



AKD Securities Limited

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Pakistan Stock Exchange

Equity Research / Pakistan



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Today's Daily

■ Pakistan Textiles: Sector update Jul'17

Following seasonal uptick in Jun'17, Pakistan's total exports during Jul'17 tread downward towards FY17 average monthly exports to finally settle at US\$1.631bn (-14.7%MoM/+10.6%YoY). Group wise, both textile and food exports fell 12.3%/17.3%MoM to US\$1.006bn and US\$0.25bn, respectively (though standing higher 2.8%YoY/34.7%YoY). Sequentially, all key segments in the textile exports witnessed downward trend, where value added exports declined 21%MoM to clock in at US\$735.3mn, while low value added exports shrank 5.40%MoM to US\$271mn. However on a YoY basis, value added segment registered growth of 5.3%YoY backed by growing garment exports (+20.5%YoY) offsetting falling knitwear exports (down 5.8%YoY). Looking ahead, we expect textile exports to grow by 5-6%YoY in FY18 on account of expected currency depreciation (4.9% anticipated in FY18) along-with likely support from payment of pending refunds alleviating sector liquidity crisis. However, challenges to export sector remain in the form of stagnant demand scenario, end of unconditional export subsidy, and EU GSP-PLUS status review. Our preferred play in the textile sector, NML, has seen sharp correction since Panama leaks case verdict (NML return: -11.13% vs. KSE-100 index: -6.5%), leaving 30.7% upside from our SOTP based TP of PKR185.3/share. Buy!

KSE100 - Index

Current 42,910.79
Previous 41,983.16
Chg. 2.21%

Mkt Cap. (PKRbn/US\$bn)

Current 8,934 / 84.76
Previous 8,777 / 83.28
Chg. 1.79%

Daily Turnover (mn)

Current 166.77
Previous 217.01
Chg. -23.2%

Value Traded (PKRmn/US\$m)

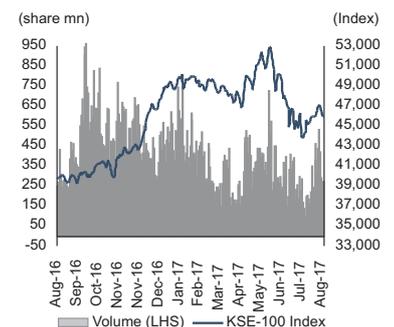
Current 9,356 / 88.77
Previous 12,152 / 115.29
Chg. -23.0%

AKD Daily

Thursday, Aug 24, 2017

News and Views

- NAB has received records of Nawaz Sharif's sugar mills and Ishaq Dar's firms with the authority left with about two weeks to meet the eight week deadline (September 8th) to file reference against Sharif family members mentioned in Panama leaks verdict.
- NEPRA in its monthly fuel adjustment for July'17 announced a decrease of PKR1.7/Kwh for PEPCO system consumers. To recall, DISCOs have secured stay orders to refuse passing on customers the beneficial impact of lower fuel prices since CY16.
- Two local, private auto manufacturers have filed a suit challenging the Greenfield status of two new entrants (Regal & Foton JW) in the Sindh High Court and accusing the Engineering Development Board of inconsistent policy implementation.



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Textile exports fail to keep momentum: After posting solid recovery in Jun'17, textile exports during Jul'17 came down to US\$1.006bn, falling 17.3%MoM (though marginally up 2.8%YoY). Segment wise, both value and low value added exports remained lower by 21%MoM/5.4%MoM to stand at US\$735mn and US\$271mn, respectively. In the value added segment, exports of all major categories went down, with knitwear leading the decline, plunging 24%MoM, followed by bed-wear (-18.5%MoM) and readymade garments (-12.5%MoM). Low value added exports also came off by 5.4%MoM/3.5%YoY to read at US\$271mn, where cotton cloth exports dropped by 8.4%MoM/7.7%YoY.

Exports outlook: On the back of expected currency depreciation (4.9% in FY18) along-with refund payments (~PkR15bn refunds paid during early Aug'17), we expect textile exports to grow by 5-6%YoY in FY18. However, the outlook remains weak with risks to export sector emanating from bearish textile demand, end of unconditional export subsidy, and EU GSP-PLUS status review.

Investment perspective: NML remains our preferred play in the textile sector, where we expect the company to keep deriving value from: 1) strong diversified business portfolio with healthy payouts and 2) materialization of expansion and rehabilitation activities in the value added segment. Additionally, following GoP approval to setup auto assembling plant with cooperation of Hyundai and Sojitz, NML is slated to further strengthen and enhance its business portfolio. NML has seen sharp correction since Panama leaks case verdict (NML return: -11.13% vs. KSE-100 index: -6.5%), leaving 30.7% upside from our SOTP based TP of PkR185.3/share. **Buy!**

Jul'17: Textile Exports

(USD' 000s)	Jul'17	Jun'17	MoM	Jul'16	YoY
Cotton Yarn	109,025	109,373	-0.3%	102,565	6.3%
Cotton Cloth	160,228	174,973	-8.4%	173,638	-7.7%
Total Low Value	271,320	286,665	-5.4%	281,111	-3.5%
Knitwear	193,749	254,929	-24.0%	205,685	-5.8%
Bedwear	170,443	209,258	-18.5%	169,474	0.6%
R.made Garm.	212,521	242,951	-12.5%	176,407	20.5%
T. Val Added	735,319	931,085	-21.0%	698,303	5.3%
Total	1,006,639	1,217,750	-17.3%	979,414	2.8%

Source: PBS & AKD Research



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Neutral	≤ 5% to ≥ -5% potential
Reduce	< -5% to > -20% downside potential
Sell	≤ -20% downside potential



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