

Paperboard

May, 2019

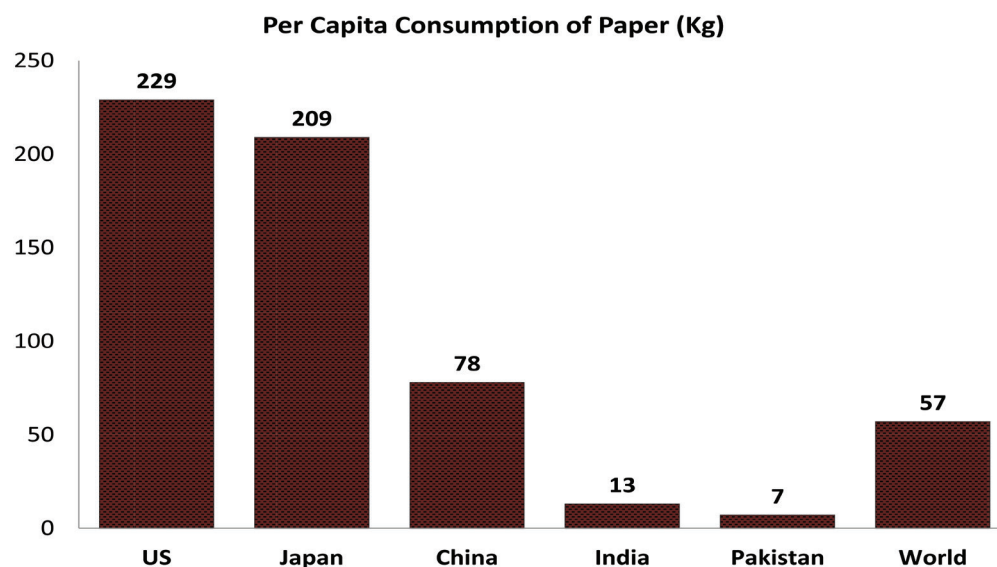
- Paper & Board industry (P&B) is categorized as per weight classification. As per ISO standards, paperboard (sometimes referred as cardboard) is a paper with a grammage above 250 g/m². It is further classified into single-ply (or) multi-ply and is largely used for packaging purpose.



- The industry provides packaging solutions largely to consumer products:
 - Cigarettes
 - Confectionery
 - Pharmaceuticals
 - Cosmetics
 - Auto Parts
 - All consumer and industrial products delivered to end users duly packed
- Pakistan paperboard industry is broadly segmented into un-coated and coated paperboard.

