


# Pakistan Equity | Paper & Board | Sector Research

March 4, 2022

## Pakistan Packaging Industry Riding Consumer & E-Commerce boom 'Buy' PKGS, TRIPF, CEPB, and 'Hold' RPL



 **CFA Society  
Pakistan**  
Best Local Brokerage  
House 2015-16, FY2020

**ASIAMONEY**  
Best Local Brokerage House  
Brokers Poll 2011-14, 2016-21

  
**Best Brokerage  
House 2018,19-20**

  
**Best Research  
House 2019-20**

  
**Best Brokerage  
House 2019-21**

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# Executive Summary

## Executive Summary

- Pakistan Packaging Sector, which includes Flexible Packaging, Paper & Paper board, and Films is likely to be major beneficiary of Pakistan's improving economic growth driven by consumer demand.
- Pakistan's young & rising population with increasing urbanization, increasing per capita income, e-commerce revolution and increased health consciousness is driving demand for Pakistan's Packaging sector. Consumers, Pharmaceutical and Appliances sector are the main customers for the Packaging Industry.
- Given its demand outlook, we expect the Flexible Packaging industry to grow at a 5-year (FY22-FY27) CAGR of 15% in line with last 5-year growth. We also anticipate the Paper & Paper board sector to grow at a 5-year (FY22-FY27) CAGR of 5% vs. the last 5-year CAGR of -2%.
- Flexible packaging due to its specific characteristics is growing at a much better pace than the overall industry. It also offers superior margins compared to the rest of the industry as major proportion of raw material used by the Flexible Packaging Industry is procured locally.
- Paper & Paper board sector's volumetric growth has remained subdued but reduction in raw material (waste paper prices) during FY15-FY21 helped lift Paper & Paper board margins. Further, imposition of antidumping duty in FY18 in the range of 2-36% for a period of 5-years also helped contain import of Paper & Paper board products (finished and semi finished). Currently, waste paper prices are hovering ~US\$300/ton due to global increase in commodity prices which pose key risk for the sector.
- BOPP Films (Biaxially Oriented Polypropylene) and CPP Films (Cast Polypropylene) are also two key products used in the manufacturing of packaging industry. BOPP Films are used in food packaging whereas CPP Films are used in both food and non-food packaging. In Pakistan, the usage of BOPP on per capita basis remains much lower i.e. 0.28kg vs. 1.38kg in the world. BOPP domestic market has been growing at a CAGR of 6% over the last 5-years (2015-2020).
- Key listed players in the formal Flexible Packaging sector include Packages Convertors (PCL), Roshan Packages (RPL), Merit Packaging (MERIT) and Cherat Packaging (CPPL). Within the Paper & Paper board formal sector, key players are Bulleh Shah (BSPL), Century Paper & Board (CEPB), Cherat Packaging (CPPL), Pakistan Paper Product (PPP), Thal Limited (THALL), and Security Paper (SEPL).
- Pakistan Packaging sector is trading at 2022E PE of 6.35x and PBV of 0.85x. We have a 'Buy' recommendation on Packages Limited (PKGS), Tri-Pack Films (TRIPF) & CEPB. They currently trade at a 2022 PE multiple of 5.20x, 5.50x, and 5.77x., respectively. On other hand, we have a 'Hold' stance on RPL that currently trades at a 2022 PE of 7.00x.

# Pakistan Packaging Industry – Key growth drivers

## Listed FMCG Sector 5-year revenue CAGR of 11%



Source: Company Accounts, Topline Research

## Listed Pharmaceutical Sector 5 year revenue CAGR of 14%

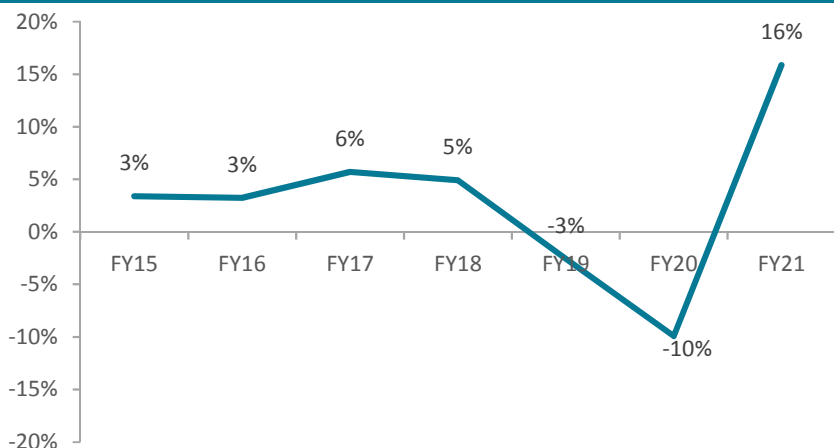


Source: Company Accounts, Topline Research

- Pakistan Packaging Industry offers a proxy to Pakistan's economic recovery which is led by consumer sector growth amid rising population, increasing urbanization, e-commerce revolution and health consciousness.
- **Consumer led demand growth:** Pakistan has the fifth largest population in the world with growing urban and young population, which is likely to keep consumer demand growth strong going forward. This bodes well for Pakistan's Packaging Industry which is a direct beneficiary of it. The Packaging Industry demand is driven from various industries including FMCG (Fast Moving Consumer Goods), Pharmaceuticals, Appliances, Engineering Products etc.
- **E-Commerce Revolution:** E-Commerce revolution and changing shift in consumer behavior are also likely to support the Packaging Industry. People are now more inclined to use e-commerce platforms for shopping, which uses more packaging material for the shipment/delivery of goods. Internet penetration in the country is also the key reason behind the e-commerce boom.
- **Increasing Health Consciousness:** The demand for Pharmaceutical products have also grown significantly post pandemic, which has also led to increased demand for the Packaging Industry. People are also becoming health conscious which is further increasing the demand of Pharma and Packaging products.
- In lieu of rising demand due to consumer sector growth, e-commerce boom and increasing health consciousness, the Packaging Industry is undergoing expansion. Several companies including BSPL, CEPB, RPL and TRIPF have announced expansions in two divisions of the Packaging Industry including Paper & Paper board and Films.

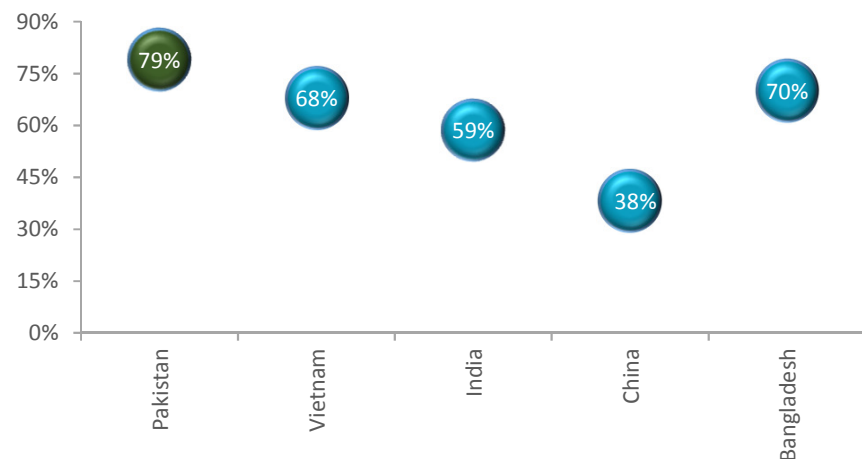
# Consumer led demand growth

## Revival in Large Scale Manufacturing Growth to Lift Packaging Industry



Source: PBS, Topline Research

## Regional Comparison of Household Consumption as a % of GDP 2020



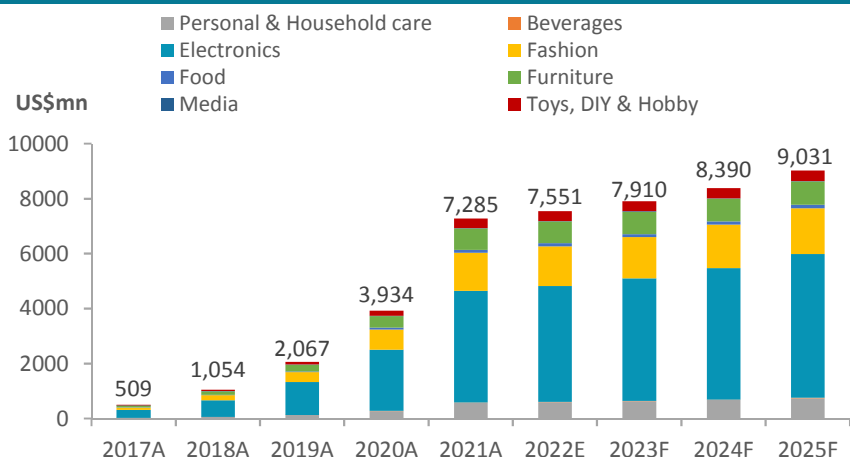
Source: World Bank, MoF, Topline Research

- Pakistan Packaging industry is driven by consumer led demand growth as consumer companies remain key customers of packaging industry.
- Pakistan per capita (US\$) income has grown at a 15-year (FY06-FY21) CAGR of 4%. Pakistan has world's 5<sup>th</sup> largest population of 220mn people growing at a 15-year CAGR of 2% (FY06-FY21). Urbanization has also been growing at a 15-year CAGR of 3% (FY06-FY21) which bodes well for the demand of consumer and packaging sector. Pakistan also has one of the highest consumption to GDP ratio of close to 80% in FY20.
- With increased health awareness, usage of plastic bags is also been gradually replaced with paper bags for food takeaways. The Packaging Industry demand is driven by industries including FMCG, Pharmaceuticals, Appliances, Engineering Products and others.
- Rising young and urban population are key driver of consumer & packaging demand. As per Ministry of Finance (MOF), ~44% population reside in Urban areas in 2020 (37% in 2010). Similarly, young population comprise of 34% (age slab: 15-34) as per 2017 census.
- Growing demand of Pharmaceutical products is also likely to drive Packaging sales going ahead. Listed Pharmaceutical companies sales have grown at a 5-year (2015-2020) CAGR of 14%. Covid-19 pandemic has increased the demand for use of pharmaceutical products which is also driving the overall Packaging sector of the country. Post pandemic, there is an increased health consciousness and higher demand of cleaning products which is further impacting positively on the packaging demand.
- Flexible packaging demand is also rising as it is used to store the product with hydrogenated packing to maintain the shelf life of the products. Flexible packaging is used in tea bags, powder milk, shampoos etc, which will continue going forward. Both flexible and paper & board packaging are not exactly the substitutes of each other.



