



AKD Securities Limited

TREC Holder & Registered Broker
Pakistan Stock Exchange

Equity Research / Pakistan



REK-216
www.jamapunji.pk

Today's Daily

■ Pakistan Textiles: Sector update Jan'17

External trade trend witnessed improvement in Jan'17 where exports clocked in at US\$1.78bn (up 3.0%MoM/0.7%YoY), marking reversal from the consistent monthly downward trend seen this year. Textile sector, which constitutes more than 60% of country's exports picked some pace on sequential basis, rising 2.7%MoM to US\$1.06bn in Jan'17, driven by broad-based recovery in both low value (+7.8%MoM) and value-added segments (+1.0%MoM). However, on a cumulative basis, 7MFY17 textile exports still stand 1.5%YoY lower at US\$7.23bn, largely contributed to 8.66%YoY decline in low value segment diluting the impact of 1.6%YoY growth in the value added segment. 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 concerns of and economic slowdown in the EU following Brexit and 2) lower currency competitiveness amid sharp depreciation in regional currencies (INR/CNY down 2.5%YoY/4.7%YoY against US\$ CYTD). That said, the recently announced export incentive package worth ~Pkr180bn with the textile sector having the lion's share of 87-89%, expected to enhance export competitiveness over regional countries remains a key near-term trigger for the sector. Moreover, encouraging cotton arrivals to date for MY17 (up 10.63%YoY to 10.634mn bales) is expected to reduce cotton shortfall this year.

KSE100 - Index

Current 49,062.26
Previous 48,981.65
Chg. 0.16%

Mkt Cap. (PkrBn/US\$bn)

Current 9,705 / 92.56
Previous 9,699 / 92.51
Chg. 0.06%

Daily Turnover (mn)

Current 266.17
Previous 379.90
Chg. -29.9%

Value Traded (Pkrmn/US\$mn)

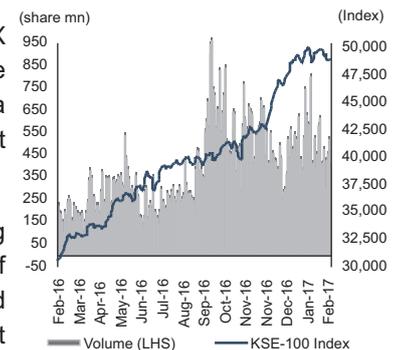
Current 13,033 / 124.30
Previous 16,529 / 157.64
Chg. -21.1%

AKD Daily

Friday, Feb 24, 2017

News and Views

- As per chairman of the stock market's divestment committee, The PSX would stand listed on the bourse by the end of Jun'16. To recall, The stock market signed a sale and purchase agreement last month with a Chinese consortium that won the bid for a 40% stake in the PSX at US\$85bn that translates into 320mn shares.
- As per news report, PSMC has released expansion plans for producing 100,000 units (current capacity is 150,000) with total planned outlay of US\$460mn. The company estimates CAPEX of US\$210mn funded through reserves and borrowing, while vendors are expected to invest US\$200mn. Additionally, the news report asserted that two other incumbent OEMs are expected to introduce expansion plans soon.
- As per SBP, Pakistan's foreign exchange reserves increased to \$21.929bn during the week ended Feb 17'17 against \$21.824bn in the previous week. The reserves held by the central bank rose US\$35mn to US\$17.028bn. While, Forex reserves of commercial banks amounted to US\$4.902bn.



Waqas Imdad Ali
waqas.imdad@akdsecurities.net
111-253-111 Ext:637

Important disclosures, including investment banking relationships and analyst certification at end of this report. AKD Securities does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of the report. Investors should consider this report as only a single factor in making their investment decision.

Find AKD research on Bloomberg (AKDS<GO>), firstcall.com and Reuters Knowledge UAN: 111-253-111

Copyright©2017 AKD Securities Limited. All rights reserved. The information provided on this document is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject AKD Securities or its affiliates to any registration requirement within such jurisdiction or country. Neither the information, nor any opinion contained in this document constitutes a solicitation or offer by AKD Securities or its affiliates to buy or sell any securities or provide any investment advice or service. AKD Securities does not warrant the accuracy of the information provided herein.



