



Today's Daily

■ Pakistan Textiles: Sector update Nov'16

In continuation of the previous month's positive performance, detailed data for external trade reflects improvement in Nov'16 exports that clocked in at US\$1.76bn (up 6.2%YoY/0.4%MoM), maintaining reversal from the consistent monthly downward trend seen this year. Textile sector, which constitutes more than 60% of country's exports also picked pace, rising 9.7%YoY to US\$1.05bn in Nov'16 driven by broad-based recovery in both low value (+15.6%YoY) and value-added segments (+7.6%YoY). However, on a cumulative basis, 5MFY17 textile exports still stand 2.0%YoY lower at US\$5.13bn. Going forward, we expect textile exports to largely remain under pressure on the basis of: 1) demand side bottlenecks with weak Chinese demand outlook and economic slowdown in the EU following Brexit, 2) lower currency competitiveness amid sharp depreciation in regional currencies (INR/CNY down 3.2%YoY/7.0%YoY against US\$ CYTD) and 3) low commodity prices. That said, the soon-to-be announced export incentive package reportedly worth ~Pkr75bn by the GoP, expected to enhance export competitiveness over regional countries, should provide relief to the textile sector and remains a key near-term trigger for the sector. Moreover, encouraging cotton arrivals to date for MY17 (up 12.33%YoY to 10.14mn bales) is expected to reduce cotton shortfall next year.

KSE100 - Index

Current	46,993.31
Previous	47,210.06
Chg.	-0.46%

Mkt Cap. (Pkrbn/US\$m)

Current	9,354 / 89.23
Previous	9,402 / 89.68
Chg.	-0.51%

Daily Turnover (mn)

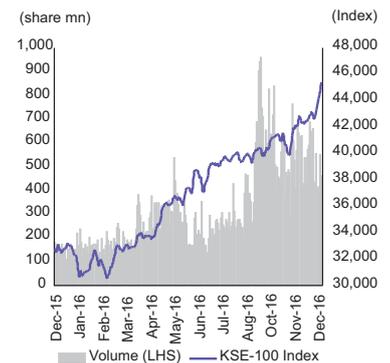
Current	388.57
Previous	450.31
Chg.	-13.7%

Value Traded (Pkrmn/US\$m)

Current	21,417 / 204.30
Previous	21,710 / 207.10
Chg.	-1.3%

News and Views

- GoP raised Pkr149.9bn through its bi-monthly MTB auctions, a little lower than its target of Pkr150bn. Total bids amounting to Pkr193.5bn were received for the auction though major chunk of participation was witnessed in the 3mth papers (Pkr227.3bn worth bids). Cut off yield for 3mth (5.9463%) and 6mth (5.9471%) came in at 5.991% (up 4.4bps) and 6.0109% (up 6.3bps). Bids amounting to a meager Pkr2.5bn for 12mth papers were not accepted.
- The Competition Appellate Tribunal has dismissed an appeal filed by Hascol to prevent Pakistan State Oil (PSO) from acquiring Shell's shares in Pakistan Refinery Limited (PRL). PSO is one of the sponsor shareholders of PRL with a 22.5% stake along with Shell Petroleum Company having 30% shares and Chevron Global Energy Inc holding 7.5% shares.
- NEPRA has granted a power generation licence to Maple Leaf Power Limited, clearing the way for setting up an imported coal-fired plant of 40MW at an estimated cost of Pkr5.5bn. It will supply electricity to its parent company MLCF, expected to start by July 2017.



