



## AKD Securities Limited

TREC Holder & Registered Broker  
Pakistan Stock Exchange

Equity Research / Pakistan



REP-108  
www.jamapunji.pk

### Today's Daily

#### ■ Pakistan Textiles: Sector update Jul'18

Latest PBS data shows that country's export sector is facing headwinds from seasonal slowdown and softening commodity prices in international markets, with Jul'18 exports resting at US\$1.646bn (marginally up by 1.2%YoY). Amongst the major categories, food exports were up 6.1%YoY to US\$266mn (declining 16.3%MoM), while textile exports went down both on sequential and year-on-year basis, with group exports clocking in at US\$1,002mn (down 16.1%MoM/0.5%YoY). In the Textile group, double digit sequential decline in both value (16.0%MoM) and low value added (16.4%MoM) exports was primarily attributable to softening final product prices and seasonal slowdown. On a cumulative basis, 7MCY18 textile exports moved 8.1%YoY higher at US\$7.90bn (vs. US\$7.31bn in 7MCY17), while value added exports inched up by 7.8%YoY to US\$5.76bn. Low value added exports, which remained largely sanguine in the 2HCY17, strongly recovered in 1HCY18 reaching US\$2.13bn (up 9.7%YoY) in 7MCY18. Moving forward, we expect textile sector to benefit from flexible exchange rate regime and continued gov't support in the form of export incentives. However, key structural challenges in the form of slow materialization of export package and ongoing trade spat between global economic powers pose downside risk to export outlook.

#### KSE100 - Index

Current 42,588.29  
Previous 42,425.10  
Chg. 0.38%

#### Mkt Cap. (PkRbn/US\$bn)

Current 8,753 / 70.56  
Previous 8,717 / 70.28  
Chg. 0.41%

#### Daily Turnover (mn)

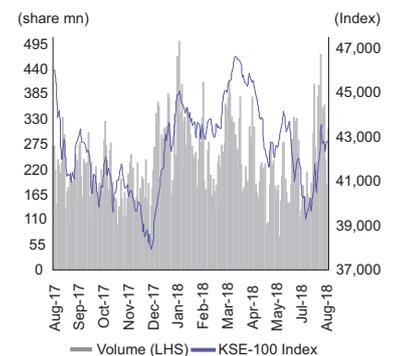
Current 115.89  
Previous 147.55  
Chg. -21.5%

#### Value Traded (PkRmn/US\$m)

Current 4,495 / 36.24  
Previous 6,434 / 51.87  
Chg. -30.1%

#### News and Views

- International credit ratings agency Moody's has expressed fresh fears over Pakistan's external pressures rising from increasing imports of capital goods as well as investments under the China-Pakistan Economic Corridor. Moody's issued its view on Pakistan's economy and analyzed that the external pressure has been continually mounting which may further aggravate the issue of declining foreign exchange reserves.
- The LNG import deal with Qatar would be made public and would also be re-examined by experts to assess its fairness, said Minister for Petroleum Ghulam Sarwar Khan on Friday. Import of LNG from Qatar to meet energy shortfall has always been controversial.
- Pakistan Tehreek-i-Insaf government on Friday revised working hours in government institutions, abolished discretionary funds of the prime minister, federal ministers and members of the National Assembly.



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**Textile exports - down 16.1%MoM/0.5%YoY in Jul'18:** Seasonal slowdown and softening final product prices have led to decline in textile exports in Jul'18, which clocked in at US\$1,002mn (down 16.1%MoM/0.5%YoY). Segment wise, both value and low value exports witnessed sequential decline of 16.0%MoM and 16.4%MoM, with respective segment exports of US\$738mn and US\$264mn. In value added segment, major categories including bed-wear, knitwear and readymade garments exports slid by 19.8%MoM, 19.8%MoM and 10.4%MoM, respectively. In low value added group, cotton cloth and yarn exports went down by 23.4%MoM and 5.4%MoM, respectively on account of seasonal slowdown.

### Textile Exports: Jul'18

(USD' mn)	Jul'18	Jun'18	MoM	Jul'17	YoY	7MCY18	7MCY17	YoY
Cotton Yarn	117	124	-5.4%	109	7.6%	827	696	18.9%
Cotton Cloth	144	188	-23.4%	160	-9.9%	1,281	1,230	4.2%
Total Low Value	264	316	-16.4%	271	-2.5%	2,135	1,946	9.7%
Knitwear	209	257	-18.9%	194	7.8%	1,607	1,378	16.6%
Bedwear	165	205	-19.8%	171	-3.6%	1,301	1,250	4.1%
Readymade Garments	211	236	-10.4%	212	-0.5%	1,543	1,431	7.8%
Total Value Added	738	878	-16.0%	736	0.3%	5,769	5,365	7.5%
Total	1,002	1,194	-16.1%	1,007	-0.5%	7,904	7,312	8.1%

Source: PBS & AKD Research

**Exports outlook:** Factors like robust economic growth in key export destinations and flexible exchange rate regime (~18.6% rupee depreciation since Dec'17) keep us optimistic about export outlook. Moreover,



continuation of subsidy to export sector particularly textile shall continue to benefit the sector. That said, key structural challenges in the form of slow materialization of export package and ongoing trade spat between global economic powers pose downside risk to export outlook.

**Investment perspective:** Confluence of recent positives including rupee depreciation (~18.6% since Dec'17) and extension of export incentives albeit at lower rate should help the domestic textile sector to stave off competitive pressures in the export market. In the short-medium term where cyclical tailwinds favor low value added names, we recommend NCL. At current levels, the scrip trades at an attractive FY19F P/E of 6.7(x) and offers an overall capital upside of ~15.5% and D/Y of 5.8%.



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