



Today's Daily

■ Pakistan Textiles: Sector update Feb'18

Country's total exports continue to post double digit growth, with Feb'18 exports clocking in at US\$1.90bn, up 16.4%YoY. Both food and textile exports were up 37.5%YoY and 7.1%YoY, respectively. In the textile group, value added segment that makes up ~73% of total textile exports marginally grew by 3.6%YoY, with segment exports resting at US\$767mn, while low value added exports strongly recovered to US\$300mn (up 17.5%YoY). On a cumulative basis, 8MFY18 textile exports now stand ~7%YoY higher at US\$8.79bn (vs. US\$8.22bn in 8MFY17), with value added exports up by 9%YoY to US\$6.4bn while low value added remain flat at US\$2.6bn (+2%YoY). Going forward, we expect textile exports to continue their upward momentum (FY18F exports: 8%YoY) with a recent rupee depreciation providing further impetus to the growth outlook. That said, any cut in export incentives (as hinted by senior gov't official) following rupee depreciation (~8.5%) remains a concern going forward.

KSE100 - Index

Current	44,645.95
Previous	44,309.74
Chg.	0.76%

Mkt Cap. (PkrBn/US\$bn)

Current	9,198 / 83.19
Previous	9,161 / 82.85
Chg.	0.41%

Daily Turnover (mn)

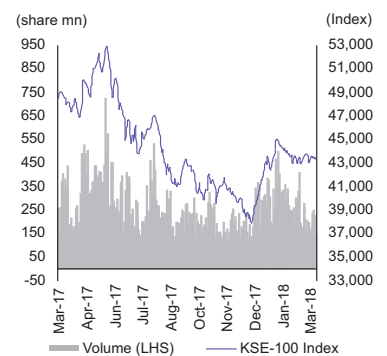
Current	207.07
Previous	219.91
Chg.	-5.8%

Value Traded (PkrMn/US\$m)

Current	9,106 / 82.36
Previous	10,978 / 99.28
Chg.	-17.1%

News and Views

- PSX is awaiting regulatory approvals to enhance its products' portfolio in order to attract investors towards the recently-demutualised capital market, PSX chairman said yesterday. Presently, PSX offers two products as a trading platform including ready market and single-stock deliverable futures.
- GoP has borrowed US\$7.6bn in 8MFY18 which further increases the overall external debt of the country. The government has borrowed 94% of the annual borrowing in just eight months to sustain the foreign exchange reserves which are depleting due to mounting external account pressures.
- Ogra has allowed SNGP to spend Pkr20bn to provide a record one million fresh connections within the remaining three months of this fiscal year. In its determination, Ogra noted that it had already allowed about Pkr4.22bn for 300K fresh connections and SNGP requested increase in the target for fresh connections to one million with an addition of 700K connections during the same year.



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Textile exports up by 7.1% in Feb'18: As per recent data released by PBS, textile exports during Feb'18 grew by 7.1%YoY to reach at US\$1.06bn. Segment wise, value added exports that makes up ~73% of total textile group increased to US\$767mn, with segment growth slowing to 3.6%YoY as a result of seasonal slowdown. In the value added segment, all the major categories including knitwear (+13.4%YoY), garments (+7.8%YoY) and made-ups (+11.3%YoY) witnessed an upward trend. Amongst value added category, bedwear was a notable exception, with segment exports declining by 3.3%YoY. In low value added segment, both yarn and cotton exports registered double digit growth with respective segment exports resting at US\$120mn (+28%YoY) and US\$176mn (+13%YoY).

Textile Exports: Feb'18

(USD' mn)	Feb'18	Jan'18	MoM	Jan'17	YoY	7MFY18	7MFY17	YoY
Cotton Yarn	120	78	55%	94	28%	859	843	2%
Cotton Cloth	176	182	-3%	156	13%	1,426	1,426	0%
Total Low Value	300	265	13%	255	18%	2,361	2,322	2%
Knitwear	201	221	-9%	177	13%	1,757	1,557	13%
Bedwear	172	181	-5%	177	-3%	1,477	1,411	5%
Readymade Garments	213	233	-9%	198	8%	1,695	1,498	13%
Total Value Added	767	821	-7%	740	4%	6,434	5,907	9%
Total	1,066	1,086	-2%	995	7%	8,795	8,229	7%

Source: PBS & AKD Research

Devaluation further favors export outlook: Holding substantial ~60% share in total exports, textile sector would be the key beneficiary from rupee depreciation of ~8.5% FYTD, as the recent devaluation exercise should further enhance export competitiveness against regional countries (table II shows regional currencies movements over the last year, where Pakistan now clearly holds a competitive edge). To recall, GoP earlier incentivized the textile sector (with benefits ranging from 4-7%) partly to

Regional currency movements against USD:

	Pakistan	Bangladesh	Vietnam	Sri Lanka	India
	PKR	BDT	VND	LKR	INR
3-months	-4.3%	-0.5%	-0.2%	-1.9%	-1.8%
6-months	-8.5%	-2.7%	-0.2%	-2.1%	-0.6%
1-year	-8.9%	-3.8%	0.1%	-2.5%	0.2%

Source: Bloomberg & AKD Research



compensate for managed exchange rate mechanism. With rupee now ~8.5% weaker than before, the GoP may consider cutting back some of the earlier incentives extended to the sector to ease fiscal pressures, with a senior gov't official also hinting towards the same.

Investment perspective: In the textile sector, NML remains our preferred play with the scrip offering thematic exposure to various sectors including textile/power (likely to gain from rupee devaluation), banking (expected to benefit from monetary tightening in CY18) and cements (expected to gain from ongoing infrastructural activity). Additionally, NML is further diversifying its business into auto sector through JV with a Hyundai Motor Company, where company's stake in venture would now be 12% (previously at 76%). At our SOTP based Dec'18 TP of PKR169.9/sh, NML offers 6% upside. Accumulate!



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