

PAKISTAN TEXTILE

MARKET VISTA

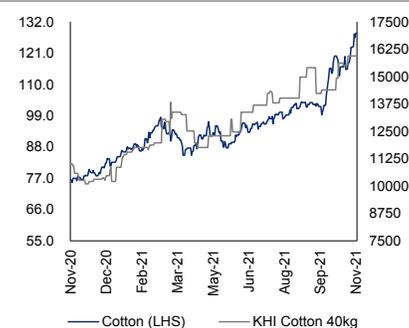
REP-019

4MFY22 textile exports up 26.5%YoY

- As per the data released by PBS, textile exports for the month of Oct'21 registered a growth of 24.2%YoY to stand at US\$1.6bn. Segment-wise value and non-value added exports posted a growth of 23/28%YoY in Oct'21 and 25/34%YoY in 4MFY22.
- In the value added segment, readymade garments and bed wear registered a growth of 21.1%/16.0%YoY while knitwear outperformed the segment with 42.1%YoY in Oct'21. In 4MFY22 readymade garments/bedwear/knitwear posted a growth of 22.3%/21.3%/35.4%YoY respectively.
- International cotton prices remained strong throughout the month, hovering around USc127.3/lb with an increase of 13.5% since Oct'21 and cumulative CYTD increase of 50.4%. On the local front, cotton prices currently hover around ~Pkr17,233/maund – at about highest level since 2010 – or +19.7% since Oct'21
- With global textile dynamics continuing to remain favorable amid brewing trade war between US and China and as yarn margins remain downward sticky (Local yarn margins: currently 75% vs 60% CYTD avg.) we maintain our bullish stance on the sector where any dip in prices will provide an opportunity to take exposure in textiles. Our top pick for the sector is NML (TP: Pkr132/sh – 54% upside) where the current price offers core operations virtually free.

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Cot look (USc/lb) vs. local cotton prices



Source: Karachi Cotton, Bloomberg & AKD Research

Oct'21: Textile Exports

USD (000)	Oct-21	YoY	MoM	4MFY22	YoY
Raw Cotton	-	-	-	-	-
Cotton Yarn	106,148	77.3%	11.4%	394,765	71.4%
Cotton Cloth	183,630	9.4%	-3.1%	740,710	18.5%
Cotton Carded or Combed	69	n.a	-90.2%	1,543	n.a
Yarn other than Cotton Yarn	4,814	96.4%	3.4%	17,239	114.5%
Non Value-Added	294,661	27.9%	1.6%	1,154,257	33.6%
Knitwear	457,191	42.1%	17.8%	1,601,778	35.4%
Bed Wear	287,865	16.0%	4.6%	1,091,124	21.3%
Towel	82,078	4.4%	1.7%	323,385	14.2%
Tents, Canvas & Tarpulin	9,633	-22.0%	7.9%	30,810	-24.0%
Readymade Garments	297,435	21.1%	7.7%	1,158,603	22.3%
Art, Silk & Synthetic Textile	35,373	19.5%	-8.7%	143,320	36.2%
Madeup Articles (exclu. Towels & Bedwear)	71,155	4.4%	11.1%	268,582	11.5%
Other Textile Materials	65,543	21.5%	0.5%	249,956	27.7%
Value-Added	1,306,273	23.4%	9.1%	4,867,558	25.0%
Textile Group	1,600,934	24.2%	7.6%	6,021,815	26.5%

Source: PBS & AKD Research

4MFY22 textile exports up 26.5%YoY: As per the data released by PBS, textile exports for the month of Oct'21 registered a growth of 24.2%YoY to stand at US\$1.6bn. The improvement in global demand for textile products amidst robust US apparel demand and return to normalcy phenomenon in global economies (EU and North America) has opened up vast growth prospect for local textile players. Segment-wise value and non-value added exports posted a growth of 23/28%YoY in Oct'21 and 25/34%YoY in 4MFY22. An increase was witnessed in non-value added segments with yarn/cotton cloth exports rebounding 77.3/9%%YoY to stand at US\$106.1/183.6mn in Oct'21. Amidst declining Pkr-US\$ parity, textile players have obtained higher prices for cotton cloth (Oct'21: US\$5.9K/th.sqm compared to US\$5.04K/th.sqm in Sep'21, +17%MoM) as the textile players continue to benefit from trade war between China and US/EU, and business disruptions in competitive economies where Vietnamese export fell for the third conservative month in Sep'21 to US\$2.28bn, down 27.3% from US\$3.2bn. In the value added segment, readymade garments and bed wear registered a growth of 21.1%/16.0%YoY while knitwear outperformed the segment with 42.1%YoY in Oct'21. In 4MFY22 readymade garments/bedwear/knitwear posted a growth of 22.3%/21.3%/35.4%YoY respectively. Overall, 4MFY22



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textile exports registered an increase of 26.5%YoY to stand at US\$6.02bn with value added segment registering an uptick of 25%YoY.

Cotton prices to remain upbeat amid robust demand: International cotton prices remained strong throughout the month, hovering around at USc127.3/lb with an increase of 13.5% since Oct'21 and cumulative CYTD increase of 50.4%. Going forward, we expect cotton prices to remain robust on the back of stronger demand expectation outpacing supply growth (on account of 2.8mn and 2.3mn bales lower ending stock projected in China and India in FY22, respectively). Moreover, global ending stock is also forecasted to be lower by 2.4mn bales to hover around ~86.9mn bales for FY22 (down by 2.7%YoY), as per latest USDA report. On the local front, cotton prices currently hover around ~PkR17,233/maund – at about highest level since 2010 – or +19.7% since Oct'21. However, recent arrival of 6.25mn cotton bales (+81.2%YoY) for the mill casts positive overtures on cotton production outlook where the current production target is set at 8.5-9.5mn bales for FY22. In this backdrop, we expect local demand to settle at 13-14mn bales where country may still need to import 3-4mn bales to meet the demand. Furthermore, we expect multiyear high cotton prices to provide further impetus for farmers to grow more cotton as opposed to other crops. Hence, we rule out sharp correction in cotton prices in the near term following strong demand from downstream textile players.

Investment Perspective: With global textile dynamics continuing to remain favorable amid brewing trade war between US and China and as yarn margins remain downward sticky (Local yarn margins: currently 75% vs 60% CYTD avg.) the local textile sector finds itself in a sweet spot. However, the recent development of a discontinuation of tariff subsidy given to textile sector does pose some concern where if this occurs, we expect the players in Sindh and KPK to be at the biggest disadvantage owing to their higher dependency on gas, while the players in Punjab, having a diversified energy mix, will likely be least affected. Moreover, we maintain our bullish stance on the sector where any dip in prices will provide an opportunity to take exposure in textiles. Our top pick for the sector is NML (TP: PkR132/sh – 54% upside) where the current price offers core operations virtually free.

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Neutral	> 8.5% to < 14.5% expected total return
Sell	< 8.5% expected total return (Rf: 8.5%)



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