

PAPER & PAPER BOARD INDUSTRY

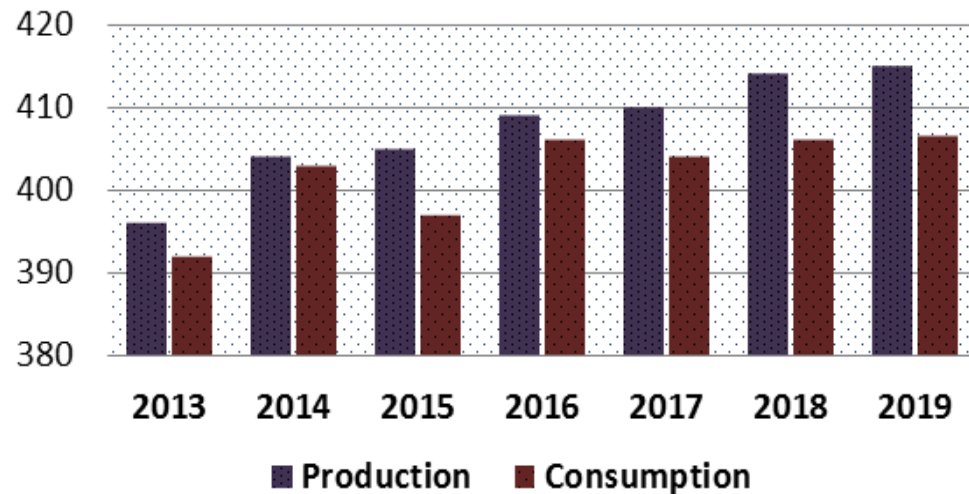
December, 2019



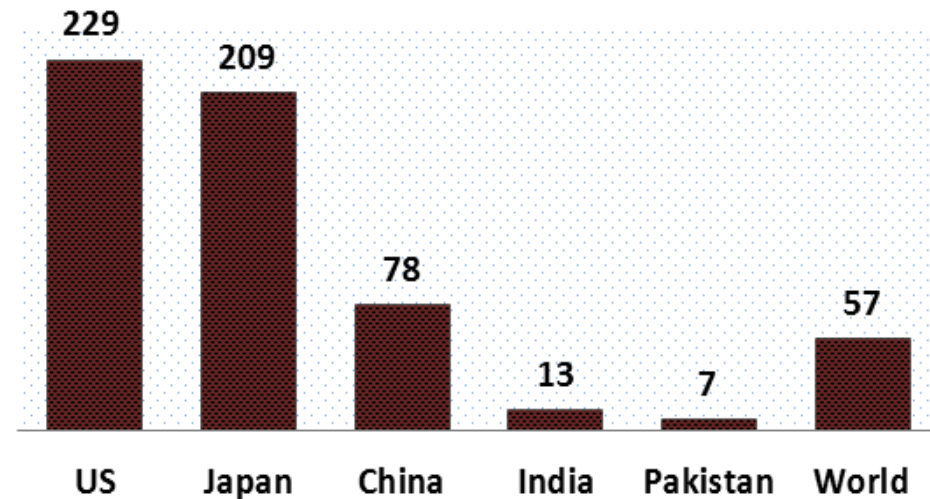
Global Market Dynamics

- World production of paper and paperboard (P&PB) is around 400m MTons. The pulp and paper industry is a large and growing portion of the world's economy.
- 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.

World P&PB Production/Consumption (m MTons)