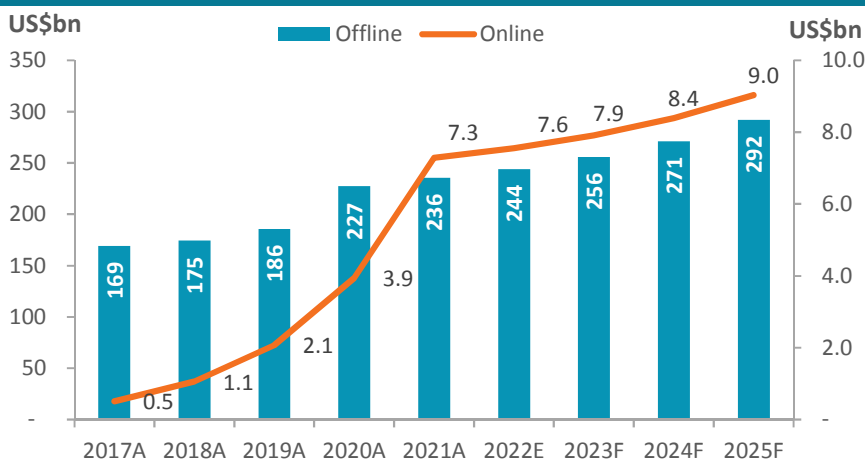
# Booming E-Commerce market & health consciousness

## E-commerce Market Spending in Pakistan



Source: Statista.com

## Retail Spending in Pakistan (Online vs. Offline)



Source: Statista.com

- Ecommerce Revolution:** Previously in Pakistan, consumers preferred to visit retail stores for shopping as the consumers did not either feel comfortable with online shopping or lacked good internet access. Post COVID, a huge shift towards online shopping was witnessed due to restrictions in public gatherings. With improved e-commerce services and new players, the reliability and trust factor over online shopping has improved.
- Another reason for the boom in the e-commerce industry is improved internet access since the introduction of high speed internet and online banking which further supported consumers shift towards online shopping. We believe this trend would continue and the demand for the Packaging Industry would grow in future as e-commerce primarily uses flexible and Paper & Board Packaging for the delivery of goods.
- As per Pakistan Telecommunication Authority (PTA), internet broadband subscribers have grown at a 5 year CAGR (FY16-FY21) of 33% to 102mn. As of December 2021, broadband subscribers stands at 110mn in Pakistan, indicating strong internet penetration in the country and a proxy for e-commerce penetration as well. E-Commerce (online Retail) market size in 2021 stood at around US\$7.3bn and is estimated to reach US\$9bn by 2025 as per Statista, depicting its immense potential. Likewise, the offline retail market reached US\$236bn in 2021 and is projected to mark US\$292bn by 2025 as per Statista.
- Increasing Health Consciousness:** Post COVID-19 virus spread, focus on health and hygiene has increased. This has not only increased the demand for pharmaceutical products but also for cleaning materials. Keeping this in view the packaging demand is likely to scale up in future as the variants of virus continue to hit the world.
- Pakistan's packaged milk consumption is also very low as compared to regional countries. With increasing health awareness a shift to packaged milk will also fuel industry growth.

# Industry wide expansions in progress

Estimated Market Size of Flexible Packaging Industry	
	Tons/month
Formal Sector	40,000
Informal Sector	120,000
<b>Market size</b>	<b>160,000</b>

Source: Industry sources, Topline Research

Packaging Industry Existing Capacity and Planned Expansion		
000 tons	2021	2024
<b>Paper and paperboard Industry</b>		
<b>BSPL</b>		
Paper and paperboard	240	360
Paper and paperboard converter	96	211
<b>CEPB*</b>		
Paper and paperboard	265	292
Paper and paperboard converter	35	35
<b>RPL*</b>		
Paper and paperboard	-	66
<b>Films Industry</b>		
<b>BOPP Industry Capacity*</b>	127	300
<b>TRIPF BOPP Capacity</b>	67	122

Source: Company Accounts, Topline Research

\*Fiscal Year and CEPB expansion timeline is FY23

- Packaging industry is comprised of two subsectors which includes Flexible Packaging and Paper & Paper board. Films is a subsector that is generally used in packaging. All segments of the Packaging Industry are undergoing expansion which is likely to drive the revenues of the industry going ahead.
- As per the industry sources, overall Flexible Packaging Industry market size lies between 150-160k tons per month which includes listed and non-listed players. Similarly, Paper & Paper board market size lies between 90-120k tons per month.
- In the Paper & Paper board division, Bulleh Shah (Subsidiary of Packages) is expanding its Paper & Paper board annual capacity by 120k tons to 360k tons. It is also expanding its paperboard convertor capacity by 115k tons to 211k tons. These are expected to come online in 1H2023.
- CEPB is also undergoing BMR which is likely to expand its capacity by ~10% to 292k tons to meet additional demand, anticipated to complete by the end of FY22.
- TRIPF is also expanding its BOPP (Biaxially Oriented Polypropylene) capacity by 55k tons to 122k tons, which is expected to complete in 2024.
- Currently, major players in the Films industry are operating at a capacity utilization of over 85%. Hence, the planned capacities will help companies to cater increasing demand.
- We expect the Flexible Packaging industry to grow at a 5-year (FY22-FY27) CAGR of 15% in line with last 5-year growth. We also anticipate the Paper and Paper board sector to grow at a 5-year (FY22-FY27) CAGR of 5% vs. the last 5-year CAGR of -2%.



# Industry Overview

# Packaging Industry – Structure

## PACKAGING INDUSTRY

Films

Flexible  
Packaging

Paper & Board  
(Corrugated)

Tri-Pack Films (TRIPF)  
MACPAC Films (MACFL)  
International Packaging Films Ltd.  
Astro Films (Pvt.) Ltd.

Packages Convertors Ltd.  
Cherat Packaging Ltd. (CPPL)  
Merit Packaging Ltd. (MERIT)  
Roshan Packages Ltd. (RPL)

Century Paper & Board Mills Ltd. (CEPB)  
Bulleh Shah (Pvt) Ltd.  
Packages Convertors Ltd.  
Pakistan Paper Products (PPP)  
Thal Ltd. (THALL)  
Security Papers Ltd. (SEPL)  
Cherat Packaging Ltd. (CPPL)  
Merit Packaging Ltd. (MERIT)  
Roshan Packages Ltd. (RPL)

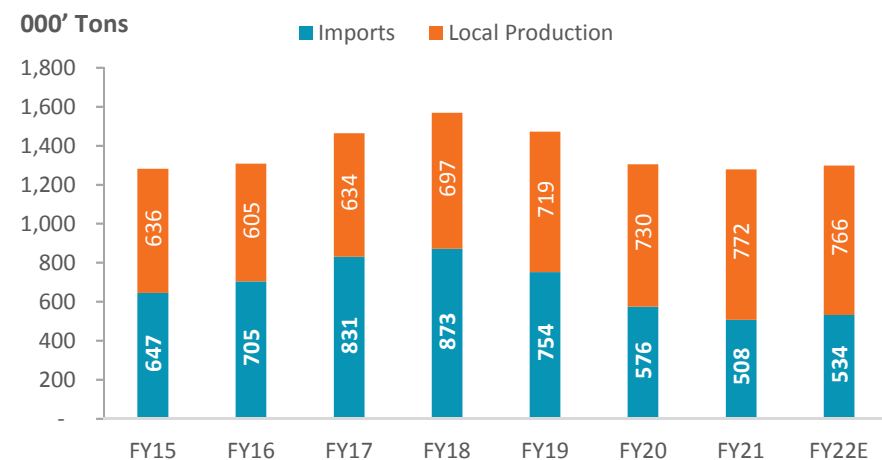
# Flexible Packaging Industry Overview



- Flexible Packaging means any package or part of a package, the shape of which can be readily changed. Flexible packaging includes, but is not limited to, bags, pouches, liners, and wraps utilizing paper, plastic, film, aluminum foil, metalized or coated paper or film, or any combination of these materials.
- The usage of Flexible Packaging is quite extensive but depends on the type of the products and the shelf lives. For instance in confectionery, it is usually packed with the flexible packaging and then further packed in small boxes which are tailored according to the box sizes.
- As per our channel checks, the size of the industry is around 150-160k tons per month. In the last five years, the flexible industry has grown by 10-15% on an average and is anticipated to grow by 15% in the upcoming years.
- Flexible packaging not only offers higher margins compared to Paper & Paper board but are also more energy efficient and less labor intensive.
- Consumer and pharma sectors are the major users of flexible packaging being extensively used in Chips, Perfumes, Biscuits, Creams, Injection Packaging and others.
- The major raw material used in the manufacturing of flexible packaging are polyethylene resin, films (BOPP & CPP) and adhesives with a mix depending on the thickness of the packaging material. Major raw materials are mainly procured locally from Ismail resin, Tripack films, Astro films, and others as per our channel checks.
- In recent times, the local polyethylene prices are hovering ~Rs350/kg whereas the imported price are 20-25% higher due to antidumping duty (ADD), custom duty (CD), and additional custom duty (ACD) of 11%, 11%, and 2% respectively.

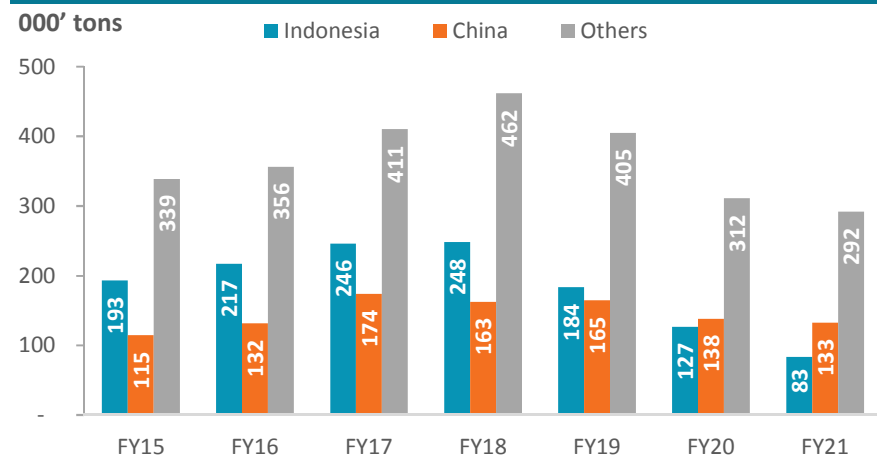
# Paper & Paperboard: Industry Overview

## Paper & Board Industry Demand (Coated & Uncoated)



Source: PBS, Trademap, Topline Research

## Paper and Paperboard (Total) Imported from Major Countries

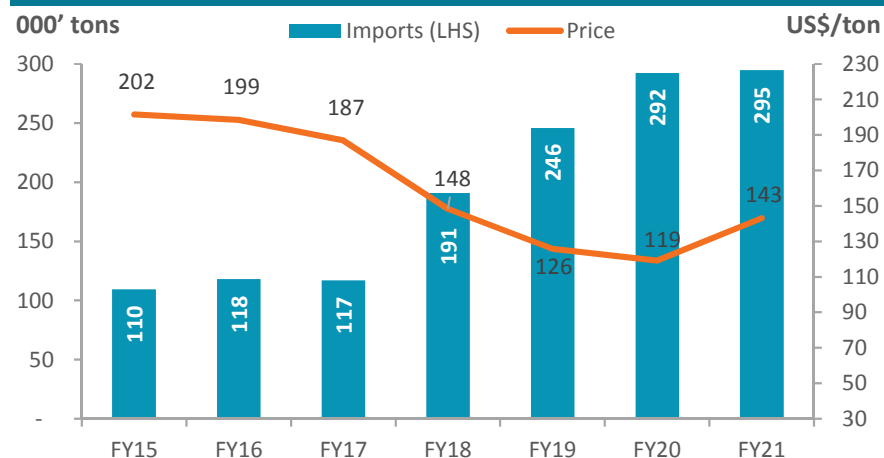


Source: Trademap, Topline Research

- Paper & Paperboard, is a versatile material used to package foods, appliances, and consumer goods. It is a paper-based material that is lightweight and strong. It can be easily cut and manipulated to create custom shapes and structures.
- The Paper & Paper board is primarily used in primary and secondary packaging. The primary packaging is the Coated and Uncoated Paper & Paper board which is supplied to the industries and then it is converted into printed and unprinted boxes for packaging. On the other hand, the secondary packaging is the corrugated boxes which are manufactured and supplied to the other industries as per the requirement.
- Total market size of the Paper & Paper board industry in FY21 was around 1.2mn tons with imports contributing around 46% as per Trademap and Pakistan Bureau of Statistics (PBS). The sector contributes around 2% in Pakistan's Large Scale Manufacturing (LSM) sector. Decline in imports of Paper & Paper board in the last few years was due to 1) advent of COVID-19, 2) antidumping duty (ADD) imposition, and 3) duty reduction from 16% to 5% on Kraft paper and waste paper prices driving higher local production.
- As per industry sources, per capita consumption of Paper and Paperboard in Pakistan is hovering at 7.5kgs as compared to India with consumption of 19kg and Sri-Lanka with consumption of 20kg. Paper & Paperboard Industry is anticipated to grow at a 5-year (FY22-FY27) CAGR of 5% vs. last 5-year CAGR of -2%.
- It is anticipated that there will be a 2 tier growth in Paper and Paper board industry 1) organic growth and 2) shift from unorganized to organized sector.
- There are around 6 major players involved in the manufacturing of Paper & Paper board including Packages Convertors (PCL), Bulleh Shah (BSPL), Century Paper & Board (CEPB), Flying Group of Industries, Premier Paper Mills and Roshan Packages (RPL).