Global Demand Dynamics

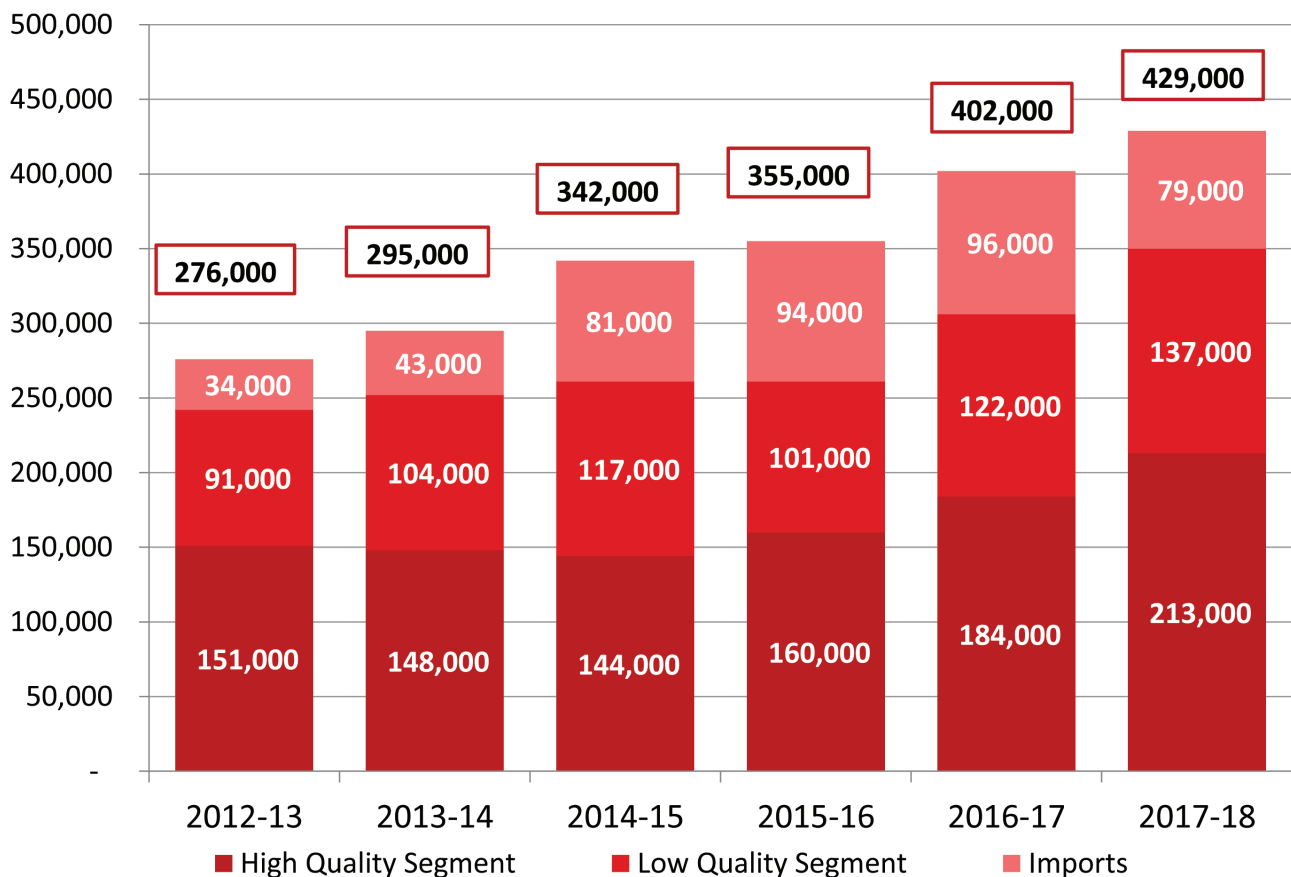
- Global production of paper and paperboard stood at approximately 411m metric tons (MT) in 2016. Global growth in P&B consumption has remained low over the last 10 years.
- China and US are the largest consumers of P&B products. More than half of world's paper is consumed in China, followed by Europe, USA and Japan.
- 7 of the 10 countries with largest per capita consumption are in Europe while 26 countries in the world have more than double the global average of per capita paper consumption.