Per Capita Consumption of Paper (Kg) - FY19



Pakistan's Paper & Paperboard (P&PB) Industry

Total P&PB consumption stood at 1,861,000 metric tons per annum during FY19

Exhibit 1

P&PB Industry (Local & Import) – FY19

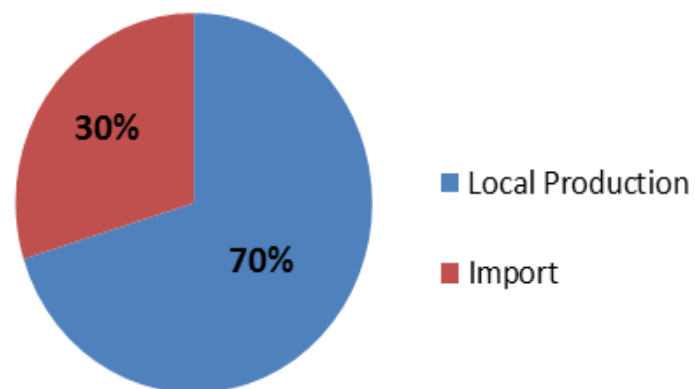
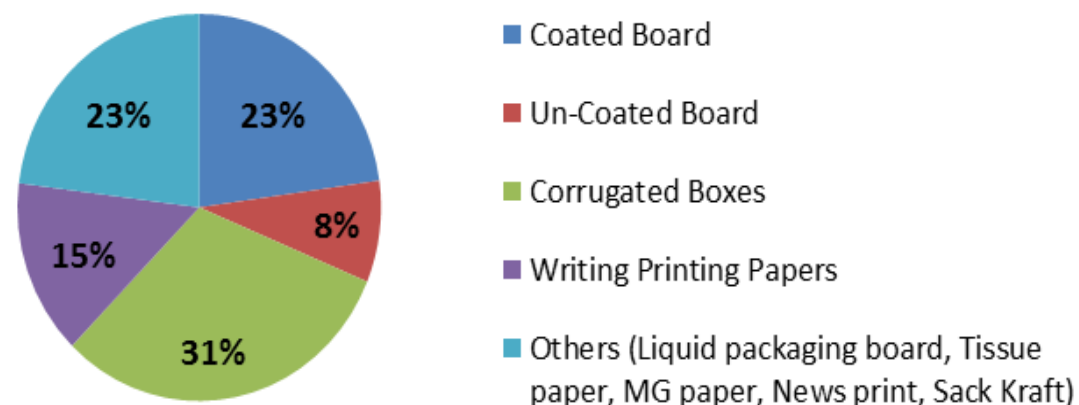


Exhibit 2

Product-wise Break of P&PB Industry -FY19



Coated Paperboard

Consumption
(424,000 MTons)

Local – 85%
Imports – 15%

Un-Coated Paperboard

Consumption
(158,000 MTons)

Local – 100%
Imports – Nil

Corrugated Boxes

Consumption
(578,000 MTons)

Local – 94%
Imports – 6%

Writing Printing Papers

Consumption
(273,000 MTons)

Local – 73%
Imports – 27%

Other Packaging Material

Consumption
(428,000 MTons)

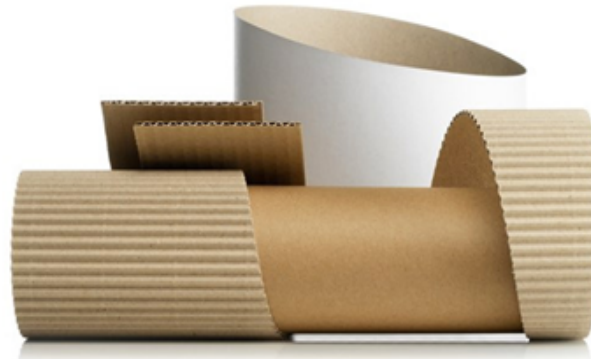
Local – 11%
Imports – 89%

P&PB - Local Industry Dynamics

- Paper & paperboard industry has witnessed a slight contraction of ~3% in overall market size during outgoing fiscal year FY19. Decline is attributable to overall economic slowdown in the country.
- Local industry withstood the challenging operating environment and maintained its market share whereas reduction was observed in imports of coated paperboard.
- Imported products lost competitiveness on the back of significant rupee devaluation which resulted in higher landed cost of imports vis-à-vis local products.
- Imports on dumped prices from China have tapered off (due to reduction in waste paper imports into China due to restriction by Chinese government on account of environmental concerns) which has improved the competitiveness of local players.
- Anti-Dumping Duties (ranging from 14.9% - 18.6%) on coated paperboard provide additional support to local industry players. While gap remains in effective implementation of these duties, risk of liability on importers (in terms of duty payment) acts as a constraint for imports.
- Demand growth is expected to rebound in FY20.

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.
- According to Aurora (Pakistan's leading advertising, marketing and media magazine), E-commerce industry in Pakistan is expected to hit the one billion dollar mark by FY20.

