

PAKISTAN



Textile Exports

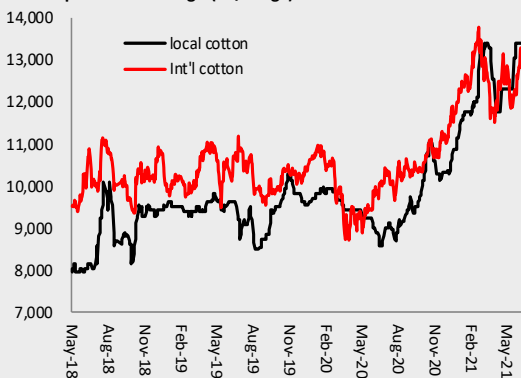
| US\$ mn | 11MFY21 | 11MFY20 | YoY |
|---------------------|---------------|---------------|------------|
| Cotton yarn | 896 | 911 | -2% |
| Cotton cloth | 1,716 | 1,700 | 1% |
| Knit wear | 3,414 | 2,573 | 33% |
| Bed wear | 2,473 | 1,985 | 25% |
| Ready made garments | 2,707 | 2,367 | 14% |
| Others | 2,542 | 2,032 | 25% |
| Total | 13,748 | 11,567 | 19% |

Source: PBS, Foundation Research, June 2021

| US\$ mn | May-21 | May-20 | YoY | MoM |
|---------------------|--------------|------------|------------|-------------|
| Cotton yarn | 72 | 52 | 39% | -30% |
| Cotton cloth | 135 | 98 | 37% | -17% |
| Knit wear | 293 | 181 | 62% | -15% |
| Bed wear | 181 | 146 | 24% | -24% |
| Ready made garments | 195 | 136 | 44% | -20% |
| Others | 184 | 138 | 33% | 33% |
| Total | 1,060 | 751 | 41% | -21% |

Source: PBS, Foundation Research, June 2021

Cotton prices remain high (Rs/40kgs)



Source: PBS, Foundation Research, June 2021

Analyst

Zeeshan Azhar zeeshan@fs.com.pk
 +92 213 5612290 Ext 331

Foundation Securities (Pvt) Ltd
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Pakistan Textiles

Low base effect remains in play

Event

▪ Low base effect due to lockdown in May last year played out for a second consecutive month in textile exports which were up by 41% YoY but down 21% MoM due to extended Eid holidays this year. This cumulated into 11MFY21 exports growth to 19% YoY as the post lockdown recovery continued to accelerate. Looking ahead, we are moderately optimistic as export markets have recovered amid mass vaccinations despite persistence of COVID globally.

Impact

▪ **May exports mostly rose YoY:** During May-21, exports changed by 41/-21% YoY/MoM. Exports of readymade garments changed by 44/-20% YoY/MoM, knit wear were up by 62/-15% YoY/MoM and bed wear changed by 24/-24% YoY/MoM. Cotton cloth exports changed by 37/-17% YoY/MoM and cotton yarn changed by 39/-30% YoY/MoM. We note that cotton cloth prices were the highest ever and cotton yarn prices were at a ~8 year high.

▪ **Value added exports went up:** During 11MFY21, exports of readymade garments increased by 14% YoY as quantity exported shrank by 26% YoY (prices up 54% YoY). Bed wear exports increased by 25% YoY as quantity increased by 9% YoY (prices up by 14% YoY). Knit wear exports rose by 33% YoY as quantity inclined by 54% YoY (prices down by 14% YoY). Share of knit wear and bed wear increased by 3/1% YoY to 25% and 18% respectively. Whereas share of readymade garments declined by 1% YoY to 20%.

▪ **Basic textile exports showed mixed trend:** In 11MFY21, cotton cloth exports inclined by 1% YoY as quantity declined by 57% YoY (prices increased by 136% YoY). Cotton yarn exports decreased by 2% YoY as quantity fell by 7% YoY (prices increased by 6% YoY). Share of cotton yarn and cotton cloth declined by 1/2% to 7% and 12% respectively.