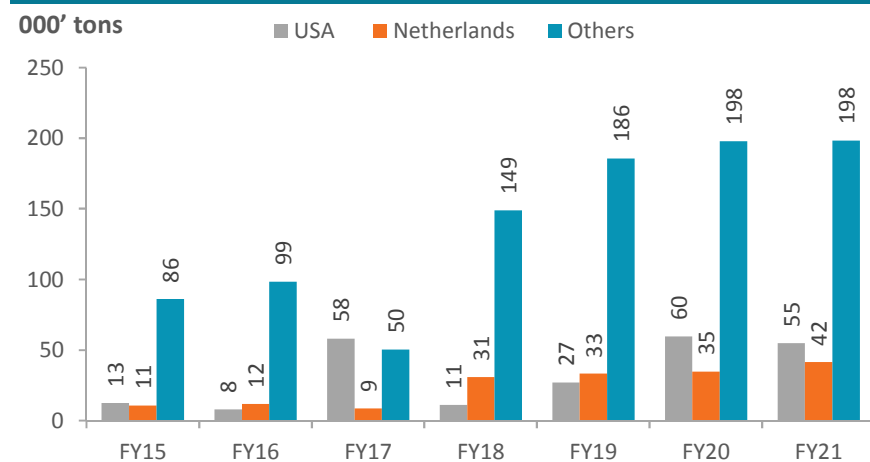
# Waste Paper: A major raw material

## Waste Scrap Paper Imports Trend



Source: Trademap, Topline Research

## Waste Scrap Paper Imported from Major Countries

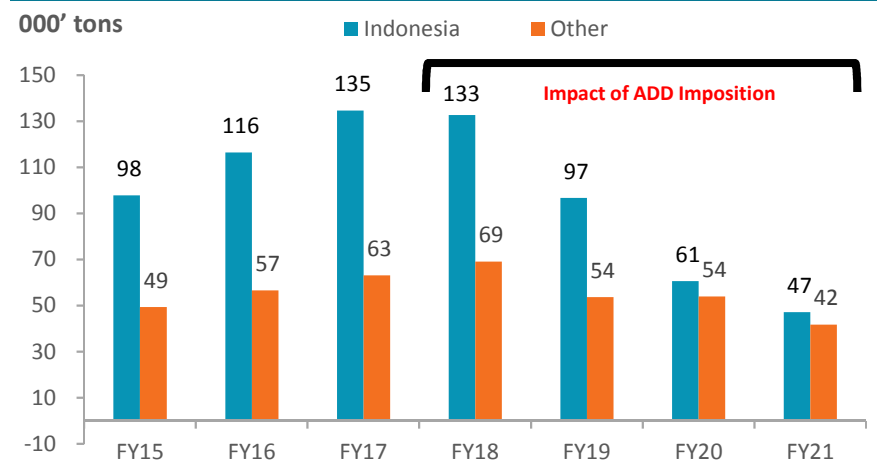


Source: PBS, Trademap, Topline Research

- Waste paper is the main raw material used in the Paper & Paper board industry. Manufacturers use a mix of both local and imported waste paper. With rising sea freights, companies are now preferring to use local scrap paper. However, if there is any shortage in the local industry due to supply constraints, companies prefer to import waste paper.
- In the last 5-year, waste scrap paper has been imported mainly from the top 4 countries including the USA (21%), Netherlands (13%), UK (9%), and UAE (8%) according to Trademap.
- The imported waste scrap paper prices witnessed a falling trend falling from US\$202/ton in FY15 to US\$119/ton in FY20 due to improved supply. In FY21, it again increased to US\$143/ton as per Trademap. Reduction in raw material prices helped margins of the companies in the Paper & Board category during the said period.
- Due to disturbance in the international supply chain, the current scrap paper prices are hovering around US\$300/ton, which is estimated to normalize once the international supply chain normalizes.
- Last ten year average imported price of waste scrap paper is around US\$175/ton. We expect that the price would gradually normalize going ahead, wherein we have assumed an imported waste paper price of US\$225/ton for FY23 and US\$175/ton for future years.

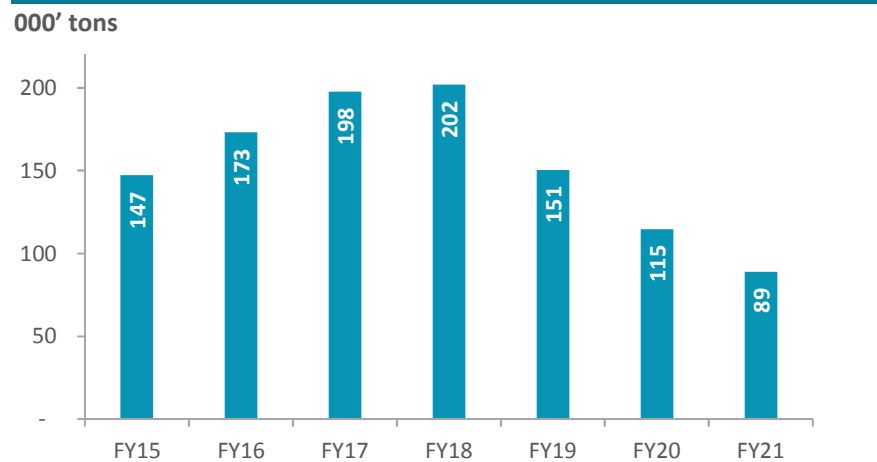
# Duty protection & declining imports

## Uncoated Writing/Printing Paper Imported from Major Countries



Source: Trademap, Topline Research

## Imports of Uncoated Writing/Printing Paper



Source: Trademap, Topline Research

- National Tariff Commission (NTC) imposed Anti Dumping Duty (ADD) of 23% average on the dumped imports of uncoated writing and printed papers arising from various countries in March, 2018, for a period of five years. The duties were imposed on dumped products from countries including Brazil, China, Indonesia, Japan, and Thailand.
- The main applicant for this investigation was Bulleh Shah Packaging and was supported by Century Paper & Board Mills.
- Major beneficiary of this imposition was Bulleh Shah as it held 94% market share of the said product before the dumping of this products as per NTC.
- Post imposition of ADD, the imports of Uncoated Writing/Printing Paper has declined to 89k tons in FY21 from its peak of 202k tons imported in FY18 from various countries.
- We believe that this is likely to continue supporting the local Paper & Paperboard industry going ahead.

## Countries Imposed with Anti Dumping (AD) on Uncoated Writing / Printing Paper

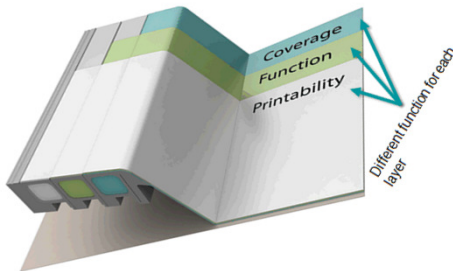
Exporting Countries	AD % of C&F Price
Brazil	36%
China	22%
Indonesia	15%
Japan	39%
Thailand	2%

Source: NTC, Topline Research



# Product Types: Coated & uncoated paper board

## Coated Paper Board



## Uncoated Paper Board



- The Coated Paper is the one on which printing can be done, whereas the Uncoated Paper is rougher than Coated Paper and has a more tactile feel.
- Various industries use the uncoated boards for folding cartons. The total Market size of the coated Paperboard currently is ~475k tons vs. 400k tons in 2017 as per the industry sources.
- The Uncoated Paperboard is coated with China clay liquid which fills the tiny pores and cervices in the fiber of the base paper to make it a flat surface. It is then passed through different levels of rollers and smoothing blades to create the different coated finishes of matt, silk or gloss.
- Coated Paperboard (grey-back and bleached board) is usually calendered on one side, which results in a white and smooth surface completely suitable for offset printing. Coated Paperboard is a key material for the manufacturing of packaging boxes. It is majorly used in folding cartons, indirect-contact food boxes, toy boxes, soap and toothpaste packaging, as well as posters.
- Due to changing demand dynamics, there is a declining trend witnessed in Uncoated Paperboard due to preference towards the usage of Coated Boards.
- Printed colors look dull on Uncoated Paper which makes them less attractive against the Coated one. The Uncoated multi layered board is used in production of folding cartons that fulfill needs of various consumer and industrial products that require basic printing. It has 3 layers consisting of top, middle and bottom layers. The top layer is composed of virgin fiber, middle layer has recycled paper and bottom layer uses paper from wheat and bagasse pulp.

# Machine finished / glazed & corrugated

## Machine Finished / Machine Glazed



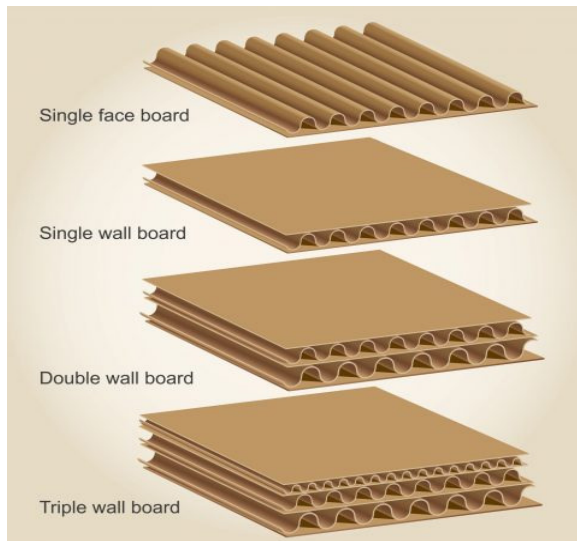
### Machine finished (MF)

- Machine finished (MF) writing & printing papers are manufactured on papermaking machines which are smooth on both sides and used in publishing, exercise books, computer stationery, photo copying, ink jet/laser printing and general printing market segments.

### Machine Glazed (MG)

- Machine Glazed (MG) paper is an uncoated paper with a shiny appearance on one side and rough surface on the other side.
- It combines high tensile strength properties of Kraft paper with smoothness and shine for superior printability.

