

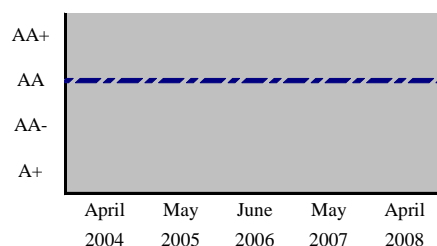
## PACKAGES LIMITED

### RATINGS (MAY 2008)

#### PACKAGES LIMITED

	NEW	PREVIOUS
<b>ENTITY</b>		
Long Term	AA	AA
Short Term	A1+	A1+

### LT ENTITY RATING – HISTORY



### FINANCIAL DATA

	PKR (mln)	
	31-Dec-07	31-Dec-06
Total Assets	33,438.4	22,673.5
Equity	18,170.7	13,672.8
Operating profits	610.8	719.1
Net Income	4,325.9	6,100.8
Gross Margin (%)	13.6	16.5
ROE (%)	27.1	57.0
Total Debt/ Equity (%)	70.1	53.3

### ANALYSTS

Aisha Yasin  
+92 42 5869504  
aisha@pacra.com

Jhangeer Hanif  
+92 42 5869504  
jhangeer@pacra.com

### RATING RATIONALE AND KEY DRIVERS

- The ratings reflect the company's established position in the country's paper and packaging industry supported by a well-conceived business strategy and an experienced management team. Meanwhile, the company's core margins are expected to remain under pressure owing to gestation phase of ongoing capacity expansion. However, the company's cashflows would continue to benefit from dividend stream from investments. Although the leveraging has increased, the company's capital structure and risk absorption capacity is supported by significant surplus on its strategic investments.
- The ratings are dependent on the company's ability to timely complete its expansion plans and efficient utilization of the same, resulting in improved performance from core operations. Meanwhile, significant delay in achieving beneficial capacity utilization at new production facility and/or material deterioration in margins, in turn, leading to prolonged constrain, in cashflows would have negative implications on ratings.

### ASSESSMENT

- Packages maintained the growth trend in its turnover during 2007, contributed both by price increase and higher volumes. The volume expansion is mainly emanating from new capacities, which are being put to operation in a phased manner. However, the benefit could not be translated to the bottom line mainly due to squeeze in margins. This was an outcome of costs relating to new capacities, wherein utilization levels are currently low. Nevertheless, on a comparable basis, the management was able to contain the impact of rising raw material and energy costs on its margins from existing operations that were largely maintained. Going forward, the pressure would persist on the margins on account of gradual commissioning of different facilities at Bulleh Shah Paper Mill. This was evidenced in the suppressed performance during 1Q08, though the turnover has experienced robust growth on the back of higher production. As the beneficial capacity utilization would be achieved in a steady manner, the positive impact of volume expansion would start reflecting in the bottom line over the medium term.
- Packages is expected to fortify its market leadership through the enhanced capacity. To achieve speedy utilization of enhanced capacity, the management plans to initially focus on low margin high volume products, and then move gradually towards high margin value added products. Furthermore, the company intends to capture growth in writing/printing market by utilizing locally available recycle able raw material. In tissue segment, the new line would become operational within this year, which is likely to augment production capacity by four times. The targeted market has also been worked out in this regard.
- Packages has a sizeable investment portfolio comprising investments in dairy and food products, packaging and financial sector entities. Dividend from these entities, mainly Tetrapak Pakistan Limited, is contributing substantially towards the company's bottom line. Meanwhile, Packages Lanka, which has been under pressure for a quite sometime, has started contributing in the form of royalty and technical fee, though the dividend flow would take some time. The company recognized capital gains of PKR 3,766mln (06: PKR 4,882mln) on its investment portfolio, which significantly boosted the bottomline during 2007.
- The debt to equity ratio has shown increasing trend with borrowings for the ongoing expansion project. The company's leveraging is expected to normalize in the medium term after semi-annual repayment of the expansion related project financing, which would commence in June'09. Moreover, in absence of any major new capex requirement, leveraging is not expected to increase, going forward. The coverages of the company will remain under stress during this period, though still manageable in view of the company's adequate cash flows from core operations supplemented by a hefty dividend stream.

### PROFILE

- Packages Limited, a joint venture between Ali Group of Pakistan and Akerlund & Rausing of Sweden, was established in 1957. The company is listed on all three stock exchanges. Packages is a vertically integrated company having its own paper and paperboard mill. The company has five key product lines; 1) flexible (contributing 30% towards revenue in 2007), 2) paper & paperboard (22%), 3) carton (18%), 4) corrugated (18%), and 5) Tissue (12%).
- The BoD of Packages, comprising ten members with diversified background and relative expertise, is a key source of guidance to the management. The present Managing Director has worked in the company in different capacities since 1987. He has done Masters in Science from the Institute of Paper Chemistry, and is assisted by a team of qualified and experienced professionals.