



AKD Securities Limited

TREC Holder & Registered Broker
Pakistan Stock Exchange

Today's Daily

■ Pakistan Textiles: Sector update May'17

Failing to gain momentum, Pakistan's total exports during May'17 fell 9.9%MoM/11.2%YoY to stand at US\$1.627bn, where both textile (down 8.5%MoM/12.5%YoY) and food exports (down 9.9%MoM, though up 4.3%YoY) witnessed downward trend. Sliding to 5yr low, textile exports during May'17 declined 12.5%YoY/8.5%MoM to US\$938.5mn, where both value added (plunging 13.2%YoY/8.1%MoM to US\$686.8mn) and non-value added segment (falling 10.5%YoY/9.4%MoM to US\$251.7mn) aided the decline. Resultantly on a cumulative basis, 11MFY17 textile exports now stand 1.98%YoY lower at US\$11.234bn (vs. US\$11.461bn in 11MFY16), with low-value and value added exports down by 6.2%YoY and 0.2%YoY, respectively. Going forward, downward pressure on textile exports remain likely in the form of: 1) delay in sector pending tax and other incentive claims causing liquidity crisis, 2) stagnant demand scenario, 3) rising raw material cost (CotlookA/KCA: +7%/+8%CYTD) and 4) lack of currency competitiveness (ADXY down 3.4%CYTD against a flat Rupee).

KSE100 - Index

Current 45,474.46
Previous 44,914.44
Chg. 1.25%

Mkt Cap. (PkRbn/US\$bn)

Current 9,279 / 88.47
Previous 9,201 / 87.73
Chg. 0.84%

Daily Turnover (mn)

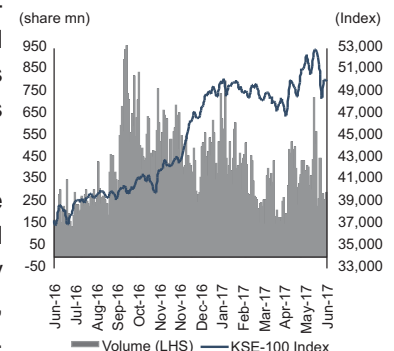
Current 346.47
Previous 294.97
Chg. 17.5%

Value Traded (PkRmn/US\$m)

Current 16,627 / 158.53
Previous 12,955 / 123.52
Chg. 28.3%

News and Views

- The National Tariff Commission (NTC) has imposed definitive anti-dumping duty of 24.04% on CC billets imported from China for period of five years effective from Jun 22'17. Earlier, local re-bar manufacturers filed application concerning dumping of the continuous casting billets (CC Billets) exported from China to Pakistan.
- Following announcement in FY18 budget, the Federal Board of Revenue (FBR) has imposed up to 60% regulatory duty on import of new, old and used luxury vehicles. According to the SRO issued by FBR, regulatory duty on new cars, jeeps & SUVs (1801cc to 3000cc) and Old/used cars, jeeps & SUVs (1801 CC to 3000cc) will be 50% and 60%, respectively.
- As per recent data released by SBP, the net foreign direct investment (FDI) surged by 22.6%YoY to US\$2.028bn during the 11MFY17, with China remained the top investor country as it invested US\$878mn (vs. US\$657mn in 11MFY16), followed by Netherlands and Turkey, which invested US\$465.6mn and US\$134.7mn, respectively. On a monthly basis, FDI during May'17 rose by 1.53x to stand at US\$294.7mn.



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Value-added fails to provide support: Continuing their downward trend, textile exports during May'17 plunged 12.5%YoY/8.5%MoM to end at US\$938.5mn, where both value added (falling 13.2%YoY/8.1%MoM to US\$686.8mn) and low value added exports (declining 10.5%YoY/9.4%MoM to US\$251.7mn) aided the decline. In value added segment, sequential decline was witnessed in all major categories, with bed wear, readymade garments and knitwear standing lower (-11.5%MoM,-4.7%MoM and -0.8%MoM) at US\$155mn, US\$180mn and US\$185mn, respectively. Consistently falling since Mar'15, low value added exports dropped 10.5%YoY/9.5%MoM to US\$251.7mn, with cotton cloth exports leading the decline by plummeting 15.7%YoY/9.8%MoM.

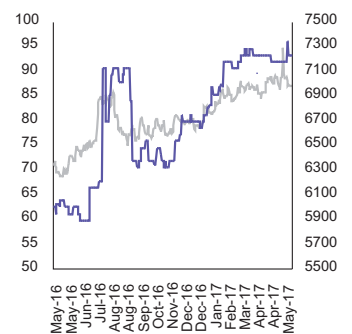
Export outlook remains gloomy: Considering weak textile fundamentals (depressed demand and rising raw material costs) along with lack of local industry competitiveness, textile exports are unlikely to see any major uptick going forward. That said, fresh concerns arising from protest call by local textile manufacturing associations over pending tax refunds and GIDC levy may further deteriorate export position.

May'17: Textile Exports

(USD'mn)	May'17	Apr'17	MoM	May'16	YoY	11MFY17	11MFY16	YoY
Cotton Yarn	92	101	-8.4%	93	-0.5%	1,134	1,177	-3.6%
Cotton Cloth	157	174	-9.8%	186	-15.7%	1,946	2,066	-5.8%
Total Low Value	252	278	-9.4%	281	-10.5%	3,143	3,350	-6.2%
Knitwear	186	187	-0.8%	182	1.7%	2,107	2,147	-1.8%
Bedwear	155	175	-11%	170	-8.8%	1,923	1,863	3.2%
Readymade Garments	180	189	-4.7%	189	-4.7%	2,074	1,992	4.1%
Total Value Added	687	747	-8.1%	792	-13.2%	8,092	8,112	-0.2%
Total	939	1,025	-8.5%	1,073	-12.5%	11,235	11,461	-1.98%

Source: PBS & AKD Research

Int. Cotton prices vs. Local Cotton prices



Source: Bloomberg, KCA & AKD Research



NML remains our top pick: Despite deteriorating textile fundamentals, we believe NML remains a value proposition via: 1) strong diversified business portfolio (higher payout expected following amendment in Finance Bill, 2017), 2) materialization of PM's export package (key beneficiary due to higher value added sales mix) and 3) expansion and rehabilitation activities in the value added segment. Moreover, news flows suggest that the GoP has approved NML's plan to setup auto manufacturing plant in partnership with Hyundai and Sojitz corporation costing US\$164mn. With tax benefits under AIDP 2016-21 along with healthy local auto demand, we expect the company's entry into automobile sector to add further value to the business portfolio. At our SOTP based TP of PkR185.3/sh, NML offers 23.29% upside from current price levels. Buy!



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