## Corrugated

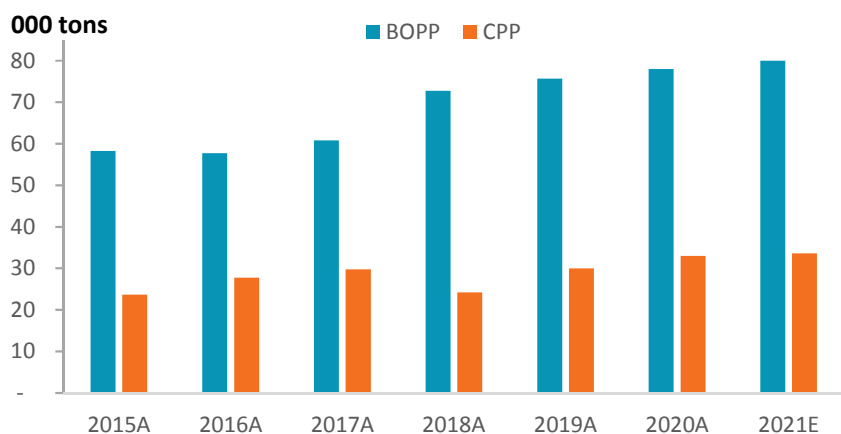


### Corrugated

- Corrugated fiberboard is made on "flute lamination machines" or "corrugators" which is used in the production of shipping containers and corrugated boxes.
- This material consists of a fluted corrugated sheet and one or two flat linerboards.
- The major players are CEPB, Bulleh Shah and Roshan Packages (RPL) with installed capacity of 35k tons, 96k tons, and 60k tons, respectively.
- The market is quite fragmented as there are other various players in the unorganized sector.

# Films: Industry overview

## BOPP and CPP Market Size



Source: Company Accounts, Topline Research

## Films



Source: Topline Research

- BOPP Films (Biaxially Oriented Polypropylene) are produced by stretching polypropylene film in both machine direction and transverse direction producing molecular chains in two directions.
- BOPP films are used in food packaging and are replacing cellophane in applications such as snack and tobacco packaging due to its favorable properties and low cost.
- CPP Films (Cast Polypropylene) is a cost-effective, low density, high-performance transparent cast polypropylene film. The product application is used in both food and non food segments.
- Due to environmental concern, there is a shift from plastic film to BOPP film because it can be easily recycled.
- In Pakistan, the usage of BOPP on per capita basis remains much lower i.e. 0.28kg vs. 1.38kg in the world. BOPP domestic market has been growing at a CAGR of 6% over the last 5- years ending 2020 as per the industry sources.
- Presently, market demand for BOPP in the country is 80K tons per annum which is expected to reach 85k tons by the end of 2022 given growing packaging industry demand as per the industry sources.
- However, If growth surpasses 6%, the only player to fill the gap would be TRIPF as the other players are running their plants at full capacity.
- Currently, there are expansions in the pipeline in the Films industry with an investment of around Rs9-12bn, which is expected to come online in 2024 in order to meet the shortfall.

# Major Listed Players

**Packages Limited (PKGS) – ‘Buy’**



**Tri-Pack Films Limited (TRIPF) – ‘Buy’**



**Century Paper & Board Mills Limited (CEPB) – ‘Buy’**



**Roshan Packages Limited (RPL) – ‘Hold’**



## Packages (PKGS) – One of Pakistan’s largest conglomerates

### ‘Buy’ Rated

KATS Code	PKGS
Bloomberg Code	PKGS PA
Reuters Code	PKGS.KA
Market Price	453.33
Market Cap	Rs40.5bn/US\$228.1mn
Free float Market Cap	Rs10.1bn/US\$57.0mn
1-Yr Avg. Daily Vol. (mn)	0.02
1-Yr Avg. Daily Val. (mn)	Rs11.7/US\$0.07
1-Yr High/ Low	Rs553.19/443.75
Estimated free float	25%
Share outstanding (mn)	89.38
Index weight	0.55%

### PKGS: Key Numbers

	2019A	2020A	2021E	2022F	2023F
EPS (Rs)	1.71	50.55	68.36	86.69	88.80
Earnings Growth	-76%	NM	35%	33%	2%
PE at Rs 453.33	NM	8.97	6.63	5.23	5.11
Dividend Yield	3%	5%	7%	8%	9%
ROE	0%	8%	10%	11%	10%
PBV (x)	0.68	0.70	0.63	0.56	0.51

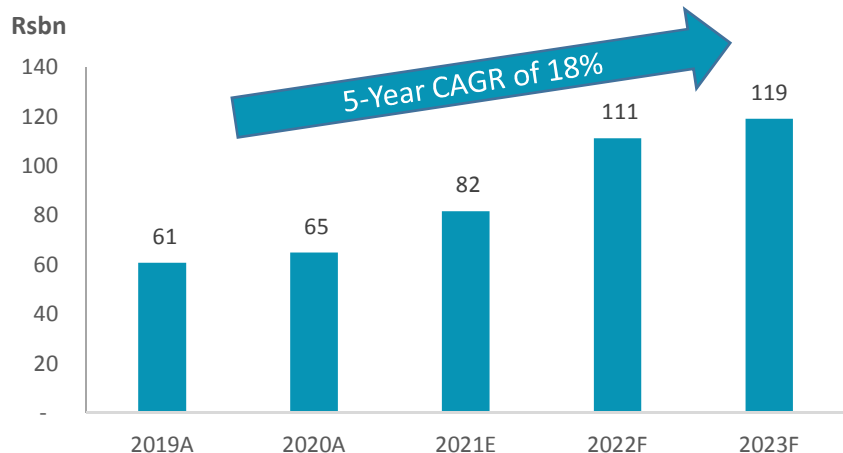
Source: Company Accounts, Topline Research

- Packages Limited (PKGS) was established in 1957 as a joint venture between the Babar Ali Group of Pakistan and Akerlund & Rausing Sweden, to convert Paper & Paper board into packaging for consumer industry. It has a significant portfolio with investments in various sectors ranging from Consumer, Packaging, Insurance, and Real Estate.
- PKGS is our preferred pick in the Packaging Sector as the stock currently trades at a 63% discount to its SOTP value of Rs1,230/share vs. last 5-year average discount of 45%. Key drivers for the stock includes: 1) expansion in Bulleh Shah (subsidiary of PKGS), 2) major beneficiary of rising packaging demand, 3) increased holding in Tri Pack Films (TRIPF) and it’s expansion of Biaxially Oriented (BOPP) line, and 4) likely acquisition of Sanofi Aventis (SAPL), one of Pakistan’s leading pharmaceutical company.
- **Expansion in Bulleh Shah (BSPL):** BSPL, a 100% owned subsidiary of PKGS is expanding its capacity of Paper & Paperboard (by 50%) and corrugation capacity (by 120%), which will increase its capacity to 360k tons and 211k tons, respectively and is anticipated to complete by 1H2023. BSPL is expected to contribute 29% in PAT of PKGS in 2021.
- **Packages Convertors (PCL):** The company is well positioned to cater to the rising demand of the packaging industry (folding cartons & flexible packaging) and consumer products. PCL is anticipated to contribute 45% in PAT of PKGS in 2021.
- **Tripack films (TRIPF):** PKGS has acquired 33% holding of Mitsubishi Corporation in TRIPF which brings the total holding of the company to 69%. We have consolidated TRIPF from 2022 in PKGS. TRIPF is also expanding its capacity of BOPP by 55k to 122k tons which is anticipated to complete by 2024. We estimate the export share in revenue of TRIPF would be 18% in 2024 vs. 6% in 2020. This export share would likely to improve further post expansion as exports is the target market after meeting the domestic demand.



# Packages (PKGS) - One of Pakistan's largest conglomerates

PKGS Consolidated Revenue Growth



Source: Company Accounts, Topline Research

- Likely acquisition in Sanofi Aventis (SAPL):** PKGS has also shown its intention to acquire 53% shareholding in SAPL. SAPL is one of the leading listed pharma companies in Pakistan with annual revenue of Rs14bn in 2020. The company is engaged in the manufacturing of pharmaceutical, consumer, and healthcare products.
- Investment Portfolio:** PKGS also drives its value from investments in different sectors which includes Paper & Paperboard, Consumer, Insurance, Real Estate and other sectors. Strong portfolio of businesses allows good diversification. Its Sum of the Parts (SOTP) value comes to around Rs1,230/share, which is at a discount of 63% to the current market price. 90% contribution in SOTP value is from PCL, NESTLE, BSPL, TRIPF, and investment property.
- Key Risks:** Major risks for the company includes 1) higher than anticipated rupee devaluation, 2) higher prices of waste paper, 3) higher than expected energy tariff hike, 4) uptick in resin prices, 5) higher than expected rise in sea freight cost, 6) delay in commissioning of Bulleh Shah new line, and 7) macroeconomic slowdown.

## FLEXIBLE PACKAGING



## FOLDING CARTONS



*ROSE PETAL*  
*Tulip*





# Bulleh Shah Private Ltd (BSPL) – Expansion to drive revenues

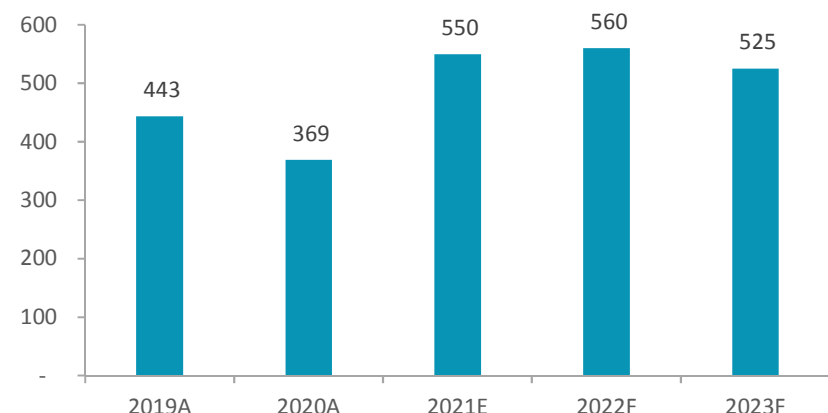
## Bulleh Shah Packaging (Pvt.) Limited: Profit & Loss Statement

Rsmn	2019A	2020A	2021E	2022F	2023F
Net sales	26,414	28,813	31,454	35,352	37,336
Gross Profit	2,173	5,195	4,688	5,227	5,668
Distribution expenses	476	490	573	639	802
Admin Expenses	474	468	512	562	613
Other Expenses	149	413	360	403	425
Other Income	451	110	103	102	100
Finance Cost	1,504	1,209	899	864	843
Profit before tax	24	2,725	2,446	2,861	3,085
Tax	453	75	709	830	895
<b>Profit after tax</b>	<b>-429</b>	<b>2,650</b>	<b>1,737</b>	<b>2,032</b>	<b>2,190</b>

Source: Company Accounts, Topline Research

## Bulleh Shah Overall Primary Margins

US\$/ton



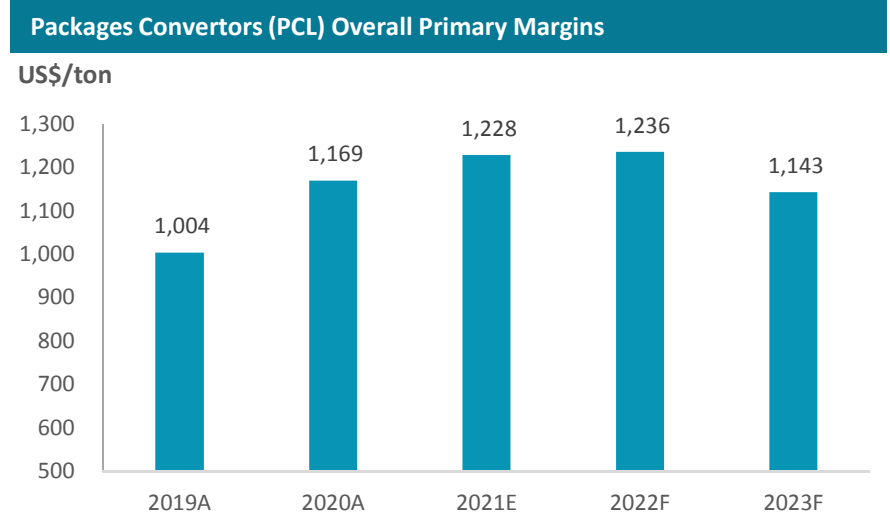
Source: Company Accounts, Topline Research