Local Demand Dynamics

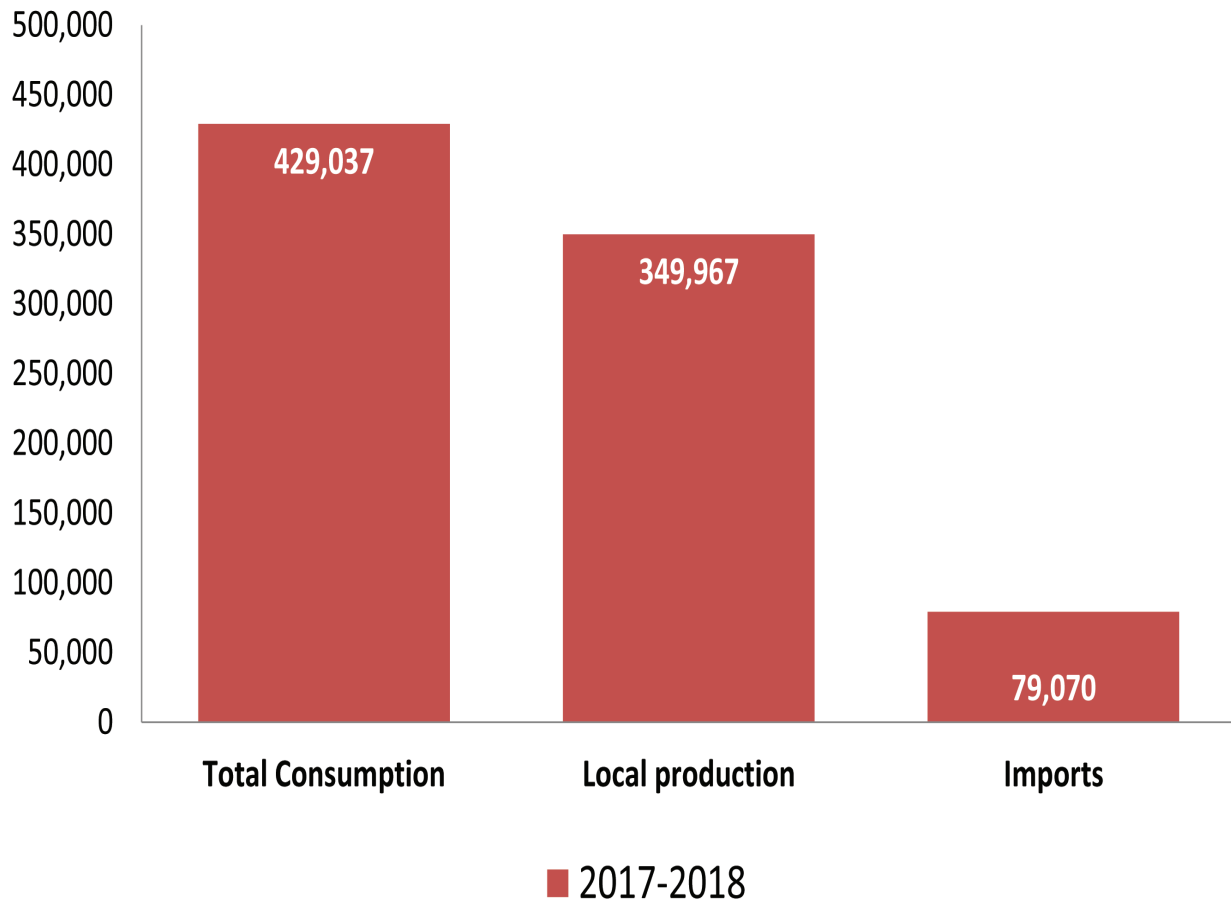
- Total consumption of various P&B in Pakistan stands at 1,872,000 MT per annum.
- Coated paperboards are widely used for packaging and as per industry estimates, consumption of coated paper board stands at approx. ~ 430,000 MT per annum.
- Pakistan's high household consumption to GDP ratio along with urbanization and projected growth of the FMCG segment are expected to bode well for demand growth of paperboard.
- Major sectors in terms of coated board consumption in Pakistan are:
 - FMCGs
 - Fast Food Chains
 - Industrial House hold products

Demand Growth in Local Market (M. Tons)



- Coated paperboard is further branched into high and low quality segments.
- Around two-third of coated paperboard comprises superior quality.
- Total demand of coated paperboard has increased at a CAGR of 10% over the past five fiscal years (2013-18).

Local Demand Supply dynamics (M. Tons)



- Demand for Coated paperboard exceeds local supply and the gap is growing which is being met through imports.
- Imports are primarily in the quality segment.
- During FY18, around 18% of demand was met through imports

Local Industry Structure

- The industry is dominated by two players; Century Paper and Board Mills Limited (CPBM) and Bulleh Shah Packaging Private Limited (BSPPL) catering to around 70% of total demand for quality coated paperboard. Remaining demand for quality segment is met through imports.
- CPBM remains the market leader with a market share of around 53% in quality paperboard segment.
- Along with CPBM and BSPPL, there are a number of small players in both documented and undocumented sectors 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.

