demand for coated board has remained stable.
- Coated board market (including high & low quality segments) grew by 1% in FY20 and stood at 430K Mtons.
- FY14 to FY18 was the high growth period with high GDP growth and increasing consumer demand.
- Two-third of coated board market is represented by premium quality segment including imports (as all the imported coated board belongs to premium category).

Coated Paperboard

- Given the higher demand for improved quality printing, the quality coated board segment has grown at a faster pace vis-à-vis overall coated board market.
- End clients mostly belonging to FMCG and pharmaceutical segment (where demand is relatively stable) reduces demand risk and support overall business risk profile.
- National Tariff Commission (NTC) announced Anti-Dumping Duty (ADD) ranging from 14.98% - 18.57% on products being imported from China, Indonesia and South Korea in July'2018.
- In addition to duty protection in the form of ADD, convenience for local customers due to lower lead time, limited exposure to currency rate risk, facility of procuring desired quantity (vis-à-vis importers who have to buy in bulk) and lower product off take risk provides support to local players.
- Expected rebound in demand over the medium term and favorable demand-supply dynamics also support business risk profile.

Local Players

- Industry is dominated by two players; Century Paper & Board Mills Limited (CPBM) and Bulleh Shah Packaging Private Limited (BSPPL) catering to around 70% of total demand for quality coated paperboard.
- In high quality segment, CPBM has more than 50% market share while the same stands at 37% in terms of overall coated board market size.
- Along with CPBM and BSPPL, there are a number of small players in both documented and undocumented segments catering to high and low quality segments.
- More than 70 % of mills are located in Punjab province, 20% are in Sindh province and 10% are in KPK province.
- There are estimated 6,000 printing houses that prepare “Primary Packaging” for various sectors.
- Reduced imports are further strengthening market pull for locally manufactured coated products.

Raw Material

- Major raw materials for paper & paperboard manufacturing are given below:



Waste Paper



Wood Pulp



Chemicals

- Wastepaper and wood pulp constitute the major chunk of imports.
- In terms of value, more than one-half of raw material is imported whilst the rest is procured locally.
- Wheat straws, bagasse and grasses are procured locally and are used as an alternate to wood.
- Raw material forms the major portion in cost of production followed by power/fuel.
- During outgoing fiscal year, international prices of waste paper and wood pulp declined in the wake of Covid-19. The same have picked up pace in the recent months.

Financial Analysis (Key figures & ratios)

(Rs. in millions)	Century Paper & Board Mills Limited (CPBM)				Bulleh Shah Packaging Private Limited (BSPPL)		
	FY17	FY18	FY19	FY20	Dec-17	Dec-18	Dec-19
Net Sales	15,401	18,965	22,241	24,345	18,351	22,255	26,414
Gross Profit Margin (%)	11.6%	13.2%	12.0%	16.2%	7.7%	4.3%	8.2%
Net Profit Margin (%)	3.9%	5.2%	3.9%	6.3%	0.2%	-3.2%	-1.6%
FFO	1,735	2,341	1,821	2,706	1,498	890	1,468
Total Debt	7,811	8,197	8,430	6,523	8,691	11,833	10,916
FFO/ Total Debt (%)	22.2%	28.6%	21.5%	41.6%	17.2%	7.5%	13.5%
Leverage (x)	2.21	2.12	1.98	1.45	1.01	1.37	1.38
Gearing (x)	1.62	1.48	1.36	0.86	0.71	1.02	0.98
Total Liabilities	10,626	11,763	12,265	11,015	12,363	15,801	15,305
Total Equity	4,812	5,542	6,189	7,582	12,241	11,563	11,114
Current Ratio (x)	0.98	1.14	1.21	1.27	1.2	1.1	1.3
(Stock in Trade + Trade Debt)/ Borrowings (x)	124.9%	153.6%	153.8%	183.5%	185.8%	164.5%	242%

*Ratio Annualized

Sources

- World Bank data
- Global paper market review report– PG Paper
- Euro monitor International (Economies & Consumers 2019)
- Annual accounts and information provided by Century Paper & Board Mills Limited
- Paper & paperboard sector report 2017 – Pakistan Institute of Trade and Development

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