

# PAKISTAN TEXTILES

# MARKET VISTA

REP-019

## Exports stage recovery in Aug'18, but outlook remains bleak

- Latest PBS data shows that the country's total exports grew 8.4%YoY/22.5%MoM to US\$2,016mn in Aug'18. Among the major groups, textile and food exports – comprising ~80% of total exports – witnessed a strong recovery, with respective group exports rising 7.3%/15%YoY to US\$1,258mn and US\$302mn.
- In the textile group, both value and low value-added exports climbed 8.4%/4.3%YoY (27.8% /19.2%MoM) to US\$943mn and US\$315mn, respectively. Growth in textile exports is primarily on account of diversion of orders particularly in the value chain from Bangladesh, where textile industry workers are protesting against new wage announcement by the gov't.
- Going forward, we expect single-digit growth in textile exports over the medium term, as the sector continues to face structural problems (i.e. high input cost & onerous taxation regime) and competition from regional countries.
- Despite supportive macro backdrop (i.e. rupee depreciation and continuation of export incentives), we remain skeptic on the sector outlook over the medium term, as all the macro developments including gov't aid have so far failed to yield any substantial result. That said, near-term price performance on a potential announcement of tariff subsidy (as hinted by FM Asad Umer in the mini-budget speech) cannot be ruled out.

**Textile exports up 7.3%YoY in Aug'18:** Textile exports witnessed a recovering trend in Aug'18, with exports moving up 7.3%YoY to US\$1,258mn. Growth in textile exports is primarily on account of diversion of orders particularly in the value chain from Bangladesh, where textile industry workers are protesting against new wage announcement by the gov't. Segment wise, both value and low value-added exports went up 8.4%/4.3%YoY (27.8% /19.2%MoM) to US\$943mn and US\$315mn, respectively. In value added segment, all major categories including knitwear, garments, and bed-wear saw uptrend, with respective segment exports climbing 14%/8.8%/7.7%YoY to US\$280mn, US\$224mn and US\$230mn. Low value added exports marginally increased by 4.3%YoY, where both cotton cloth and yarn exports observed an uptick of 7.1%YoY and 5.3%YoY, respectively.

### Textile Exports: Aug'18

(USD' mn)	Aug'18	Jul'18	MoM	Aug'17	YoY	2MFY18	2MFY17	YoY
Cotton Yarn	107	117	-9.0%	101	5.3%	224	210	6.5%
Cotton Cloth	203	144	40.5%	189	7.1%	347	349	-0.7%
<b>Total Low Value Added</b>	<b>315</b>	<b>264</b>	<b>19.2%</b>	<b>302</b>	<b>4.3%</b>	<b>579</b>	<b>573</b>	<b>1.1%</b>
Knitwear	280	209	34.0%	245	14.1%	489	439	11.3%
Bedwear	230	165	39.7%	214	7.7%	395	385	2.7%
Garments	224	211	6.2%	206	8.8%	435	418	4.1%
<b>Total Value Added</b>	<b>943</b>	<b>738</b>	<b>27.8%</b>	<b>870</b>	<b>8.4%</b>	<b>1,681</b>	<b>1,606</b>	<b>4.7%</b>
<b>Total</b>	<b>1,258</b>	<b>1,002</b>	<b>25.5%</b>	<b>1,172</b>	<b>7.3%</b>	<b>2,260</b>	<b>2,179</b>	<b>3.7%</b>

Source: PBS &amp; AKD Research

**Export outlook:** Developments such as currency depreciation in EM countries (i.e. Turkey, India & Sri Lanka) extending parallel footing to competitors and on-going trade spat between economic powers pose risks to global growth outlook and present a challenging environment for export industries particularly textiles. Also, domestic players marred by structural problems (i.e. high input cost, unsystematic taxation regime & slow materialization of export incentives) find it hard to compete in international markets. Considering all the aforementioned challenges, we see a single-digit export growth in textile over the medium term. That said, new government initiatives including the gas subsidy for Punjab based industry & reduction of import duty on raw materials are encouraging.

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Table I: Gross margin declines despite export incentives\*

Segment	FY18	FY17	Chg. (%)
<b>Composite</b>			
KTML	26.0%	29.7%	-3.7%
MSOT	13.5%	15.1%	-1.6%
KML	12.0%	13.6%	-1.6%
NML	9.8%	11.3%	-1.5%
NCL	10.2%	10.3%	-0.1%
ADMM	10.1%	9.8%	0.2%
SAPT	11.3%	10.7%	0.6%
SURC	8.2%	6.4%	1.9%
SFL	9.3%	6.8%	2.5%
GATM	21.0%	18.0%	3.0%
<b>Weaving</b>			
FML	22.2%	23.3%	-1.1%
PRWM	5.3%	5.3%	0.0%
<b>Spinning</b>			
FZCM	9.9%	7.9%	2.0%
GADT	7.2%	5.7%	1.5%
JKSM	9.3%	8.2%	1.1%
NAGC	7.3%	6.7%	0.5%
IDYM	10.2%	11.1%	-0.9%

Source: Co. Reports &amp; AKD Research

\*as per updated results

Table II: Export volume remains tepid in major categories:

Segment	8MCY18	8MCY17	YoY	Share in Tex. exports(%)
Knitwear (Th.DOZ)	80,007	76,910	4%	21%
Garments (Th.DOZ)	28,459	24,804	15%	19%
Bedwear (Th. tons)	241	239	1%	17%
Cotton Cloth (Mn.SQM)	1,427	1,316	8%	16%
Cotton Yarn (Th. tons)	343	306	12%	10%

Source: PBS &amp; AKD Research



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**Investment perspective:** While the macro backdrop remained supportive (i.e. rupee depreciation & export incentives to the range of 4-7%) over the last year, textile sector failed to yield desired results. Barring certain exceptions (i.e. players at the lower end of value chain benefitting from cyclical tailwinds), both margins and exports in volumetric terms (as highlighted in Table I & II) present a dismal picture. We attribute this to industry's structural problems, where higher input costs (cotton at 7-yr high) and lack of conducive environment (i.e. onerous taxation regime and slow materialization of export incentives) are the key culprits. Remaining skeptic over the medium term, we recommend exposure to players (i.e. NML) with diversified earning mix and focus on value addition. In the near-term, price performance on a potential announcement of electricity tariff subsidy (as hinted by FM Asad Umer in mini-budget speech) cannot be ruled out.

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