Coated Paperboard – Packaging Solutions

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

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



Coated Paperboard - Market Analysis

Timeline - Coated Paperboard Market Size (M.Tons)

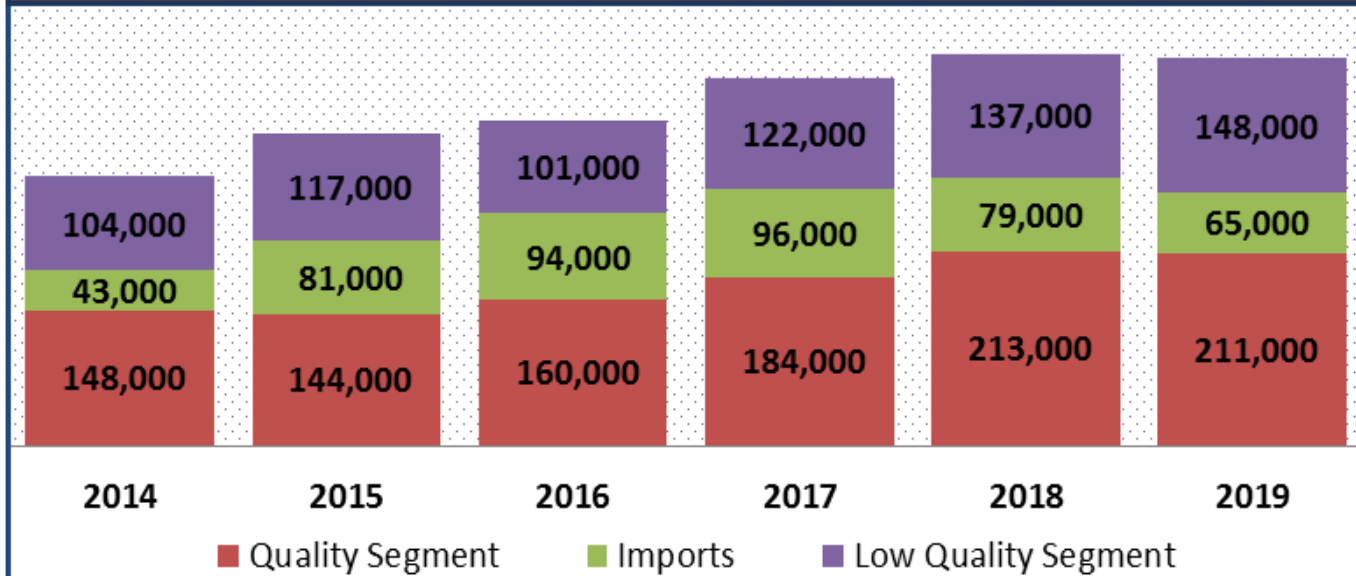
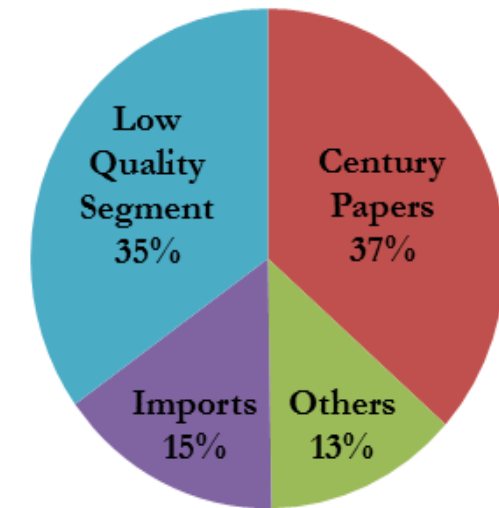


Exhibit 3

Coated Paperboard Market Share - FY19



- Coated paperboard is further branched into high and low quality products segments.
- In FY19, Coated paperboard market size was estimated at 424,000 tons; two-third of which comprises premium quality product. Imports are primarily in the quality segment.
- Five year (FY14- FY19) compound annual growth rate (CAGR) of industry demand was reported at 7.5%.
- FY14 to FY18 was the high growth phase with high GDP growth and increasing consumer demand for paperboard industry. Industry demand slowed down in FY19 but is expected to rebound in FY20.

Coated Paperboard – 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.
- CPBM, despite slight contraction of paper & paperboard industry demand, managed to maintain its market share in coated paperboard (including imports and lower quality segment) at ~37%.
- Within high product quality segment, CPBM's market share stands at ~56%.
- Reduced imports are further strengthening market pull for locally manufactured coated products.
- In spite of slight contraction in Market size Optimum Capacity Utilization is expected in 2019-20.
- 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.

Coated Paperboard – Raw Material

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



Waste Paper



Wood Pulp



Chemicals

- In terms of value, more than one-half of raw material is imported whilst the rest is procured locally.
- Wastepaper and wood pulp constitute the major chunk of imports.
- Wheat straws, bagasse and grasses are procured locally and are used as an alternate to wood.