Pakistan Textiles: Sector update Jan'17

External trade trend witnessed improvement in Jan'17 where exports clocked in at US\$1.78bn (up 3.0%MoM/0.7%YoY), marking reversal from the consistent monthly downward trend seen this year. Textile sector, which constitutes more than 60% of country's exports picked some pace on sequential basis, rising 2.7%MoM to US\$1.06bn in Jan'17, driven by broad-based recovery in both low value (+7.8%MoM) and value-added segments (+1.0%MoM). However, on a cumulative basis, 7MFY17 textile exports still stand 1.5%YoY lower at US\$7.23bn, largely contributed to 8.66%YoY decline in low value segment diluting the impact of 1.6%YoY growth in the value added segment. 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 concerns of and economic slowdown in the EU following Brexit and 2) lower currency competitiveness amid sharp depreciation in regional currencies (INR/CNY down 2.5%YoY/4.7%YoY against US\$ CYTD). That said, the recently announced export incentive package worth ~PKR180bn with the textile sector having the lion's share of 87-89%, expected to enhance export competitiveness over regional countries remains a key near-term trigger for the sector. Moreover, encouraging cotton arrivals to date for MY17 (up 10.63%YoY to 10.634mn bales) is expected to reduce cotton shortfall this year.

Textile exports holding position supported by value added sector!

Textile exports for Jan'17 depicted an increase of 2.7%MoM to settle at US\$1.06bn, though still sliding 1.3%on YoY basis. The sequential rise was led by increment in exports of both value added goods (up 1.1%MoM) to stand at ~US\$783mn and low value added goods (up 7.8%MoM) to stand at ~US\$281mn. Performance of the value added section continued to remain strong, where exports of Bedwear rose by 2.2%YoY/3.0%MoM. Moreover, the low valued added segment depicted some recovery after consistent decline this year, where exports of cotton yarn increased by 4.4%YoY. However, cotton cloth export decline by 3.1%YoY, while it jump 22.1% on monthly basis.

Jan'17: Textile Exports

(USD'000)	Jan'17	Dec'16	MoM	Jan'16	YoY	7MFY17	7MFY16	YoY
Cotton Yarn	92,710	104,579	-11.3%	88,824	4.4%	740,442	790,009	-6.3%
Cotton Cloth	185,763	152,113	22.1%	191,696	-3.1%	1,207,884	1,303,036	-7.3%
Total Low Value	280,802	260,559	7.8%	284,615	-1.3%	1,999,270	2,187,010	-8.6%
Knitwear	199,647	203,763	-2.0%	206,751	-3.4%	1,406,354	1,399,503	0.5%
Bedwear	173,225	168,155	3.0%	169,538	2.2%	1,214,903	1,164,141	4.4%
Ready. Garments	202,015	211,134	-4.3%	209,560	-3.6%	1,303,380	1,249,586	4.3%
Total Value Added	783,462	775,434	1.0%	793,655	-1.3%	5,235,374	5,154,851	1.6%
Total	1,064,264	1,035,993	2.7%	1,078,270	-1.3%	7,234,644	7,341,861	-1.5%

Source: PBS & AKD Research



On a cumulative basis however, textile exports performance still remains unimpressive with 7MFY17 exports recording a decline of 1.5%YoY. Drilling down, low valued added exports declined by 8.6%YoY to stand at US\$1.99bn during 7MFY17, with highest impact coming from cotton yarn and cotton cloth, clocking in at US\$740mn/ US\$1.21bn, sliding by 6.3%YoY/7.3%YoY. On the other hand, value added sector's performance remained promising at +1.6%YoY during 7MFY17, with 0.5%YoY, 4.4%YoY and 4.3%YoY increase in Knitwear, Bedwear and Readymade garments exports.

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/CNY down 2.5%YoY/4.7%YoY against US\$ 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, recently announced export incentive package worth ~PkR180bn with the textile sector having the lion's share of 87-89% (increased rebate rate at FOB value), 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, announcement of zero rated tax regime coupled with new efficient mechanism of payment of refunds is also expected to fetch positives for textile exporters in the future.

Investment Perspective: Despite demand side weakness in the form of continuous exports decline, we believe NML can be a key beneficiary of the 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). Moreover, to further its diversification strategy, the company has recently signed a MoU with Hyundai Motors (S. Korea). While awaiting details before formally including it in our financial estimates, we highlight the said development as a key upside trigger considering the fast-paced growth in the automobile sector. Benefitting from these, NML has already rallied 10.6% CYTD where our TP of PkR185.3/sh for the scrip now implies an upside of 10.4% from current levels.



