



Today's Daily

■ Pakistan Textiles: Sector update Apr'17

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KSE100 - Index

Current	52,146.97
Previous	51,373.51
Chg.	1.51%

Mkt Cap. (Pkrbn/US\$bn)

Current	10,320 / 98.42
Previous	10,196 / 97.23
Chg.	1.22%

Daily Turnover (mn)

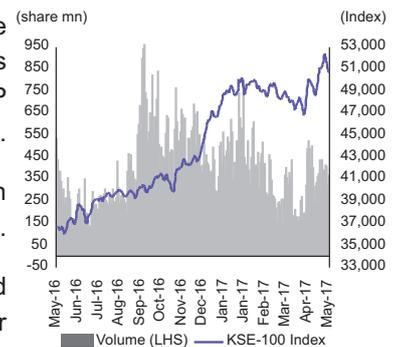
Current	323.92
Previous	240.19
Chg.	34.9%

Value Traded (Pkrmn/US\$m)

Current	19,621 / 187.12
Previous	12,571 / 119.88
Chg.	56.1%

News and Views

- The GoP has projected a current account deficit of US\$10.4bn for the FY18, assuming trade deficit of US\$26.9bn. The growth rates for exports and imports in FY18 are forecasted to 6%YoY and 9.5%YoY. The GoP further expects the economy to grow by 6%YoY in FY18.
- As per recent data released by SBP, external debt servicing has risen to US\$5bn in 9MFY17, recording an increase of 18.8%YoY during 9MFY17.
- Association of Builders and Developers of Pakistan (ABAD) has expressed concerns over proposed termination of the fixed tax regime (FTR). Earlier FBR proposed withdrawal of FTR for property sector and demanded increase in the deputy commissioner (DC) and FBR rates to the market rates.



AKD Research

research@akdsecurities.net

111-253-111 Ext: 639

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Textile exports fail to keep up momentum: After managing strong recovery in Mar'17, total textile exports during Apr'17 declined by 3.7%MoM/0.4%YoY to US\$1.025bn where we saw a declining trend in both low value added (-4.1%MoM/-4.0%YoY) and value added exports (-3.6%MoM; though rising 1.0%YoY). The sequential decline of 3.6%MoM in value added exports to US\$747mn was primarily led by plunging garments (-7.6%MoM) and bed-wear exports (-2.8%MoM), while knitwear exports posted meager growth of 1.3%MoM. Despite 3.3%MoM/8.4%YoY growth in cotton yarn exports, low-value added exports dropped 4.1%MoM/4.0%YoY to US\$278mn due to 7.8%MoM/10.4%YoY decline in cotton cloth exports to US\$174mn in Apr'17.

Apr'17: Textile Exports

(USD'mn)	Apr'17	Mar'17	MoM	Apr'16	YoY	10MFY17	10MFY16	YoY
Cotton Yarn	101	97	3.3%	93	8.4%	1,042	1,082	-3.7%
Cotton Cloth	174	189	-7.8%	194	-10.4%	1,772	1,879	-5.7%
Total Low Value	278	289	-4.0%	289	-4.0%	2,874	3,066	-6.3%
Knitwear	187	185	1.3%	182	2.5%	1,926	1,929	-0.2%
Bedwear	175	180	-2.8%	170	3.1%	1,763	1,679	5.0%
Readymade Garments	189	205	-7.6%	189	0.1%	1,894	1,798	5.3%
Total Value Added	747	775	-3.6%	740	1.0%	7,423	7,326	1.3%
Total	1,025	1,065	-3.7%	1,030	-0.4%	10,297	10,392	-0.92%

Source: PBS & AKD Research

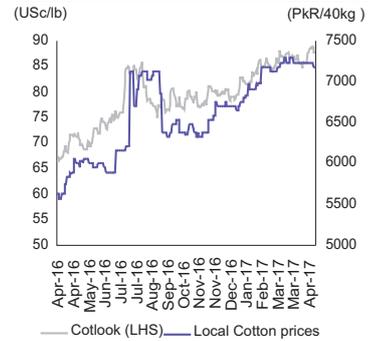
Export outlook: We expect textile exports to largely remain under pressure going forward on the back of 1) weak demand scenario due to stagnant Chinese demand and economic slowdown in EU, 2) rising raw materials prices (CotlookA/KCA: +13%/+10%CYTD) further aggravated by recent



re-imposition of duty and sales tax on import of cotton and polyester and 3) lack of currency and industry's competitiveness in the region. That said, positives such as expected relief in the form of release of pending tax claims and export package refunds in the upcoming budget may lend some support to declining exports.

Investment perspective: Highlighting weak textile fundamentals, we continue to favor NML in view of: 1) its continuing focus on high margin value-added segment (as evident from 34.25%YoY garments revenue growth in 9MFY17), 2) being a key beneficiary from export package considering higher rebate rates for the value added category where NML holds a dominant position and 3) a well-diversified business portfolio. Moreover, the company's recent bid to enter into automobile sector remains a key upside trigger considering fast-paced growth in the auto sector. NML (now officially part of MSCI small-cap stocks list) has returned 14%MTD, where our SOTP based TP of PkR185.3/sh offers 8.03% upside from current levels. Accumulate!

Int. Cotton prices vs. Local Cotton prices



Source: Bloomberg, KCA & AKD Research



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