

PAKISTAN TEXTILE

2MFY22 textile exports up 29%YoY

As per the data released by PBS, textile exports for the month of Aug'21 registered a growth of 46%YoY to stand at US\$1.46bn. Segment-wise value and non-value added exports posted a growth of 27%/38%YoY in 2MFY22.

In the value added segment, readymade garments and bed wear registered a growth of 48.4%/45.5%YoY while knitwear outperformed the segment with 57.9%YoY in Aug'21. In 2MFY22 readymade garments/bedwear/knitwear posted a growth of 22.6%/24.5%/34.1%YoY respectively.

International cotton prices remained strong throughout the month, hovering around at USc103/lb with an increase of 4%MoM on 20-Sep'21 and cumulative CYTD increase of 21.8%. On the local front, cotton prices currently hover around at ~Pkr14,232/maund – at about highest level since 2010 – or +6.1%MoM on 20-Sep'21.

Textile sector has performed relatively well in recent months with an outperformance of 2.5% against KSE-100 index. Henceforth, we remain bullish on the sector where any dip in prices presents an opportunity to take exposure in textiles. Our top pick for the sector is NML (TP: Pkr132/sh – 46% upside) which is currently trading at 8% discount to its portfolio value of Pkr98/sh.

Aug'21: Textile Exports

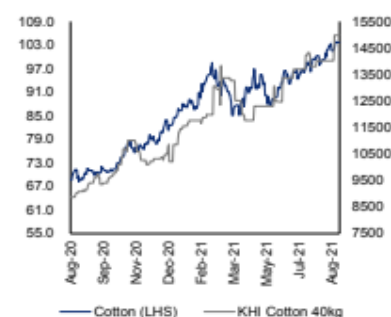
USD (000)	Aug'21	YoY	MoM	2MFY22	YoY
Raw Cotton	-	-	-	-	-
Cotton Yarn	103,518	64.6%	-13.2%	193,389	68.0%
Cotton Cloth	188,181	23.5%	-4.6%	367,624	24.7%
Cotton carded or combed	382			770	n.a
Yarn other than Cotton Yarn	4,907	68.8%	-41.7%	7,770	123.7%
Non Value-Added	296,988	35.0%	-8.2%	569,553	37.7%
Knitwear	364,172	57.9%	7.8%	756,883	34.1%
Bed Wear	264,764	45.5%	-0.5%	528,109	24.5%
Towel	82,794	40.8%	-6.0%	160,612	20.7%
Tents, Canvas & Tarpulin	5,637	-11.8%	17.3%	12,250	-37.2%
Readymade Garments	283,760	48.4%	6.1%	584,913	22.6%
Art, Silk & Synthetic Textile	36,842	39.3%	-12.2%	69,202	34.1%
Madeup Articles (exclu. Towels & Bedwear)	66,090	36.8%	1.5%	133,194	21.3%
Other Textile Materials	61,706	51.5%	-6.8%	119,222	37.4%
Value-Added	1,165,765	48.8%	2.8%	2,364,385	26.7%
Textile Group	1,462,753	46.0%	0.6%	2,933,938	28.7%

Source: PBS & AKD Research

2MFY22 textile exports up 29%YoY: As per the data released by PBS, textile exports for the month of Aug'21 registered a growth of 46%YoY to stand at US\$1.46bn. The improvement in global demand backdrop for textile products has created opportunities for local textile players, increasing the share of exports amidst global economies (EU and North America) opening up. Segment-wise value and non-value added exports posted a growth of 27%/38%YoY in 2MFY22 while remain flat on MoM basis. An increase was witnessed in non-value added segments with yarn exports rebounding 68%YoY to stand at US\$103.5mn and quantity wise 32.9K tons (+29% YoY) in Aug'21. Amidst declining Pkr-US\$ parity, textile players have obtained higher prices for cotton yarn (Aug'21: Pkr516K/ton compared to Pkr489K/ton in Jul'21) as the textile players continue to benefit from trade war between China and US/EU, and business disruptions in competitive economies. In the value added segment, readymade garments and bed wear registered a growth of 48.4%/45.5%YoY while knitwear outperformed the segment with 57.9%YoY in Aug'21. In 2MFY22 readymade garments/bedwear/knitwear posted a growth of 22.6%/24.5%/34.1%YoY respectively. Overall, 2MFY22 textile exports registered an increase of 29%YoY to stand at US\$2.9bn with value added segment registering an uptick of 26.7%YoY.

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Cotlook (USc/lb) vs. local cotton prices



Source: Karachi Cotton, Bloomberg & AKD Research



Cotton prices to remain upbeat amid robust demand: International cotton prices remained strong throughout the month, hovering around at $\text{Usc}103/\text{lb}$ with an increase of 4%MoM on 20-Sep'21 and cumulative CYTD increase of 21.8%. Going forward, we expect cotton prices to stay on higher side on the back of stronger demand expectation outpacing supply growth (largely on account of 4.3mn bales lower ending stock projected in China) where global ending stock is forecasted to be lower by 4.6mn bales to hover around $\sim 86.7\text{mn}$ bales for FY22 (down by 5%YoY). However, on the flip side, global production/mill use is projected at 119.6/124.1mn bales, about 7.2/4.5mn bales higher than in FY21 as per latest USDA report. On the local front, cotton prices currently hover around at $\sim \text{PkR}14,232/\text{maund}$ – at about highest level since 2010 – or +6.1% MoM on 20-Sep'21. Recent rally in cotton prices was attributable to lower cotton production target of 5.3mn bales against mill use of $\sim 10.8\text{mn}$ bales where local spinning players have buildup inventory reserves on account of soaring local demand. However, with the recent arrival of 2.69mn cotton bales (+1.6xYoY) for the mill use, the Govt. must be confident of achieving its cotton production target of 8.5-9.0mn bales for FY22, where we believe multiyear high cotton prices will provide further impetus for farmers to grow more cotton as opposed to other crops. However, we rule out sharp correction in cotton prices in the near term following strong demand from textile players.

Investment perspective: Textile sector has performed relatively well in recent months with an outperformance of 2.5% against KSE-100 index. Going forward, we expect earnings to remain robust in the near term where i) PKR depreciation, ii) older cotton inventories procured at lower rates by local textile players and iii) higher offtakes as global economies started reaching pre-COVID levels. Henceforth, we remain bullish on the sector where any dip in prices presents an opportunity to take exposure in textiles. Our top pick for the sector is NML (TP: $\text{PkR}132/\text{sh}$ – 46% upside) which is currently trading at a discount to its portfolio value of $\text{PkR}98/\text{sh}$

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- Equity & Asset return based methodologies (EVA, Residual Income etc.)

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