- BSPL (unlisted) is a 100% owned subsidiary of PKGS. It is currently leading the market of corrugated packaging together with being the largest Renewable Packaging facility and the only Liquid Packaging Board providing facility.
- BSPL, is expanding its Paper & Paperboard mill and Corrugated (Converter Capacity) by 120k tons and 115k tons, respectively. Post expansion, the capacity of Paper & Paperboard and Converter capacity would reach 360k tons and 211k tons, respectively. This expansion is anticipated to complete in 1H2023 with an estimated CAPEX of ~ Rs2.8bn.
- In 2020, net sales of the company grew by 9% YoY to Rs28.8bn where the gross margins improved substantially from 8% in 2019 to 18% in 2020. This jump in revenue and gross margins in 2020 was on back of incremental demand post COVID-19 and inventory gains.
- The manufacturing process is highly energy intensive and the company is well positioned as BSPL has a 32 MW biomass power plant boiler.
- We project net revenues of the company to grow at a 5-year CAGR (2021-2026) of 9% due to expansion, compared to industry average growth of 5%.
- In the last couple of years, the company maintained its overall market share and local production share of 16% and 28% wherein we see (2021-2026) average market share of 20% and 35%, respectively.
- The primary margins of the company are likely to improve to US\$550/ton in 2021 vs. US\$369/ton in 2020 amid rally in commodity prices. From 2023 onwards, it is likely to start normalizing. We have assumed long-term average primary margins of US\$490/ton.

# Packages Convertors Ltd (PCL) – Leader in Consumer Segment

Packages Convertors Limited: Profit & Loss Statement					
Rsmn	2019A	2020A	2021E	2022F	2023F
Net sales	22,916	24,761	30,381	32,849	33,765
Gross Profit	4,373	6,683	6,494	6,885	6,319
Distribution expenses	1,374	1,374	1,529	1,705	1,889
Admin Expenses	612	612	670	735	802
Other Expenses	125	125	215	222	181
Other Income	132	132	22	22	21
Finance Cost	633	633	293	583	472
Profit before tax	1,831	3,946	3,809	3,661	2,995
Tax	531	413	1,105	1,062	869
<b>Profit after tax</b>	<b>1,300</b>	<b>3,533</b>	<b>2,705</b>	<b>2,599</b>	<b>2,127</b>

Source: Company Accounts, Topline Research



Source: Company Accounts, Topline Research

- In 2019, PKGS had restructured and formed a wholly owned subsidiary Packages Convertors Limited (PCL) in which it transferred all of its manufacturing businesses including folding cartons, flexible packaging, consumer products, mechanical fabrication & roll covers along with all relevant assets, operations and liabilities.
- The company is operating in three main segments including flexible packaging, folding cartons and consumer products (Tissue Paper).
- Products manufactured by PCL is of high quality and is being supplied to the MNCs. 70% of the sales generated from MNCs.
- The revenue contribution from Folding Cartons segment were 28% where the capacity utilization of converters was 66% in 2020.
- The company holds 61% market share with largest capacity in the country with a 100 tons per day of tissue production. The company is supplying a renowned brand of Rose Petal, Tulip and other tissue papers. The tissue product portfolio includes facial tissues, toilet rolls napkins, party packs kitchen rolls, paper cuts and plates.
- Capacity utilization of Flexible Division was 68% where in the contribution in the revenue was ~50% in 2020. Major consumers of flexible packaging is in personal care, food, dairy and other sectors.
- PCL generated a revenue of Rs25bn with gross margins of around 26%. Looking forward, revenue of the company is expected to grow at a 5-year CAGR (2021-2026) of 7% with the average (2021-2026) capacity utilization of 70% in all three segments (Paper & Paperboard Converters and Flexible Packaging). With this, we predict average gross margins of ~20% for the next 5-years.

## SOTP: Trading at deep discount

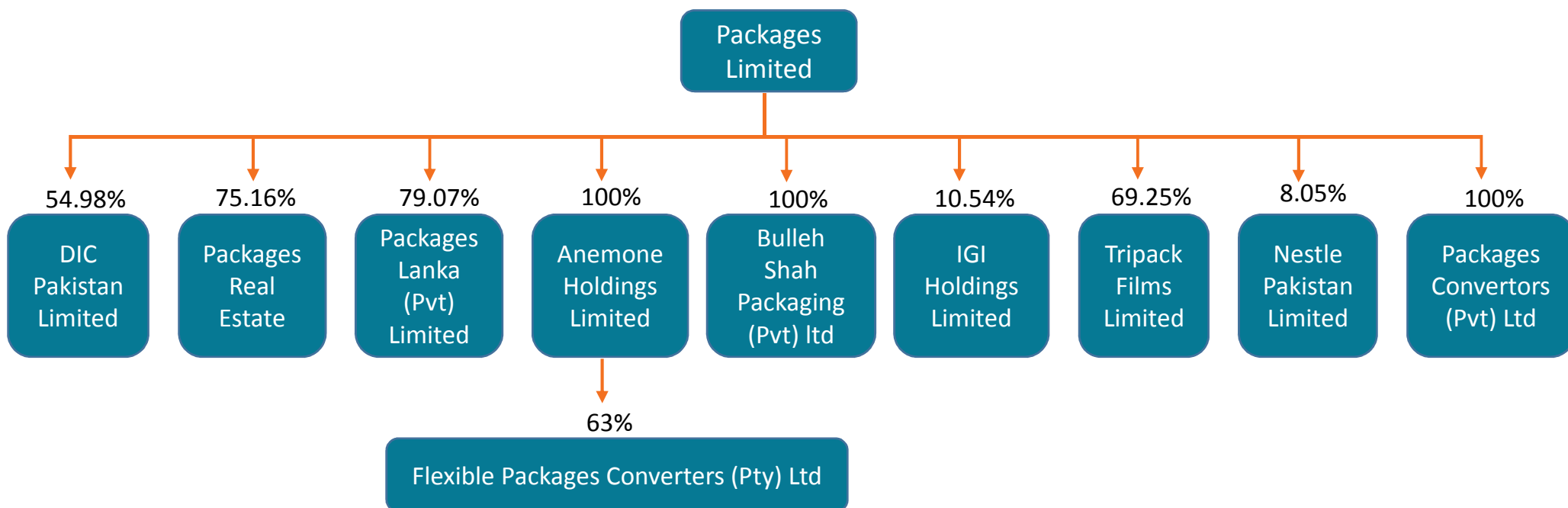
Packages Limited : SOTP Valuation (Mkt. Cap US\$228mn)		
Business	Rs/share	Basis of valuation
Packages Convertors Limited	319	DCF
Nestle Pakistan	235	Market Price
Bulleh Shah Packaging	203	DCF
Tri-Pack films	182	DCF
Investment Property	169	Independent valuation
Packages Real Estate (Mall)	86	Income Capitalization Approach
Others	25	At Cost
IGI Holdings Limited	21	Market Price
Cash & Cash Equivalants/(Debt)	-9	
<b>SOTP Value</b>	<b>1,230</b>	
PKGS Market Price	453	
<b>Market Price Discount</b>	<b>-63%</b>	

Source: Company Accounts, Topline Research

- PKGS is currently trading at a deep discount of 63% from SOTP value of Rs1,230/share vs. last 5-year average discount of 45%.
- Investment portfolio of PKGS includes Nestle Pakistan (NESTLE), IGI Holdings (IGIHL), Tripack Films (TRIPF), Bulleh Shah Packaging, Packages Convertors, Packages Mall and others. PKGS also have subsidiaries in Canada, South Africa, and Sri Lanka and is engaged in flexible packaging business.
- Nestle Pakistan is listed at PSX and a subsidiary of NESTLE S.A, Swiss based. It is engaged in the manufacturing, processing and sale of dairy, nutrition, beverages and food products including imported products. PKGS has around 8% investment in NESTLE. NESTLE revenue and profit is expected to grow with a 3 year CAGR (2020-2023) of 9% and 21%, respectively.
- Packages Real Estate (Mall) is another subsidiary of PKGS with holding of 75% which is involved in all types of construction activities and development of real estate. It currently owns and operates Packages Mall in Lahore.
- Other than subsidiaries, investment property contributes 13.8% in the SOTP value. It includes multiple property where most of this immovable property is rented and few kept for capital appreciation. In 2020, this property was valued by the independent valuer of Rs15bn (Rs169/share).

# PKGS Group Structure

## Group Structure



Source: Company Accounts, Topline Research

# PKGS: Financials Snapshot

## PKGS (Consolidated): Profit & Loss Statement

Rsmn	2019A	2020A	2021E	2022F	2023F
Net sales	60,906	64,981	81,797	111,310	119,241
Gross Profit	10,187	13,243	15,374	20,271	20,857
Distribution expenses	2,587	2,691	2,945	3,744	4,208
Admin Expenses	2,511	2,420	2,523	3,130	3,291
Other Expenses	1,578	972	1,795	2,004	1,995
Other Income	2,398	1,040	2,096	2,301	2,469
Finance Cost	3,976	3,456	2,483	3,408	3,480
Share of associates' profit/(loss)	5	340	791	260	284
Profit before tax	1,933	4,744	8,514	10,547	10,637
Tax	1,660	549	2,381	2,415	2,334
Profit after tax	278	4,536	6,134	8,131	8,303
Profit after tax a/t company owners	153	4,518	6,110	7,749	7,937
<b>Diluted EPS (Rs)</b>	<b>1.7</b>	<b>50.5</b>	<b>68.4</b>	<b>86.7</b>	<b>88.8</b>

Source: Company Accounts, Topline Research

## PKGS (Consolidated): Statement of Financial Position

Rsmn	2019A	2020A	2021E	2022F	2023F
Non-Current Assets	77,037	70,080	69,572	85,963	77,100
Current Assets	27,875	31,780	43,810	72,978	87,845
<b>Total Assets</b>	<b>104,912</b>	<b>101,860</b>	<b>113,382</b>	<b>158,942</b>	<b>164,945</b>
Equity	59,901	57,777	63,999	72,258	79,322
Non-Current Liabilities	19,746	20,405	20,672	29,006	26,248
Current Liabilities	25,264	23,679	31,557	57,677	59,375
<b>Total Equity &amp; Liabilities</b>	<b>104,912</b>	<b>101,860</b>	<b>113,382</b>	<b>158,942</b>	<b>164,945</b>

Source: Company Accounts, Topline Research

## Assumptions

Capacity Utilization	2019A	2020A	2021E	2022F	2023F
Paper & paperboard produced	83%	82%	83%	85%	87%
Paper & paperboard converted	67%	36%	70%	72%	73%
Plastics all sorts converted	66%	34%	66%	68%	69%
Inks produced	78%	73%	80%	88%	97%
Flexible packaging material	52%	50%	55%	57%	60%
Corrugator	94%	95%	96%	99%	64%
PKR/US\$ (Average)	150	162	163	173	184