Disclosure Section

Neither the information nor any opinion expressed herein constitutes an offer or a solicitation of an offer to transact in any securities or other financial instrument and is for the personal information of the recipient containing general information only. AKD Securities Limited (hereinafter referred as AKDS) is not soliciting any action based upon it. This report is not intended to provide personal investment advice nor does it provide individually tailored investment advice. This report does not take into account the specific investment objectives, financial situation/financial circumstances and the particular needs of any specific person. Investors should seek financial advice regarding the appropriateness of investing in financial instruments and implementing investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. AKDS recommends that investors independently evaluate particular investments and strategies and it encourages investors to seek the advice of a financial advisor.

The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. The securities or strategies discussed in this report may not be suitable for all investors, and certain investors may not be eligible to purchase or participate in some or all of them.

Reports prepared by AKDS research personnel are based on public information. AKDS makes every effort to use reliable, comprehensive information, but we make no representation that it is accurate or complete. Facts and views presented in this report have not been reviewed by and may not reflect information known to professionals in other business areas of AKDS including investment banking personnel. AKDS has established information barriers between certain business groups maintaining complete independence of this research report.

This report has been prepared independently of any issuer of securities mentioned herein and not in connection with any proposed offering of securities or as agent of any issuer of any securities. Neither AKDS, nor any of its affiliates or their research analysts have any authority whatsoever to make any representation or warranty on behalf of the issuer(s). AKDS Research Policy prohibits research personnel from disclosing a recommendation, investment rating, or investment thesis for review by an issuer prior to the publication of a research report containing such rating, recommendation or investment thesis.

We have taken all reasonable care to ensure that the information contained herein is accurate, up to date, and complies with all prevailing Pakistani legislations. However, no liability can be accepted for any errors or omissions, or for any loss resulting from the use of the information provided as any data and research material provided ahead of an investment decision are for information purposes only. We shall not be liable for any errors in the provision of this information, or for any actions taken in reliance thereon. We reserve the right to amend, alter, or withdraw any of the information contained in these pages at any time and without notice. No liability is accepted for such changes.

Stock Ratings

Different securities firms use a variety of rating terms as well as different rating systems to describe their recommendations. A rating system which uses similar terms such as Buy, Accumulate, Neutral, Reduce and Sell is not equivalent to our rating system. Investors should carefully read the definitions of all ratings used in each research report. In addition, research reports contain information carrying the analyst's view and investors should carefully read the entire research report and not infer its contents from the rating ascribed by the analyst. In any case, ratings or research should not be used or relied upon as investment advice. An investor's decision to buy, sell or hold a stock should depend on individual circumstances (such as the investors existing holdings or investment objectives) and other considerations. Please see our table below for ratings definitions which are based on price returns.

Rating Definitions

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



Analyst Certification of Independence

The analysts hereby certify that their views about the companies and their securities discussed in this report are accurately expressed and that they have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

The research analysts, strategists or research associates principally having received compensation responsible for the preparation of this AKDS research report based upon various factors including quality of research, investor client feedback, stock picking, competitive factors and firm revenues.

Disclosure of Interest Area

AKDS and the authoring analyst do not have any interest in any companies recommended in this research report irrespective of the fact that AKD Securities Limited may have, within the last three years, served as manager or co-manager of a public offering of securities for, or currently may make a primary market in issues of, any or all of the entities mentioned in this report or may be providing, or have provided within the previous 12 months, significant advice or investment services in relation to the investment concerned or a related investment.

Regional Disclosures (Outside Pakistan)

The information provided in this report and the report itself is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject AKDS or its affiliates to any registration or licensing requirements within such jurisdiction or country.

Furthermore, all copyrights, patents, intellectual and other property in the information contained in this report are held by AKDS. No rights of any kind are licensed or assigned or shall otherwise pass to persons accessing this information. You may print copies of the report or information contained within herein for your own private non-commercial use only, provided that you do not change any copyright, trade mark or other proprietary notices. All other copying, reproducing, transmitting, distributing or displaying of material in this report (by any means and in whole or in part) is prohibited.