▪ **FY22 budget negative for textile industry:** The FY22 budget has proposed a number of changes for textile industry all of which are negative. It has proposed (1) increase in minimum wage from Rs17K to Rs20K, (2) increase in sales tax on raw cotton and ginned cotton from 10% to 17% and (3) increase in sales tax on potassium chlorate (crucial chemical for textile printing) from Rs80/kg to Rs90/kg in addition to 17% standard rate.

▪ **Gov't payment to IPP's:** Nishat Mills is likely to receive higher dividend from Lalpir Power and Pakgen Power given better cash flows as they have recently received Rs6.2bn and Rs6.5bn respectively, as the 1st installment (40%) of receivables due from Gov't for resolution of circular debt in the power sector. Furthermore, NML and NCL are likely to see higher dividends from Nishat Power and Nishat Chunian Power respectively, when NAB investigations against them are concluded.

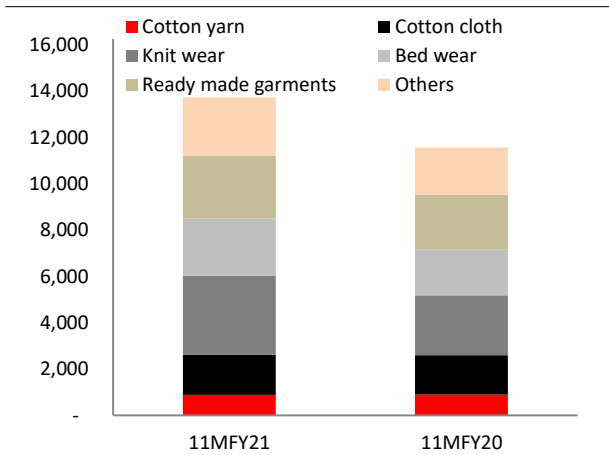
Outlook

▪ Looking ahead, we are moderately optimistic as export markets have recovered amidst mass vaccinations despite persistence of COVID globally.

▪ In the long run, the sector's fate depends on (1) better cotton-seed quality, (2) improvement in value addition, (3) removal of capacity constraints and (4) investment in latest technology.

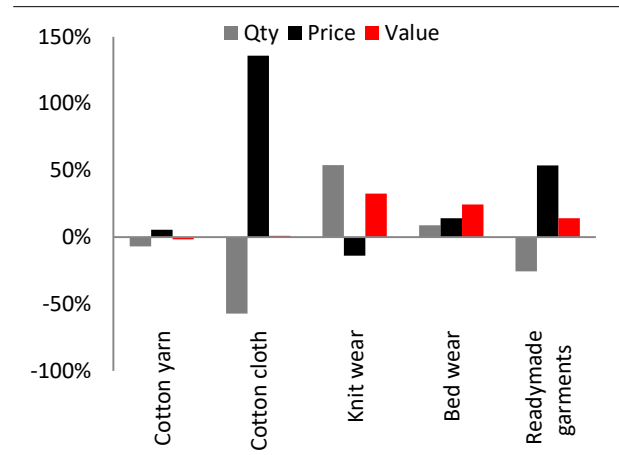
▪ We expect (1) new textile policy, (2) continuation of preferential energy rates and (3) shift of tax refund mechanism to SBP would help improve sector's dynamics.

Fig 1: 11MFY21 textile exports (US\$ mn)



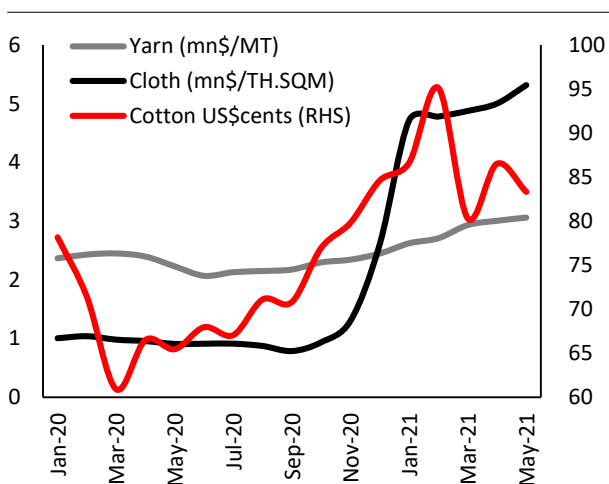
Source: PBS, Foundation Research, June 2021