Source: Company Accounts, Topline Research

## Key Ratios

	2019A	2020A	2021E	2022F	2023F
Earning growth	-76%	NM	35%	33%	2%
Revenue Growth	15%	7%	26%	36%	7%
Gross Margin	17%	20%	19%	18%	17%
Operating Margin	8%	13%	12%	12%	11%
Net Margin	0%	7%	7%	7%	7%
PE at Rs 453.33	NM	9.0	6.6	5.2	5.1
PBV at Rs 453.33	0.7	0.7	0.6	0.6	0.5
PS at Rs 453.33	0.7	0.6	0.5	0.4	0.3
Return on Assets	0%	4%	5%	5%	5%
Return on Equity	0%	8%	10%	11%	10%
Effective tax rate	86%	12%	28%	23%	22%

Source: Company Accounts, Topline Research

# Tri Pack Films (TRIPF) – Expansions & rising exports

## 'Buy' Rated

KATS Code	TRIPF
Bloomberg Code	TRIPF PA
Reuters Code	TRIPF.KA
Market Price	175.94
Market Cap	Rs6.8bn/US\$38.4mn
Free float Market Cap	Rs1.4bn/US\$7.7mn
1-Yr Avg. Daily Vol. (mn)	0.1
1-Yr Avg. Daily Val. (mn)	Rs11/US\$0.07
1-Yr High/ Low	Rs230.97/156.91
Estimated free float	20%
Share outstanding (mn)	38.80
Index weight	0.09%

## TRIPF: Key Numbers

	2019A	2020A	2021A	2022E	2023F
EPS (Rs)	(7.99)	15.84	26.83	32.07	30.76
Earnings Growth	NM	NM	69%	20%	-4%
PE at Rs 175.94	NM	11.11	6.56	5.49	5.72
Dividend Yield	0%	3%	5%	6%	6%
ROE	-11%	16%	23%	23%	19%
PBV (x)	2.09	1.76	1.49	1.26	1.09

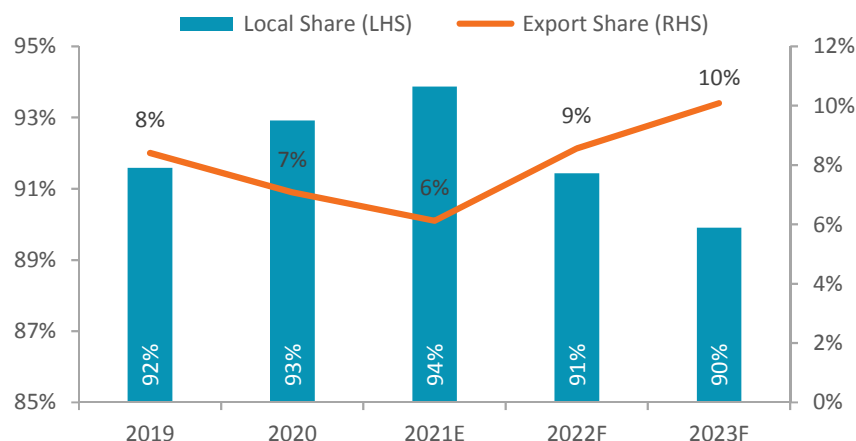
Source: Company Accounts, Topline Research

- Tri-Pack Films Limited (TRIPF) previously was a joint venture of Mitsubishi Corporation of Japan and Packages Limited (PKGS). Recently, PKGS has acquired a 33% stake of Mitsubishi Corporation in TRIPF. The company is involved in the production of Biaxially Oriented and Cast Polypropylene (BOPP & CPP) packaging films.
- We have a 'Buy' recommendation on TRIPF with a TP of Rs264/share offering a capital upside of 50%. Our investment pitch is based on factors including 1) Expansion of BOPP Line 5 capacity of 55k tons, 2) Incremental demand for packaging, 3) Healthy Export Margins, and 4) Concessionary financing for expansion.
- Expansion of BOPP Line 5:** The company is expanding its BOPP capacity specifically modified (specialized film) as TRIPF is targeting the export market in which the shrinkable level of a film is higher than the existing locally produced BOPP film. This film could be used in high speed packaging machines ranging from 350-600 packs per minute as against the local machines of 150-200 packs per minute. This expansion is brownfield which is cheaper than the green field expansions (BOPP) as TRIPF already has land for it. Post expansion, the nameplate capacity would be 121.8k tons which will complete by 2024.
- Incremental demand bodes well for TRIPF:** The other 3 local manufacturers of BOPP & CPP Films including MACPAC Films (MACFL), Astro Films, and International Packaging Films (IPAK) have capacity constraints. On other hand, TRIPF has the capacity to meet the upcoming local demand until the industry expansions complete in 2024. TRIPF has a current capacity utilization of BOPP ~80%. Revenue is anticipated to grow at a 5-year (2021-26) CAGR of 16% vs. last 5-year (2015-2020) revenue CAGR of 5%. We project local and export share in revenue to reach 82% and 18% in 2024 (94% and 6% in 2020), respectively. Exports are expected to rise further due to potential in the global market.



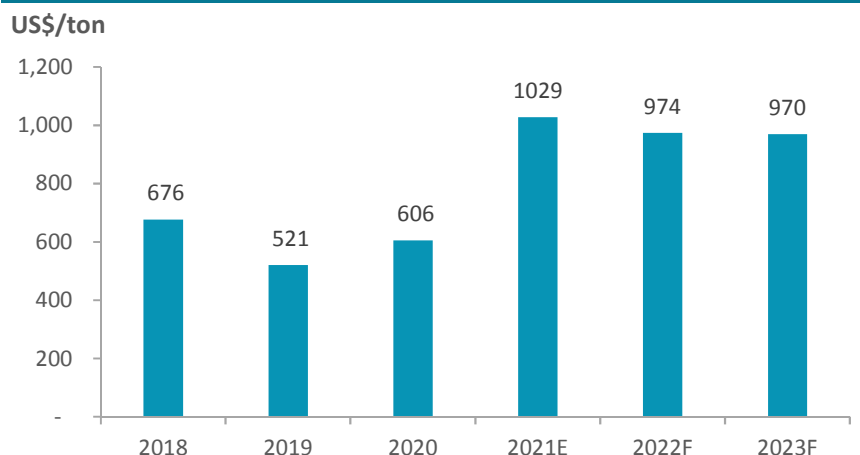
# Tri Pack Films (TRIPF) – Rising margins

TRIPF Sales Volume Mix



Source: Company Accounts, Topline Research

TRIPF Overall Primary Margins



Source: Company Accounts, Topline Research

- Healthy Export Margins:** Margins have substantially improved due to increase in demand in western EU and North American regions who are now solely relying on imports as per the industry sources. Export primary margins have improved from US\$253/ton in 2017 to US\$321/ton in 2020. The primary margin of the films industry in UAE is hovering at ~US\$700/ton which we have assumed is the same for TRIPF exports primary margin for (2021-2023). From 2024 onwards, we have assumed normalized overall margins of US\$850/ton from 2024 onwards. It is pertinent to note that specialized Films are modified offering better margins.
- TRIPF exports improved** from 1.3k tons in 2017 to 3.4k tons in 2020 and are expected to improve to 12k tons by 2024 post expansion. TRIPF has a competitive edge in terms of low cost of production. As per industry sources, it is estimated that prevailing international margins would last in the next 2-3 years given the global demand & supply dynamics. The company is also tapping Asia, Africa & other international regions for exports.
- Concessional Financing for expansion:** The total CAPEX of BOPP line 5 is ~Rs9bn for which the company has availed Temporary Economic Relief (TERF) & Long term Financing Facility (LTFF) of Rs5bn and the rest would be financed from internal cash generation and others. Given the large part of financing is concessionary, it provides the company an insulation from the volatility in interest rates.
- Removal of the Gas Infrastructure Development Cess (GIDC)** also bodes well for the company as the cost of gas is reduced for power generation. As of now, the company is using natural gas five days a week and the remaining is fulfilled by RLNG.
- Key Risks:** Major risks include: 1) Volatility in granule prices (polypropylene), 2) Higher energy cost, 3) Weak local and export demand, and 4) Delay in expansion.

## TRIPF Valuations

- We have used Free Cashflow to the Firm (FCFF) method to arrive at a Target Price of Rs264, offering upside of 50%. We have used a Risk free rate of 11% and Risk premium of 6% to arrive at a Cost of Equity of 17%.
- TRIPF trades at 2022F PE of 5.5x which compares favorably when compared with MACFL, the only other listed films player, trading at FY22 PE of 9.3x. If we compare with the overall packaging and paperboard multiples TRIPF is still cheap vs. sector 2022 PE of 6.35x.
- Sample packaging and paperboard companies in India, China, Vietnam and Bangladesh trade at an average 19.7x as per Bloomberg.

TRIPF: Valuation						
Rsmn	2022E	2023F	2024F	2025F	2026F	2027F
FCFF	(1,820)	(1,385)	424	1,458	1,715	2,015
Discount years		1.0	2.0	3.0	4.0	5.0
Discounted CF	(1,820)	(1,233)	337	1,030	1,079	1,129
Sum of Discounted FCFF	2,340					
Terminal Value @3%	12,511					
Total Value	14,851					
Debt	4,627					
Equity Value	10,224					
Shares (mn)	39					
Target Price (Rs/share)	264					
Upside	50%					

Source: Topline Research

# TRIPF: Financials Snapshot

## TRIPF: Profit & Loss Statement

Rsmn	2019A	2020A	2021A	2022E	2023F
Net sales	14,683	15,090	19,054	21,150	23,986
Gross Profit	1,490	2,441	3,206	3,547	3,797
Distribution expenses	474	474	495	540	614
Admin Expenses	484	484	448	491	536
Other Expenses	1	65	127	159	167
Other Income	100	165	104	65	74
Finance Cost	819	809	826	669	873
Profit before tax	-189	773	1,414	1,752	1,681
Tax	160	159	373	508	487
Profit after tax	-349	614	1,041	1,244	1,193
<b>Diluted EPS (Rs)</b>	<b>-8.0</b>	<b>15.8</b>	<b>26.8</b>	<b>32.1</b>	<b>30.8</b>

Source: Company Accounts, Topline Research

## TRIPF: Statement of Financial Position

Rsmn	2019A	2020A	2021E	2022F	2023F
Non-Current Assets	6,062	7,039	6,842	10,311	13,433
Current Assets	6,268	6,113	11,153	8,946	8,866
<b>Total Assets</b>	<b>12,330</b>	<b>13,152</b>	<b>17,995</b>	<b>19,257</b>	<b>22,299</b>
Equity	3,259	3,876	4,584	5,430	6,241
Non-Current Liabilities	1,247	3,013	6,426	5,294	4,213
Current Liabilities	7,822	6,265	6,988	8,534	11,847
<b>Total Equity &amp; Liabilities</b>	<b>12,330</b>	<b>13,152</b>	<b>17,995</b>	<b>19,257</b>	<b>22,299</b>

Source: Company Accounts, Topline Research

## Assumptions

	2019A	2020A	2021E	2022F	2023F
BOPP Capacity Utilization	81%	82%	85%	91%	98%
CPP Capacity Utilization	87%	83%	80%	83%	87%
Sales Volume Total (000 tons)	48	48	49	52	56
Primary Margin Overall (US\$/ton)	521	606	1029	974	970
Fuel & Power cost Overall (Rs000/ton)	20	21	22	24	25
PKR/US\$ (Average)	150	162	163	173	184

