

PAKISTAN TEXTILE

Mar'21 textile exports rallied 30%YoY

- As per the data released by PBS, textile exports for the month of Mar'21 registered a growth of 30.4%YoY and 9.8%MoM to stand at US\$1.35bn showing signs of sales picking up with the arrival of spring season.
- Segment-wise value and non-value added exports registered a rebound of 34.1%YoY and 18.9%YoY respectively. The increase in non-value added segment incurred despite yarn exports decline 4.8%MoM but cotton cloth surged 23.4%MoM as local manufacturers capture Chinese share in the US market after order cancellation from Xinjiang due to human rights violation.
- International cotton prices ended Mar'21 on a low note, with international cotton prices receding towards Dec'20 price levels after hitting their highest in Feb'21 of USc98.5/lbs in about two years. In this backdrop, Cotlook's A index reduced 1.87%MoM to stand at USc91.5/lbs in the month of Mar'21.
- Textile sector has turned out of favor in recent months (CYTD: down 32.1%) following rupee appreciation. With the advent of result season, we expect the sector to return to limelight. We continue to have preference for NML with the stock currently trading even below its portfolio value of Pkr98/sh, where our TP for the stock stands at Pkr132/sh

Mar'21 textile exports up 30.4/9.8% YoY/MoM: As per the data released by PBS, textile exports for the month of Mar'21 registered a growth of 30.4%YoY and 9.8%MoM to stand at US\$1.35bn showing signs of sales picking up with the arrival of spring season. Segment-wise value and non-value added exports registered a rebound of 34.1%YoY and 18.9%YoY respectively. The increase in non-value added segment incurred despite yarn exports decline 4.8%MoM as cotton cloth surged 23.4%MoM. Local manufacturers have intensified efforts in capturing US textile imports from China after order cancellation from Xinjiang due to human rights violation. To highlight, US banned import of all products which uses cotton from Xinjiang accounting for 80% of Chinese output. Other major exporting regions in Asia experiencing severity of third wave of Covid-19 and are undergoing mass lockdowns. In the value added segments, readymade garments and bed wear registered a solid rebound of 22.9%YoY and 43.7%YoY respectively while knitwear outperformed the segment with a growth of 49.6/7.5% YoY/MoM despite PKR appreciation (Mar'21: US\$20,602/unit compared to US\$19,614/unit in Feb'21). Overall, 9MFY21 textile exports registered an increase of 9%YoY to stand at US\$11.4bn with value added segment registering an uptick of 15%YoY.

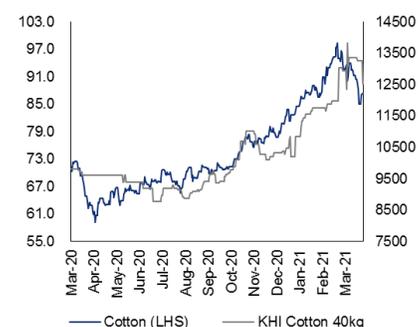
Mar'21: Textile Exports

(US\$mn)	Mar'21	YoY	MoM	9MFY21	YoY
Raw cotton	-	-	-	0.6	-96.5%
Cotton yarn	114.5	39%	-4.8%	721.2	-12.0%
Cotton cloth	183.9	9%	23.4%	1,419.2	-8.3%
Cotton carded or combed	0.1			0.1	3.2%
Yarn other than cotton yarn	3.2	57%	-1.9%	23.6	12.5%
Non value-added	0.3	19%	10.7%	2,164.6	-10.0%
Knitwear th.doZ	313.9	50%	7.5%	2,780.9	20.9%
Bed wear	235.4	44%	15.7%	2,052.3	16.5%
Towels	81.4	21%	5.1%	692.1	16.8%
Tents, canvas & tarpulin	6.9	-34%	-16.9%	89.2	23.5%
Readymade garments	256.9	23%	7.7%	2,268.6	4.5%
Art,silk & synthetic textile	39.4	33%	35.0%	269.2	3.1%
Madeup articles (excl. towels & bedwear)	59.5	12%	0.7%	565.5	14.9%
Other textile materials	60.5	41%	12.8%	473.2	32.4%
Value-added	1.1	34%	9.6%	9,190.9	14.8%
Textile group	1.4	30%	9.8%	11,355.5	9.1%

Source: PBS & AKD Research

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Cotlook (USc/lb) vs. local cotton prices



Source: Karachi Cotton, Bloomberg & AKD Research



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Cotton prices surged locally on a monthly basis: International cotton prices ended Mar'21 (USc 85.3/lb, down 1.87%MoM) on a low note, with international cotton prices receding towards Dec'20 price levels after hitting their highest in Feb'21 of USc98.5/lbs in about two years. Domestic prices have soared to PkR12,518/40kg or 10.37%MoM showing an opposite trend in comparison to global cotton prices but have started to retreat in the last week of Mar'21. Moreover, the removal of import duty on cotton yarn till Jun'21 will provide breather to downstream textile industry as Pakistan's cotton crop output falls to an estimated ~8.9mn bales for FY21 vs 13.2mn bales in FY20, a reduction of 34%. Going forward, crop quality concerns and fear of lockdown of third wave of COVID-19 are key sources to keep prices flat or in attrition.

Investment Perspective: Textile sector has turned out of favor in recent months (CYTD: down 32.1%) following rupee appreciation. With the advent of result season, we expect the sector to return to limelight. We continue to have preference for NML with the stock currently trading even below its portfolio value of PkR98/sh, where our TP for the stock stands at PkR132/sh. Moreover, spinning companies are expected to record stronger results as, i) older cotton inventories benefits local manufacturers in streaming through the recent bull cycle in commodities, translating into higher margins, and ii) US-China trade spat opening up opportunities for these players to penetrate US market.

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