Coated Paperboard – Business Risk Profile

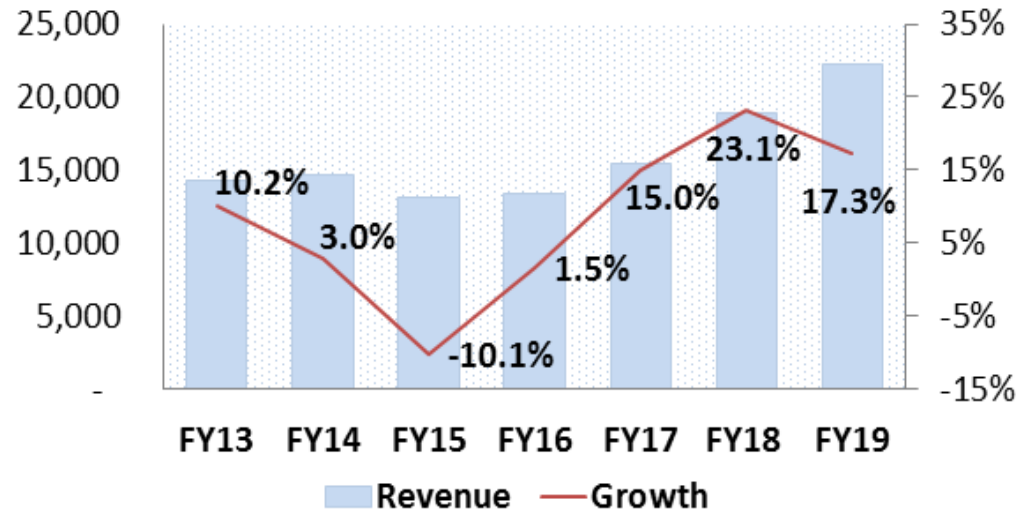
- All players in the market face competition from dumping of varieties of coated board. However, lately dumping from China has declined significantly due to reduction in waste paper imports into China.
- The reduction was due to restriction by Chinese government on account of environmental concerns.
- Reduction in dumping has improved the pricing power of local players and resulted in improved margins in recent years.
- 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. However, announced ADD is practically not applicable because of ongoing litigation as importers have filed review petitions.
- 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.

Coated Paperboard – Financial Risk Profile (CPBM)

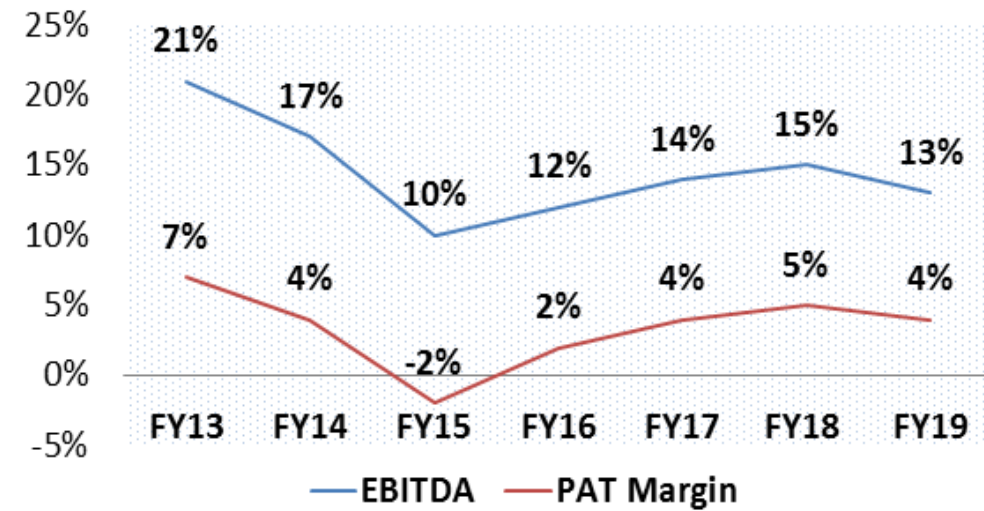
- Despite challenging operating environment, financial profile of CPBM remained stable
- In FY19, sales growth was primarily a function of higher selling prices. However, profitability declined due to sizeable jump in finance cost.
- Going forward, stable sales volume and declining international raw material prices are expected to support earning profile despite significant increase expected in power cost.
- Liquidity profile remains adequate given satisfactory cash flows and debt servicing ability.
- Leverage indicators witnessed improvement on the back of higher equity base. Gradual reduction in leverage indicators is expected till debt for expansion is undertaken.

