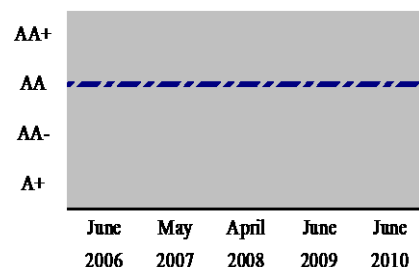



RATINGS (JUNE 2010)
PACKAGES LIMITED (PL)

	NEW	PREVIOUS
ENTITY		
Long Term	AA	AA
Short Term	A1+	A1+


FINANCIAL DATA

PKR (mln)

	1Q10*	Dec-09	Dec-08
Total Assets	36,674	35,608	35,034
Equity	23,861	23,416	16,272
Net Turnover	5,043	14,043	12,225
Net Income	320	4,063	(197)
EBITDA	1,211	8,370	2,237
ROA %	3.5%	7.1%	(0.9%)
ROE %	5.4%	12.7%	(1.9%)
Net Debt / EBITDA (x)	5.2	0.9	6.8
EBITDA Net			
Interest Cover (x)	4.0	3.1	1.2
Debt/ (Debt + Equity) %	25%	25%	48%

* Based on unaudited accounts for 3 months ended March 31, 2010.

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RATING RATIONALE AND KEY RATING DRIVERS

- The ratings of Packages Limited reflect its established position in the country's paper and packaging industry, which has enabled it to enhance business volumes despite subdued macro-economic environment. Management's proactive approach to de-leverage the company's balance sheet has eased pressure on its financial profile, thus augmenting the company's risk absorption capacity. However, with newly installed capacities yet to reach optimal utilization, and Packages exposure to input cost volatility, margins are expected to remain under pressure in the near-term.
- The ratings are dependent on Packages' ability to effectively manage its business risk, while maintaining margins from its core operations. Meanwhile, continuation of regular dividend stream from its investments would remain critical. Going forward, the company's ability to arrest downward pressure on margins while ensuring optimum utilization of expanded capacity in a timely manner would remain critical in improving cash flows of the company and maintaining its ratings.

ASSESSMENT

- The global paper & packaging industry faced multiple challenges during 2009. The raw material prices rose substantially due to inflationary pressures while, declining demand, owing to economic crisis, led to a supply surplus. In Pakistan, the problems were slightly less pronounced. Although rising input costs led to margin erosion, paper & packaging demand was not affected.
- Packages Limited with well-diversified earnings base and vertically integrated packaging solutions sustained its leading position within the sector. The company registered a 14% growth in revenues during 2009. This was mainly due to enhanced capacity utilization at the expansion project, Bulleh Shah Paper Mills Limited (BSPM). Furthermore, the Fast Moving Consumer Goods (FMCG) segment, which contributes majorly to Packages' revenues, continued to perform well, further supporting its topline growth. However, substantial depreciation charge on the recently capitalized BSPM, rising international raw material prices (60% of raw material is imported), and adverse PKR/USD parity squeezed gross margins of the company (2009: 2.2%, 2008: 7.7%). At the same time, dividend income from investments declined sharply (2009: 313mln, 2008:948mln) as Tetra Pak Pakistan Limited (TPPL), owing to its expansion, did not pay out any dividends during the year. However, the reported bottom-line of the company was significantly high. This was mainly attributable to sizeable one-time gain of PKR 8,866mln on sale of stake in TPPL. In 1Q10, margins of Packages have improved due to slight decline in input prices. Meanwhile, resumption of dividend from TPPL (1QFY10: PKR 528mln) further augmented the company's profitability.
- Going forward, with increase in capacity utilization at new plant, margins of the company are expected to improve. Packages plans to gradually enhance its focus on the export market. This is likely to provide a natural hedge against currency devaluation to the company's imports. In order to diversify its product range, Packages has launched printing and writing paper and note books. Furthermore, Packages is planning to undertake a further PKR1.4bln capital expenditure on its existing PM-6 line at BSPM. This will enable the company to cater to increased demand from TPPL, which is currently in process of doubling its capacity. Meanwhile, captive generation of electricity through 41MW power plant is expected to reduce operating costs, hence supporting the company's bottom-line.
- The company manages a diverse investment portfolio encompassing investments in wide array of manufacturing and service industries. Investments have long-term horizon mitigating market risk while providing the company with continued income stream. The dividend income from these investments has contributed significantly to company's performance over the years. One of the company's investments Packages Lanka is expected to pay dividends in coming years after restructuring its accumulated losses against equity.
- The management, with its conservative stance, took proactive steps to de-leverage its balance sheet through the sale of TPPL stake and conversion of foreign currency loan from IFC to cumulative preference shares, thereby reducing debt levels to nearly 25% (CY08: 49%). This has improved Packages' coverages and created room for it to comfortably finance its planned expansion in 2010.

PROFILE

- Packages Limited (PL), a flagship company of Ali group (49%), was established in 1957. The company is listed on all three stock exchanges. PL is a vertically integrated company having its own paper and paperboard mill. The company has five key product lines; (i) paper & paperboard, (ii) flexible, (iii) carton, (iv) corrugated, and (v) Tissue.
- 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, a member of Ali family, has worked in the company in different capacities since 1987. He is assisted by a team of qualified and experienced professionals.