Raw Material

- Waste paper, wood pulp, and chemicals are the major raw materials for paper and board.
- 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 alternative to wood.

Business Risk Profile

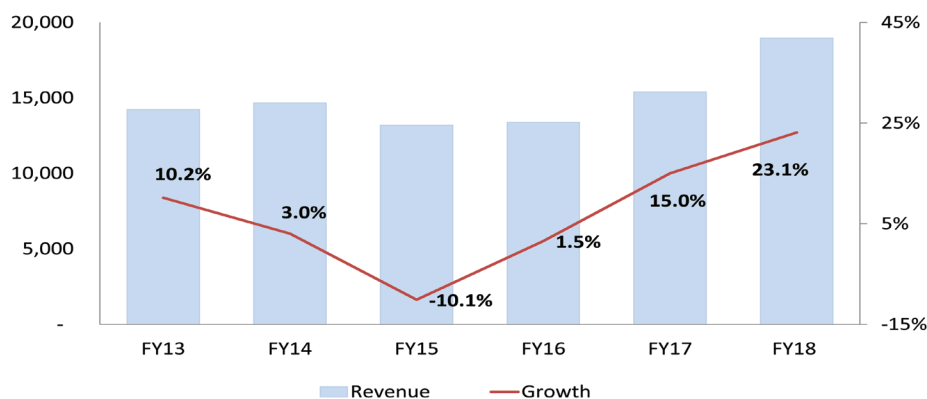
- All players in the market face competition from dumping of varieties of coated board. However, lately dumping from China has declined significantly due to reduction in waste paper imports into China.
- The reduction was due to restriction by Chinese government on account of environmental concerns.
- 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.
- As highlighted earlier, growing demand and favorable demand-supply dynamics also support business risk profile.

Industry Financial Profile

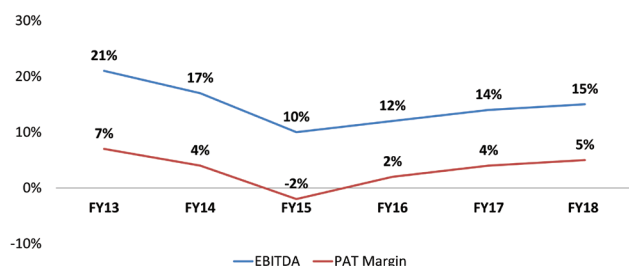
- Healthy sales growth in FY18.
- With local paperboard segment operating at near full capacities; increase in sales will primarily be a function of higher average selling prices.
- Despite rupee depreciation, margins are expected to witness only limited attrition due to improved pricing power.
- Rupee depreciation will however result in increase in working capital requirements
- Higher finance cost (due to increase in benchmark rates) and overheads (due to inflation) will be a drag on bottom line.
- Leveraging is expected to increase due to higher working capital requirements.

CPBM Financial Analysis

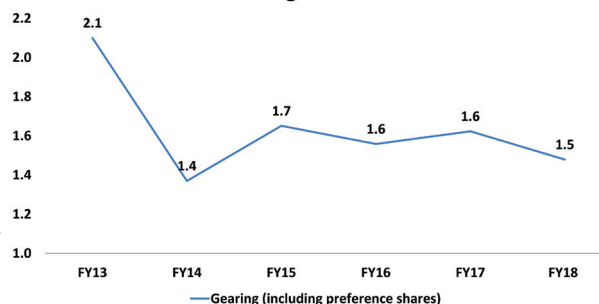
Revenue Growth



Margins



Leverage Indicators



Sources

https://environmentalpaper.org/wp-content/uploads/2018/04/StateOfTheGlobalPaperIndustry2018_Full-Report-Final-1.pdf

<https://www.statista.com/topics/1701/paper-industry/>

Financial statements, 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