Fig 2: Exp. quantities exhibit mixed trend in 11MFY21



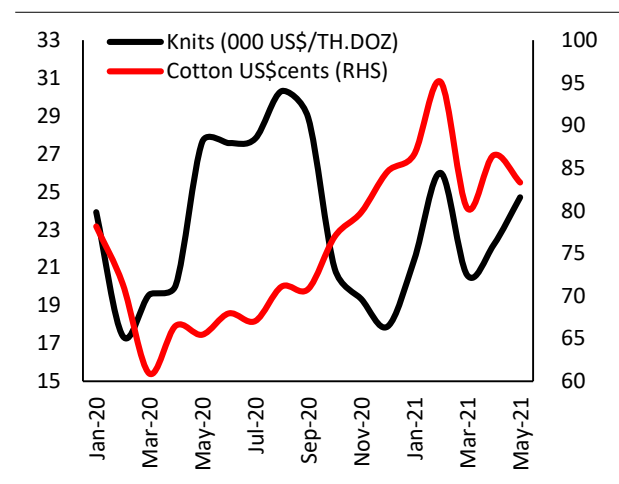
Source: PBS, Foundation Research, June 2021

Fig 3: Basic textile prices vs cotton prices



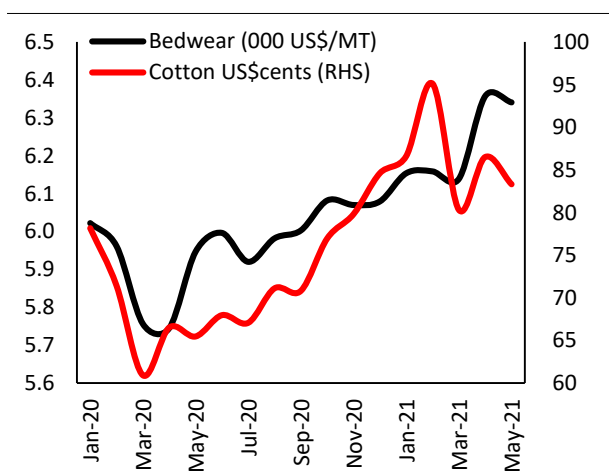
Source: Bloomberg, PBS, FSL Research, June 2021

Fig 4: Knitwear prices rise



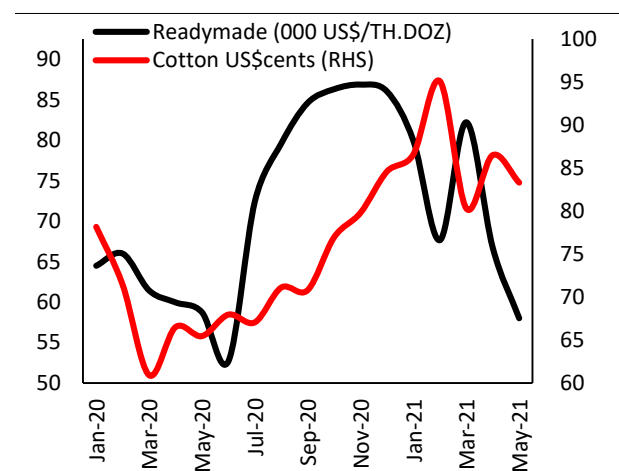
Source: Bloomberg, PBS, FSL Research, June 2021

Fig 5: Bedwear and cotton prices in tandem



Source: Bloomberg, PBS, FSL Research, June 2021

Fig 6: Knit wear and Bed wear prices



Source: Bloomberg, PBS, FSL Research, June 2021

Abbreviations

| | |
|-----|--------------------------|
| FBR | Federal Board of Revenue |
| LT | Long Term |
| MoM | Month on Month |
| SBP | State Bank of Pakistan |
| YoY | Year on Year |

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Recommendations definitions

| | |
|-----------------------------------|---------------|
| If | |
| Expected return >+10% | Outperform. |
| Expected return from -10% to +10% | Neutral. |
| Expected return <-10% | Underperform. |