

PAKISTAN TEXTILE

MARKET VISTA

Export: Volumetric improvement is encouraging

- Latest PBS data shows that the country's total exports marginally increased 3.7%YoY to US\$2,043mn in Jan'19. Amongst major groups, textile exports rose 7.5%YoY to US\$1,168mn, backed by volumetric gains in value added segment, while food exports remained largely flat at US\$468mn (-0.1%YoY/-2.8%MoM).
- In the textile group, both value and non value added exports recorded wide-ranging improvement, with respective segment exports moving up 9.2%/2.4%YoY to US\$896/271mn.
- Looking ahead, we expect single-digit growth in textile exports over the medium term, as the sector continues to face elevated pricing pressures emanating from global demand slowdown.
- That said, continued GoP's support in the form export subsidy (i.e. utility tariffs and duty drawbacks) coupled with rupee depreciation (25%CYTD) should ease competitive pressures going forward.
- We recommend exposure to players with diversified earnings mix and focus on value addition. NML with diversified portfolio earnings and operations skewed towards value chain best fits in our recommended strategy.

Volumetric gains push textile exports higher: As per latest data released by the PBS, textile exports moved up 7.5%YoY to US\$1,168mn in Jan'19, with both value and non value added exports rising by 9.2%YoY/2.4%YoY to US\$896/271mn. The improvement in total textile exports was largely driven by volumetric gains in value added segment. Category wise, all the major categories in value added segment including knitwear, garments, and bed-wear witnessed broad-based improvement, with each category exports rising by 12.5%/9.9%/6.7%YoY, respectively. In non value added group, cotton yarn exports climbed 11.3%YoY on account of higher volumes (+18%YoY), while despite recovery in prices, cotton cloth exports declined by 0.6%YoY to US\$181mn.

Textile exports for Jan'19 (US\$m)

(USDmn)	Jan'19	Dec'18	MoM	Jan'18	YoY	7MFY19	7MFY18	YoY
Cotton Yarn	87	76	14.3%	78	11.3%	635	739	-14.2%
Cotton Cloth	181	172	5.3%	182	-0.6%	1,234	1,249	-1.2%
Total Low Value	271	251	8.2%	265	2.4%	1,901	2,061	-7.8%
Knitwear	249	260	-4.5%	221	12.5%	1,732	1,557	11.3%
Bedwear	193	193	0.1%	181	6.7%	1,352	1,305	3.6%
Garments	256	238	7.6%	233	9.9%	1,517	1,482	2.4%
Total Value Added	896	889	0.8%	821	9.2%	5,922	5,667	4.5%
Total	1,168	1,140	2.5%	1,086	7.5%	7,823	7,729	1.2%

Source: PBS and AKD Research

Export outlook: Developments such as currency depreciation in EM countries (i.e. Turkey, India & Sri Lanka) extending parallel footing to competitors and on-going trade spat between economic powers pose risks to global growth outlook and present a challenging environment for export industries particularly textiles. We see a single-digit export growth in textile over the medium term. However, domestic policy framework aimed at improving export competitiveness should help domestic player in staving off competitive pressures.

Investment perspective: Amongst textiles, we recommend exposure to players with diversified earnings mix and focus on value addition. NML with diversified portfolio earnings and operations skewed towards value chain best fits in our recommended strategy. The scrip has gained 9.93%CYTD, where it is trading at a forward P/E of 10x. Our SOTP based TP of PKR159.9/sh offers total upside of 19%, Buy!

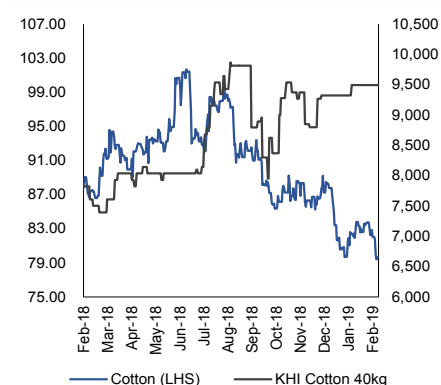
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Value added: Volumes continue to pick up

Quantity Exports	Unit	7MFY19	7MFY18	YoY
KNITWEAR	TH.DOZ	80,177	68,030	18%
BED WEAR	M.T	217,483	210,273	3%
TOWELS	M.T	115,737	103,010	12%
GARMENTS	TH.DOZ	27,133	22,149	23%

Source: PBS & AKD Research

Cotton Prices (Us\$/lb)



Source: KCA, Bloomberg and AKD Research



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Neutral	> 13% to < 19% expected total return
Sell	< 13% expected total return (Rf: 13%)

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Buy	> 20% upside potential
Accumulate	> 5% to < 20% upside potential
Neutral	< 5% to > -5% potential
Reduce	< -5% to > -20% downside potential
Sell	< -20% downside potential
Not Rated	No investment opinion or recommendation

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To arrive at our period end target prices, AKDS uses different valuation techniques including:

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