Source: Company Accounts, Topline Research

## Key Ratios

	2019A	2020A	2021E	2022F	2023F
Earning growth	NM	NM	69%	20%	-4%
Revenue Growth	11%	3%	26%	11%	13%
Gross Margin	10%	16%	17%	17%	16%
Operating Margin	4%	10%	12%	12%	11%
Net Margin	-2%	4%	5%	6%	5%
PE at Rs 175.94	NM	11.1	6.6	5.5	5.7
PBV at Rs 175.94	2.1	1.8	1.5	1.3	1.1
PS at Rs 175.94	0.5	0.5	0.4	0.3	0.3
Return on Assets	-3%	5%	6%	6%	5%
Return on Equity	-11%	16%	23%	23%	19%
Effective tax rate	NM	21%	26%	29%	29%

Source: Company Accounts, Topline Research

# Century Paper & Board (CEPB): Leader in Paper & Paperboard Industry

## 'Buy' Rated

KATS Code	CEPB
Bloomberg Code	CEPB PA
Reuters Code	CEPB.KA
Market Price	70.28
Market Cap	Rs14.3bn/US\$80.3mn
Free float Market Cap	Rs5.0bn/US\$28.1mn
1-Yr Avg. Daily Vol. (mn)	0.2
1-Yr Avg. Daily Val. (mn)	Rs20.8/US\$0.1
1-Yr High/ Low	Rs129.51/67.14
Estimated free float	35%
Share outstanding (mn)	202.89
Index weight	0.27%

## CEPB: Key Numbers

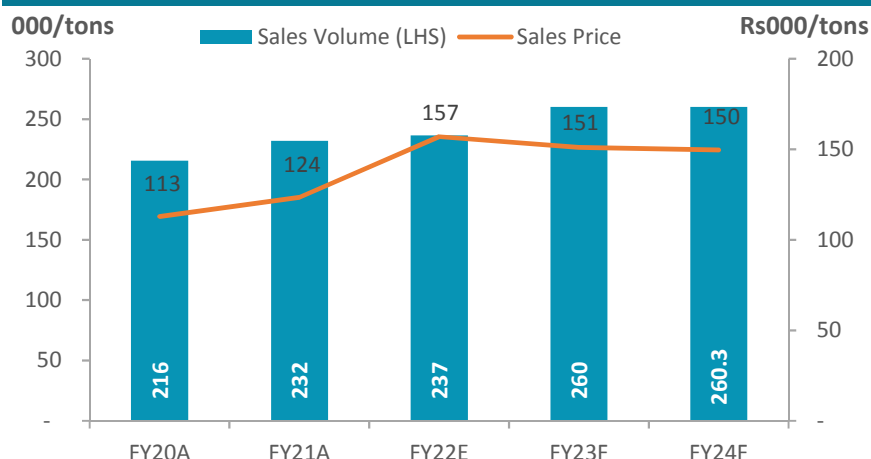
	FY20A	FY21A	FY22E	FY23F	FY24F
EPS (Rs)	7.5	14.6	12.2	12.5	15.8
Earnings Growth	72%	94%	-16%	3%	26%
PE at Rs 70.28	9.4	4.8	5.8	5.6	4.5
Dividend Yield	2%	2%	2%	2%	2%
ROE	20%	29%	20%	17%	18%
PBV (x)	1.9	1.4	1.1	1.0	0.8

Source: Company Accounts, Topline Research

- Century Paper and Board (CEPB) is part of Lakson group of companies and is involved in the manufacturing & supply of Paper & Paperboard. CEPB is Pakistan's largest coated board producer and supplier for printing and packaging industry where major sales of the products is mainly driven from fast moving consumer goods (FMCG) sector.
- We have a Buy recommendation on CEPB with a TP of Rs123/share offering a capital upside of 75% based on 1) Capacity enhancement led by BMR, 2) Rising demand in the Paperboard & Packaging, 3) Concessionary financing rates for BMR, and 4) In house captive generation with diversified fuel mix.
- Capacity Enhancement & operational efficiencies:** The company has announced a BMR with a CAPEX of Rs3.9bn which comprises of capacity enhancement of 10% of Paper & Paperboard (coated) mill, improving efficiencies of power generation capacities and BMR of other machineries. Post BMR capacity would be enhanced to 292k tons and we have incorporated the BMR impact in FY23 as it is expected to complete by the end of FY22.
- Rising demand in the Paperboard & Packaging:** CEPB would reap the benefits of rising demand of the packaging industry as the company is one of the largest producer of coated Paper & Paperboard. In the last 5-years (FY15-21), CEPB has been able to maintain its market share of around 15% due to strong brand image and product quality. In FY21, the capacity was also enhanced by 25k tons to 265k tons, where sales volume showed an uptick of 7.6% YoY with an overall market share of 16%. Moving forward, we have assumed normalized margins in 2024 in line with normalization of commodity cycle.
- Concessionary Financing:** Capex for BMR is ~Rs3.9bn, out of which CEPB has availed TERF facility of Rs2.8bn (low cost funding around 2.5% vs. normal borrowing rate of 11%-12%) and rest would be financed through internal cash generation. This provides (3% saving on FY22E EPS) CEPB along with hedge against rising interest rates.

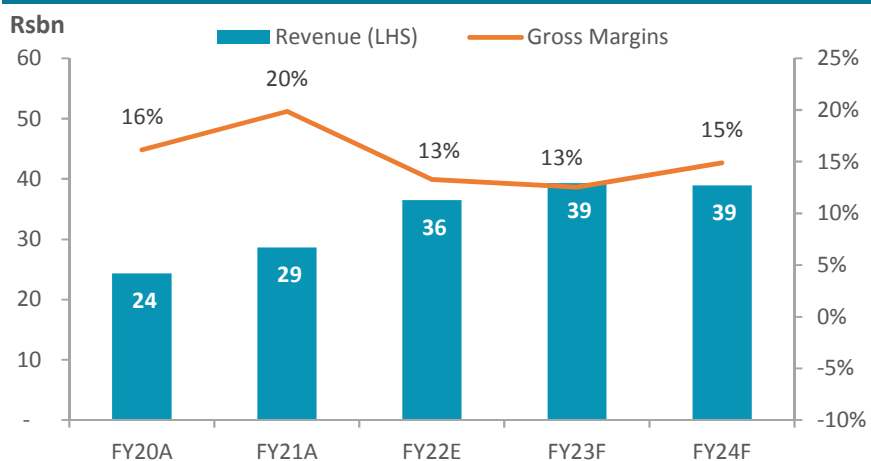
# Century Paper & Board (CEPB): Self reliant on its energy needs

Total Sales Volume and Prices



Source: Company Accounts, Topline Research

Revenue and Gross Margins



Source: Company Accounts, Topline Research

- In House Captive Generation:** Over the years, CEPB has invested to become self independent to meet energy requirements. Now the company has a total captive power plants with installed capacity of 51.6 MW. These plants includes coal, furnace oil, Co-generation (FO & Gas), and solar. With this in house generation, CEPB is capable of keeping costs under control which would be lower than grid cost, thus resulting in better margins. In the short term, we may see spike in company fuel & power cost however from FY23 onwards we have assumed or normalized coal prices.
- Key player in Coated Paper and Paperboard segment:** CEPB is a major player in the Coated Paper and Paperboard category, which is one of the key segments of the industry. Coated Paperboard Market size is 475k tons. of which CEPB has a share of ~35-40%. This segment accounts for 68-70% of CEPB's total sales volume. The company faces competition mainly from imports in this segment.
- CEPB's main product is Coated Paperboards,** while it also produces Uncoated Paperboards, Machine Finished (MF) and Machine Glazed (MG). The company has a corrugation facility with an installed capacity of Corrugated Boxes which stands at 35k tons. This facility is capable of producing special and large size cartons for home appliances (Refrigerators, Air conditioners etc.) and is also supplying to direct end consumers and the only company in Pakistan, which is producing and selling tobacco storage cartons.
- Key Risks:** Major risks for the company include 1) Higher than anticipated Rupee Devaluation, 2) Higher recycled paper prices (raw material) 3) Inflated energy prices, and 4) Rise in sea freight cost.

# Century Paper & Board (CEPB): Valuations

- We have used Free Cashflow to the Firm (FCFF) method to value CEPB to arrive at a Target Price of Rs123, offering upside of almost 75%. We have used a Risk free rate of 11% and Risk premium of 6% to arrive at a Cost of Equity of 17%.
- CEPB trades at attractive valuation of FY22E of 5.77x compared to average PE of overall packaging and paperboard multiples of around PE of 6.35x and CEPB's historical PE of 9x. For regional peer analysis, the sample of packaging and paperboard players have been selected and their average P/E of listed companies in India, China, Vietnam and Bangladesh stands at 19.7x, as per Bloomberg.

CEPB: Valuation						
Rsmn	FY22E	FY23F	FY24F	FY25F	FY26F	FY27F
FCFF	1,012	2,868	3,867	3,219	3,313	3,383
Discount years		0.50	1.50	2.50	3.50	4.50
Discounted CF	1,012	2,690	3,189	2,334	2,112	1,896
Sum of Discounted FCFF	12,221					
Terminal Value @3%	18,213					
Total Value	30,434					
Debt	5,432					
Equity Value	25,002					
Shares (mn)	203					
Target Price (Rs/share)	123					
Upside	75%					

Source: Topline Research



# CEPB: Financials Snapshot

## CEPB: Profit & Loss Statement

Rsmn	FY20A	FY21A	FY22E	FY23F	FY24F
Net sales	24,345	28,660	36,490	39,335	38,965
Gross Profit	3,936	5,695	4,842	4,934	5,801
Distribution expenses	171	210	233	288	306
Admin Expenses	537	597	663	723	788
Other Expenses	188	418	242	223	263
Other Income	103	182	126	138	145
Finance Cost	987	406	415	259	78
Profit before tax	2,156	4,246	3,416	3,578	4,511
Tax	634	1,287	944	1,038	1,308
Profit after tax	1,522	2,960	2,471	2,541	3,203
<b>Diluted EPS (Rs)</b>	<b>7.5</b>	<b>14.6</b>	<b>12.2</b>	<b>12.5</b>	<b>15.8</b>

Source: Company Accounts, Topline Research

## CEPB: Statement of Financial Position

Rsmn	FY20A	FY21A	FY22E	FY23F	FY24F
Non-Current Assets	9,321	9,964	11,635	11,079	10,553
Current Assets	9,276	11,443	11,447	12,886	15,934
<b>Total Assets</b>	<b>18,597</b>	<b>21,408</b>	<b>23,081</b>	<b>23,965</b>	<b>26,487</b>
Equity	7,582	10,322	12,529	14,822	17,771
Non-Current Liabilities	3,677	3,933	1,900	1,639	1,432
Current Liabilities	7,337	7,152	8,653	7,504	7,284
<b>Total Equity &amp; Liabilities</b>	<b>18,597</b>	<b>21,408</b>	<b>23,081</b>	<b>23,965</b>	<b>26,487</b>

Source: Company Accounts, Topline Research

## Assumptions

	FY20A	FY21A	FY22E	FY23F	FY24F
Paper & paperboard produced*	94%	95%	95%	95%	95%
Paper & paperboard converted*	96%	100%	100%	100%	100%
Sales Volume (000 tons)	216	232	237	260	260
Primary Margin (US\$/ton)	575	546	595	595	595
Fuel & Power cost Overall (Rs000/ton)	18	17	28	23	22
PKR/US\$ (Average)	159	160	170	180	191