Century Paper & Board Mills Limited (CPBM) – Financial Analysis

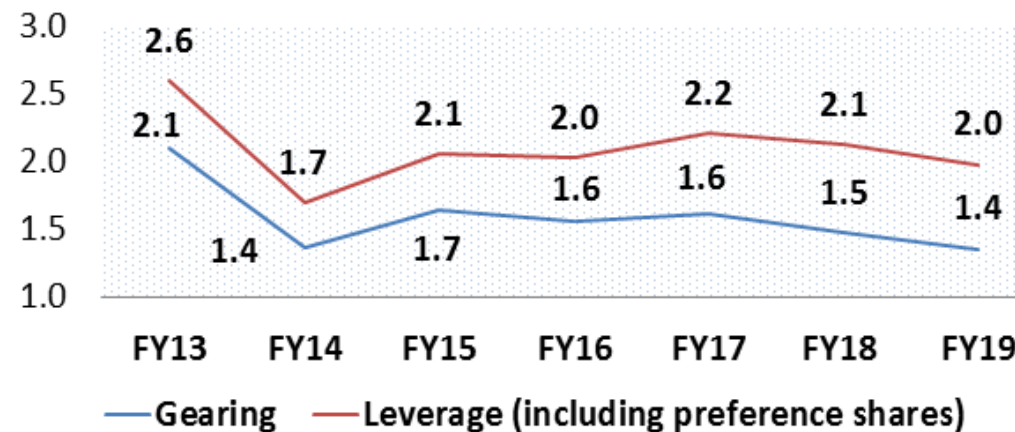
Revenue Growth



Margins



Leverage Indicators



Bulleh Shah Packaging Private Limited (BSPPL) – Financial Analysis

Key Figures & Ratios

| Profitability Ratios | | | Cash Flow Ratios | | |
|--|---------|---------|----------------------------|----------|----------|
| | Dec-17 | Dec-18 | | Dec-17 | Dec-18 |
| Gross Margin (%) | 7.7% | 4.3% | FFO (Rs. in m) | 1,497.8 | 920.0 |
| Operating Margin (%) | -0.2% | -4.4% | Short Term Debt (Rs. in m) | 3,756.4 | 5,542.6 |
| EBITDA Margin (%) | 11.8% | 6.6% | Long Term Debt (Rs. in m) | 4,935.0 | 6,290.0 |
| PBT Margin (%) | 0.0% | -4.2% | Total Debt (Rs. in m) | 8,691.4 | 11,832.6 |
| Net Margin (%) | 0.2% | -3.2% | FFO/Long term Debt (%) | 30.4% | 14.6% |
| Efficiency Ratio (Operating expenses to sales) (%) | 7.9% | 8.7% | FFO/Total Debt (%) | 17.2% | 7.8% |
| Liquidity Ratios | | | Capitalization Ratios | | |
| | Dec-17 | Dec-18 | | Dec-17 | Dec-18 |
| Net Working Capital (Rs. in m) | 1,351.4 | 1,444.2 | Total Equity (Rs. in m) | 12,240.6 | 11,562.9 |
| Current Ratio (x) | 1.2 | 1.1 | Gearing (x) | 0.71 | 1.02 |
| Trade debts as % of Sales (%) | 9.7% | 9.4% | Leverage (x) | 1.00 | 1.37 |
| (Inventory + Trade Debt)/ ST Borrowing (%) | 185.8% | 164.5% | | | |

Sources

- https://environmentalpaper.org/wp-content/uploads/2018/04/StateOfTheGlobalPaperIndustry2018_FullReport-Final-1.pdf
- <https://www.statista.com/topics/1701/paper-industry/>
- Global paper market review report– PG Paper
- Euromonitor International (Economies & Consumers 2019)
- Paper & paperboard sector report 2017 – Pakistan Institute of Trade and Development
- Topline research report on Paper & Board – December 2017
- Annual accounts of Century Paper & Board Mills Limited
- Information gathered from management meetings with Century Paper & Board Mills Limited

Analysts Contacts

[Talha Iqbal](#)

Senior Manager
talha.iqbal@vis.com.pk

[Muhammad Tabish](#)

Assistant Manager
muhammad.tabish@vis.com.pk