

Century Paper & Board Mills Limited

Chairman: Mr. Iqbal Ali Lakhani; Chief Executive Officer: Mr. Aftab Ahmad

December 26, 2014

Analysts: Faryal Ahmad
Moiz Badshah

Rating Rationale

Category	Latest	Previous
Entity	A+ / A-1 <i>Dec 15, '15</i>	A+ / A-1 <i>Nov 20, '13</i>
Outlook	Stable <i>Dec 15, '15</i>	Stable <i>Nov 20, '13</i>

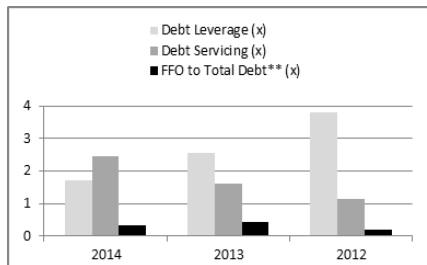
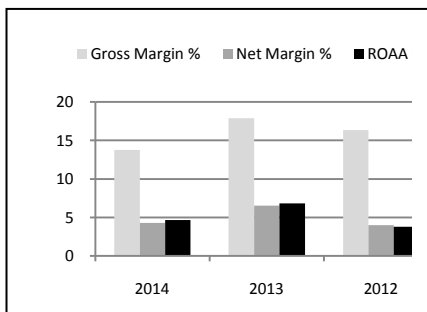
The ratings assigned to Century Paper Board & Mills Limited (Century) take into account the demonstrated sponsor support during times of financial stress in the past, ability to meet projected debt payments and a well-articulated business strategy that is likely to address operational challenges in the medium to long term.

Century is engaged in the manufacturing of paper, board and related products. Market share experienced a decline in FY2014 to 15.8% (FY2013: 18.4%). Gas supply has remained the most critical factor affecting the Company's production levels. In FY14, Century only received 3MMCF of the assigned quota of 12MMCF per day; more recently, there is total curtailment of gas due to the on-set of winter season. Grid load-shedding from WAPDA has also begun at approximately 8 hours per day. The Company has been managing its energy requirements by using a mix of Diesel, Furnace Oil, Coal and supply from WAPDA. This has meant that while production levels have been lower in FY2014 at 175,000 MT (FY2013: 186,000MT), fuel & power costs have gone up from Rs. 1.7b in FY13 to Rs. 2.6b in FY14, as the Company had to utilize more expensive fuels. Higher power costs and other input prices compressed the Company's margins to 13.78% in FY2014 (FY2013: 17.9%) and further to 11.6% in 1Q2015. Accordingly, bottom line came under stress and cash flows were also adversely affected.

In order to address this issue over the long term, Century has recently executed an agreement for installment of an 18 MW Coal based Co-generation Power Plant. The plant, to be completed by the second quarter of FY16, will cater to 60% of Century's energy needs. Total cost of the project is estimated at Rs. 3.20b and is to be financed on a 30:70 basis; 30% from internal cash generation and 70% from external borrowings. Market based debt and hence gearing is projected to increase once the recently negotiated long term lines of Rs. 2.25b are fully drawn. The fresh long term financing has two years grace period; it is expected that the power plant will come online within this time frame and subsequently allow the Company to enhance its capacity utilization and generate higher level of internal cash to be able to meet the enhanced debt servicing requirements. In the interim, even under the projected scenario of further compression in gross margins, the Company is expected to be able to meet its debt repayments in a timely manner. Meanwhile, Sponsors' support may also be expected if required.

Century's capital structure comprises Ordinary and Preference Shares. In November 2009, Century had issued Preference Shares worth Rs. 3b; this step was taken by the Sponsors of the Company to provide the much needed financial support at the time. In recent years, as the Company's standalone financial position improved, the Company partially redeemed these Preference Shares through rights issue and/or internally generated cash while 25% of original issue size was recently converted into Ordinary Shares. The balance of Rs. 901m of Preference Shares is not expected to be redeemed in the short term, as internal cash is now being channeled towards the Coal Based Co-generation Power Plant.

Key Financial Trends



(Rs. million)	FY14	FY13	FY12
Net Sales	14,667.7	14,235.6	12,923.0
Net Profit	629.9	928.6	514.6
Gross Margin (%)	13.78	17.88	16.35
Tier-1 Equity	4,843.5	3,716.3	2,792.1
Total Equity	5,744.7	5,819.1	5,796.2
Total Debt*	5,734.9	5,838.3	6,435.1
Long Term Debt*	4,129.9	4,424.8	3,810.0
FFO	1,561.0	2,043.3	1,156.5
FFO/Total Debt**	0.33x	0.42x	0.21x
ROAE	18.44%	31.48%	20.18%
ROAA	4.76%	6.95%	3.78%

Overview of the Institution

Century Paper and Board Mills Limited was established in 1984 by Lakson Group of Companies, with a holding of 68% and National Investment Trust holding 6% of its shares. Its shares are listed on Karachi and Lahore Stock Exchanges. Financial statements of FY14 have been audited by BDO Ebrahim & Co JCR-VIS

* includes loans from associated company of Rs. 1b at end FY13 & FY14

**calculated on the basis of market based borrowings only

Rating Date	Medium to Long Term	Outlook	Short Term	Rating Action
<u>RATING TYPE: Entity</u>				
15-Dec-14	A+	Stable	A-1	Reaffirmed
20-Nov-13	A+	Stable	A-1	Upgrade
07-Dec-12	A	Stable	A-2	Initial