Source: Company Accounts, Topline Research, \*Capacity Utilization

## Key Ratios

	FY20A	FY21A	FY22E	FY23F	FY24F
Earning growth	72%	94%	-16%	3%	26%
Revenue Growth	9%	18%	27%	8%	-1%
Gross Margin	16%	20%	13%	13%	15%
Operating Margin	13%	17%	11%	10%	12%
Net Margin	6%	10%	7%	6%	8%
PE at Rs 70.28	9.4	4.8	5.8	5.6	4.5
PBV at Rs 70.28	1.9	1.4	1.1	1.0	0.8
PS at Rs 70.28	0.6	0.5	0.4	0.4	0.4
Return on Assets	8%	14%	11%	11%	12%
Return on Equity	20%	29%	20%	17%	18%
Effective tax rate	29%	30%	28%	29%	29%

Source: Company Accounts, Topline Research

## Roshan Packages (RPL): Backward integration remains key

### 'Hold' Rated

KATS Code	RPL
Bloomberg Code	RPL PA
Reuters Code	RPL.KA
Market Price	18.66
Market Cap	Rs2.6bn/US\$14.9mn
Free float Market Cap	Rs0.8bn/US\$4.7mn
1-Yr Avg. Daily Vol. (mn)	0.1
1-Yr Avg. Daily Val. (mn)	Rs4.2/US\$0.03
1-Yr High/ Low	Rs36.60/18.01
Estimated free float	31%
Share outstanding (mn)	141.90
Index weight	0.03%

### RPL: Key Numbers

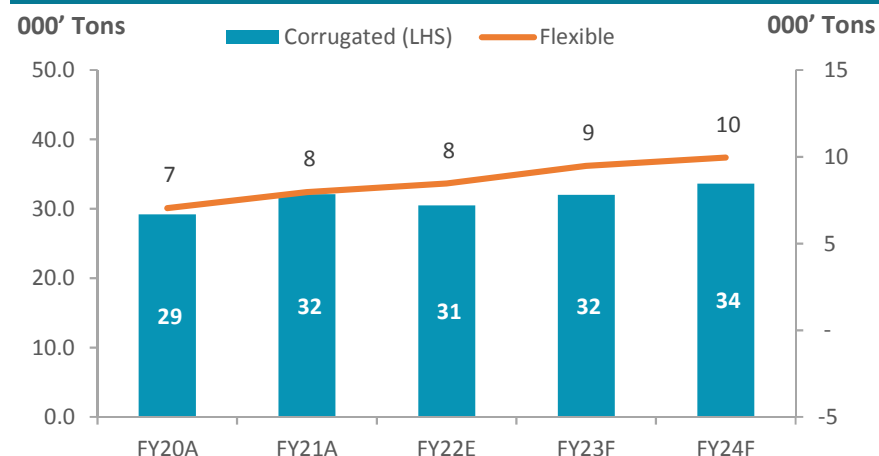
	FY20A	FY21A	FY22E	FY23F	FY24F
EPS (Rs)	1.55	2.13	2.68	1.72	3.15
Earnings Growth	NM	43%	26%	-36%	83%
PE at Rs 18.66	12.0	8.8	7.0	10.9	5.9
Dividend Yield	5%	0%	0%	0%	0%
ROE	3%	4%	5%	3%	5%
PBV (x)	0.4	0.4	0.4	0.3	0.3

Source: Company Accounts, Topline Research

- Roshan Packages Limited (RPL) core business is manufacturing and sales of the flexible packaging and corrugated boxes. The company also owns Roshan Enterprises, Urdu Digests and Roshan Sun Tao Paper mills. Growth in sales is mainly driven from fruits and FMCG sector.
- We have a 'Hold' stance on RPL with a TP of Rs19.4/share. Key drivers for RPL includes 1) Expansion in Paper Mill (backward integration), 2) increasing demand of packaging, and 3) Catering to both B2B & B2C segments.
- Expansion in Paper Mill:** The company has acquired 40% stake in its subsidiary of Roshan Sun Tao Paper Mills Ltd. Post acquisition, the RPL now holds 100% stake in the subsidiary. The company plans to install waste paper mill (Backward Integration) with annual capacity of 66k tons. The project cost is Rs2.4bn and expected timeline is 2 years from the date of approval. For this project the company has already purchased land. In house production of Paper & Paperboard would materially impact the gross margins of corrugated segment.
- Post expansion gross margins could increase from 11-12% to 15-16% (FY24-FY27). On the flip side, if this project is delayed then the actual gross margins could be affected. Even historically, RPL's gross margins have fared lower than industry average.
- Increasing demand of packaging:** RPL is offering much tailored and diversified products that can be used in many industries and retail segments. Over the years, RPL volume has shown an average growth of 16% (FY15-FY21) in flexible division and almost flat in corrugation during the same period. Corrugated packaging contributes ~52% to the total sales mix. Consequently, total sales volumes of the company has grown by 6%, underperformed from the industry average growth of 15% (FY17-FY21).

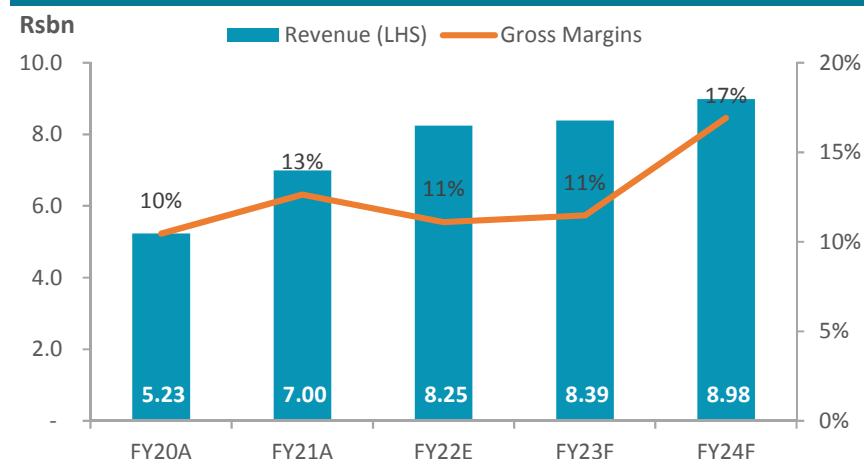
# Roshan Packages (RPL): Catering to Leading players in industry

## Production Trend



Source: Company Accounts, Topline Research

## Revenue Growth and Gross Margins



Source: Company Accounts, Topline Research

- Catering to both B2B & B2C customers:** The company is manufacturing generic, partially customized and fully customized corrugated boxes which is being supplied to both direct and indirect consumers. The company is getting a good response from its online store Roshpack. The sales volume of flexible and corrugated segments is expected to grow at a 5 Year CAGR (FY21-FY26) of 5% and 6.5%, respectively.
- Presently, the supplier of RPL includes Packages, Tri-pack Film, and Century Paper and Board. Similarly, the long-term business partners of RPL are Unilever, Bata, LU, Peek Freans, and Haier to name a few.
- In FY21, the capacity utilization of corrugation and flexible plants were 54% and 65% as compared to 49% and 58% in FY20, respectively. Moving forward, we see the utilization in corrugation and flexible to average of 62% and 82% (FY21-FY26), respectively.
- RPL net sales and profits have grown with a 5-year (FY15-FY21) CAGR of 14% and 6%, respectively. Looking forward, the revenue and profits are expected to grow with a 5-year (FY21-FY26) CAGR of 10% and 16%, respectively driven by uptick in demand and backward integration in 2024.
- In 1HFY22, RPL reported earnings of Rs1.3/share in 1HFY22 up 20% YoY primarily due to tax reversal of Rs78.5mn.
- Key Risks:** Key risks for the company includes: 1) Delay in backward integration, 2) Rupee devaluation, 3) Higher recycled paper prices (raw material), 4) Hike in energy prices, 5) Rise in resin prices, and 6) Elevated sea freight cost.

## Roshan Packages (RPL): Valuations

- We have used Free Cashflow to the Firm (FCFF) method to value RPL to arrive at a Target Price of Rs19.4/share. We have used a Risk free rate of 11% and Risk premium of 6% to arrive at a Cost of Equity of 17%.
- RPL valuations seems stretched as it trades at FY22E PE of 7x as against average 2022 PE of overall packaging and paperboard of 6.35x.

RPL: Valuation						
Rsmn	FY22E	FY23F	FY24F	FY25F	FY26F	FY27F
FCFF	25	447	-1,711	713	766	847
Discount years		0.5	1.5	2.5	3.5	4.5
Discounted CF	25	415	-1,372	493	458	437
Sum of Discounted FCFF	431					
Terminal Value @3%	3,506					
Total Value	3,937					
Debt	1,185					
Equity Value	2,752					
Shares (mn)	142					
Target Price (Rs/share)	19					
Upside	4%					

Source: Topline Research

# RPL: Financials Snapshot

## RPL (Consolidated): Profit & Loss Statement

Rsmn	FY20A	FY21A	FY22E	FY23F	FY24F
Net sales	5,233	6,996	8,246	8,386	8,985
Gross Profit	547	883	915	962	1,519
Distribution expenses	166	197	236	255	284
Admin Expenses	160	206	224	244	266
Other Expenses	14	34	79	29	61
Other Income	118	77	65	67	67
Finance Cost	223	112	109	173	375
Profit before tax	128	411	332	327	599
Tax	-73	122	-30	95	174
Profit after tax	201	288	363	232	425
<b>Diluted EPS</b>	<b>1.5</b>	<b>2.1</b>	<b>2.7</b>	<b>1.7</b>	<b>3.1</b>

Source: Company Accounts, Topline Research

## RPL (Consolidated): Statement of Financial Position

Rsmn	FY20A	FY21A	FY22E	FY23F	FY24F
Non-Current Assets	5,081	6,299	6,179	6,057	8,333
Current Assets	3,892	4,271	4,714	7,472	5,170
<b>Total Assets</b>	<b>8,973</b>	<b>10,570</b>	<b>10,893</b>	<b>13,529</b>	<b>13,504</b>
Equity	5,954	7,173	7,554	7,797	8,244
Non-Current Liabilities	694	823	804	2,724	2,244
Current Liabilities	2,325	2,574	2,535	3,007	3,016
<b>Total Equity &amp; Liabilities</b>	<b>8,973</b>	<b>10,570</b>	<b>10,893</b>	<b>13,529</b>	<b>13,504</b>

Source: Company Accounts, Topline Research

## Assumptions

	FY20A	FY21A	FY22E	FY23F	FY24F
Corrugation Capacity Utilization	49%	54%	58%	61%	64%
Flexible Capacity Utilization	58%	65%	73%	82%	86%
Sales Volume Total (000 tons)	36	38	39	42	44
Primary Margin Overall (US\$/ton)	238	290	290	290	345
Fuel & Power cost Overall (Rs000/ton)	6	6	7	7	8
PKR/US\$ (Average)	159	160	170	180	191

Source: Company Accounts, Topline Research

## Key Ratios

	FY20A	FY21A	FY22E	FY23F	FY24F
Earning growth	NM	43%	26%	-36%	83%
Revenue Growth	-3%	34%	18%	2%	7%
Gross Margin	10%	13%	11%	11%	17%
Operating Margin	4%	7%	6%	6%	11%
Net Margin	4%	4%	4%	3%	5%
PE at Rs 18.66	12.0	8.8	7.0	10.9	5.9
PBV at Rs 18.66	0.4	0.4	0.4	0.3	0.3
PS at Rs 18.66	0.5	0.4	0.3	0.3	0.3
Return on Assets	2%	3%	3%	2%	3%
Return on Equity	3%	4%	5%	3%	5%
Effective tax rate	NM	30%	NM	29%	29%

Source: Company Accounts, Topline Research

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