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Textiles export on the rise supported by value added sector: Textile exports for Nov'16 depicted an increase of 9.7%YoY to settle at US\$1.05bn, while remaining almost flat on monthly basis. In this regard, the rise was led by increment in exports of both value added goods (up 7.6%YoY/1.4%MoM) to stand at ~US\$752mn and low value added goods (up 15.6%YoY, though still 4.9% lower on MoM basis) to stand at ~US\$296mn. Performance of the value added section continued to remain strong where exports of Knitwear, Readymade garments and Bedwear rose by 12.8%YoY/2%MoM, 13.5%YoY/6.7%MoM and 3.1%YoY respectively. Moreover, the low valued added segment depicted commendable recovery after a consistent decline this year, where exports of cotton yarn increased by 42.1%YoY/10.3%MoM. However, on a cumulative basis, textile exports after recovery still remain unimpressive with 5MFY17 exports recording a decline of 2.0%YoY. Drilling down, low valued added exports declined by 8.7%YoY to stand at US\$1.46bn during 5MFY17, with the highest impact coming from cotton yarn and cotton cloth, clocking in at US\$543mn/ US\$870mn, sliding by 7.5%YoY/5.9%YoY. On the other hand, value added sector's performance remained promising at +1.1%YoY during 5MFY17, with 4.5%YoY, 4.3%YoY and 0.7%YoY increase in Bedwear, Readymade garments and knitwear exports respectively.



Nov'16: Textile Exports

(USD'000)	Nov'16	Nov'15	YoY	MoM	5MFY17	5MFY16	YoY
Cotton Yarn	125,509	88,334	42.1%	10.3%	543,153	587,090	-7.5%
Cotton Cloth	164,802	163,191	1.0%	-10.5%	870,008	924,694	-5.9%
Total Low Value	296,497	256,581	15.6%	-4.9%	1,457,909	1,596,565	-8.7%
Knitwear	200,663	177,970	12.8%	2.0%	1,002,944	996,201	0.7%
Bedwear	167,966	162,983	3.1%	-5.9%	873,523	836,191	4.5%
Readymate Garments	188,722	166,217	13.5%	6.7%	890,231	853,757	4.3%
Total Value Added	752,211	699,278	7.6%	1.4%	3,676,478	3,640,175	1.0%
Total	1,048,708	955,859	9.7%	-0.5%	5,134,387	5,236,740	-2.0%

Source: PBS & AKD Research

Encouraging cotton arrivals: According to the fortnightly cotton arrivals report of PCGA, a total of 10.14mn bales arrived in the country by Dec 15'16 vs. 9.03mn bales last year, showing an increase of 12.33%YoY. Arrivals from Punjab increased 19.38%YoY to 6.44mn bales, while flows from Sindh increased only 1.86%YoY to 3.70mn. To recall, the GoP had fixed the target of cotton for MY17 at 14.1mn bales, which was later revised to 10.8mn bales. Moreover, GoP has lifted an import ban on Indian cotton to meet the consumption demand of ~14.5mn bales.

Outlook for exports is mixed: Going forward, a substantial uptick in exports seems unlikely amid fresh concerns on low currency competitiveness following sharp decline in regional currencies (INR/US\$ and CNY/US\$ down 3.2%CYTD and 7.0%CYTD). Moreover, risks of potential economic slowdown in the EU region following Brexit (contributing 20%-25% to country's total exports) undermining benefits from GSP plus status accompanied with slower Chinese demand can keep recovery limited. That said, the soon-to-be announced export incentive package (indicated to be worth ~PkR75bn with proposed incentive to increase rebate at FOB value) aimed at enhancing regional competitiveness should provide relief to the textile sector and remains a key trigger for the sector's performance in the near-term. Moreover, announcement of zero rated tax regime coupled with new efficient mechanism of payment of refunds is also expected to fetch positives for textile exporters.

Investment Perspective: Despite demand side weakness in the form of continuous exports decline, we believe NML can be a key beneficiary of the proposed textile exports incentive package particularly due to its diversified business portfolio, focus on high value added goods, diversified product mix and new ventures (new Denim Garments plant). NML currently trades at a forward P/E of 8.9x where our TP of PkR167.4/sh implies a total return of 14.2% which includes a dividend yield of 4.4%. Accumulate! Moreover, the announcement of the package as per expectations can open room for further upside.

Cotton arrivals

	bales (mn)	YoY
MY17 to date	10.14	12.3%
MY16	9.77	-34.3%
MY15	14.86	11.0%

Source: PCGA & AKD Research



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