

PAKISTAN



Textile Exports

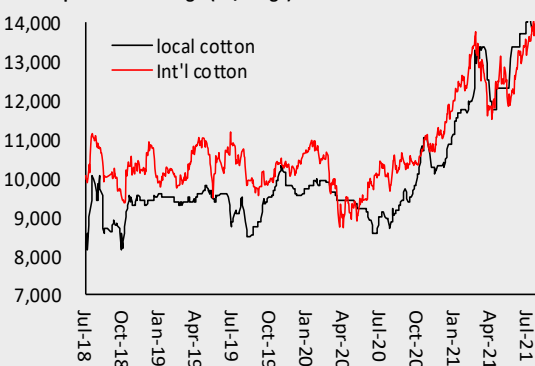
US\$ mn	FY21	FY20	YoY
Cotton yarn	1,017	985	3%
Cotton cloth	1,921	1,830	5%
Knit wear	3,816	2,794	37%
Bed wear	2,772	2,151	29%
Ready made garments	3,033	2,552	19%
Others	2,841	2,214	28%
Total	15,400	12,527	23%

Source: PBS, Foundation Research, July 2021

US\$ mn	Jun-21	Jun-20	YoY	MoM
Cotton yarn	121	74	63%	68%
Cotton cloth	205	130	57%	52%
Knit wear	411	221	86%	40%
Bed wear	299	166	80%	65%
Ready made garments	326	185	76%	67%
Others	298	182	64%	64%
Total	1,660	959	73%	57%

Source: PBS, Foundation Research, July 2021

Cotton prices remain high (Rs/40kgs)



Source: PBS, Foundation Research, July 2021

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Foundation Securities (Pvt) Ltd
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Pakistan Textiles

Exports break record in FY21

Event

▪ Low base effect due to lockdown in June last year played out for a third consecutive month in textile exports which were up by 73/57% YoY/MoM resulting in the highest ever exports of US\$1.7bn. This cumulated into FY21 exports of US\$15.4bn (up 23% YoY) as the recovery continued to accelerate both domestically and globally. Looking ahead, we are moderately optimistic as export markets have recovered amid mass vaccinations despite persistence of COVID globally.

Impact

▪ **Whopping increase in June exports:** During June-21, exports changed by 73/57% YoY/MoM. Exports of readymade garments was up by 76/67% YoY/MoM, knit wear was up by 86/40% YoY/MoM and bed wear was by 80/65% YoY/MoM. Cotton cloth exports were up by 57/52% YoY/MoM and cotton yarn were up by 63/68% YoY/MoM.

▪ **Value added exports went up:** During FY21, exports of readymade garments increased by 19% YoY as quantity exported shrank by 23% YoY (prices up 54% YoY). Bed wear exports increased by 29% YoY as quantity increased by 14% YoY (prices up by 13% YoY). Knit wear exports rose by 37% YoY as quantity inclined by 69% YoY (prices down by 19% YoY). Share of knit wear and bed wear increased by 2/1% YoY to 25% and 18% respectively. Whereas share of readymade garments declined by 1% YoY to 20%.

▪ **Basic textile exports also trended upwards:** In FY21, cotton cloth exports inclined by 5% YoY as quantity declined by 58% YoY (prices increased by 150% YoY). Cotton yarn exports increased by 3% YoY as quantity fell by 5% YoY (prices increased by 9% YoY). Share of cotton yarn and cotton cloth declined by 1/2% to 7% and 12% respectively.

▪ **Textile sector contributes 61% of exports:** The share of textiles in total exports of the country rose to 61% in FY21 from 59% in FY20 whereas total exports were up 18% in FY21.

▪ **NML to post profitability of Rs3.0/sh in 4QFY21:** NML is expected to report EPS of Rs3.0 in 4QFY21 (up by 81% YoY), taking FY21 profitability to Rs13.4/sh, driven by higher revenue, better margins and enhanced dividend income given COVID-induced lockdown in 4QFY20.

▪ **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 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 Chunion Power respectively, when NAB investigations against them are concluded.

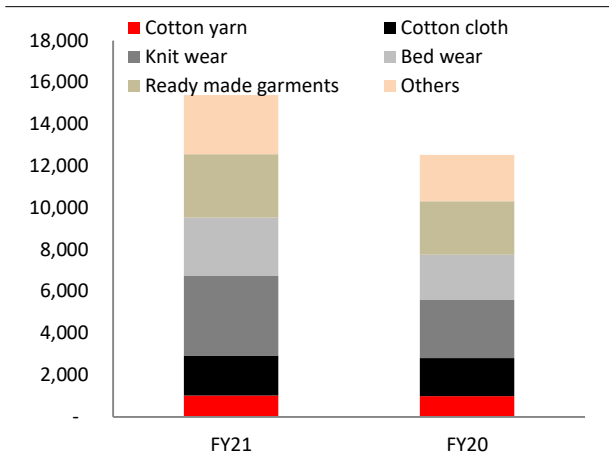
Outlook

▪ 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.

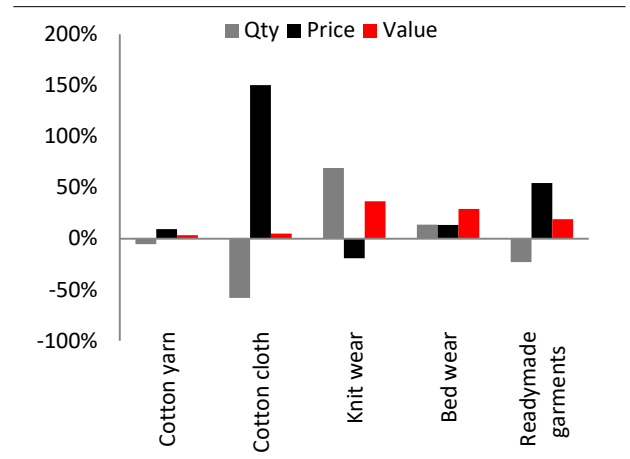
▪ We believe (1) new textile policy, (2) continuation of preferential energy rates and (3) shift of tax refund mechanism to SBP would help improve sector's dynamics.

Fig 1: FY21 textile exports (US\$ mn)



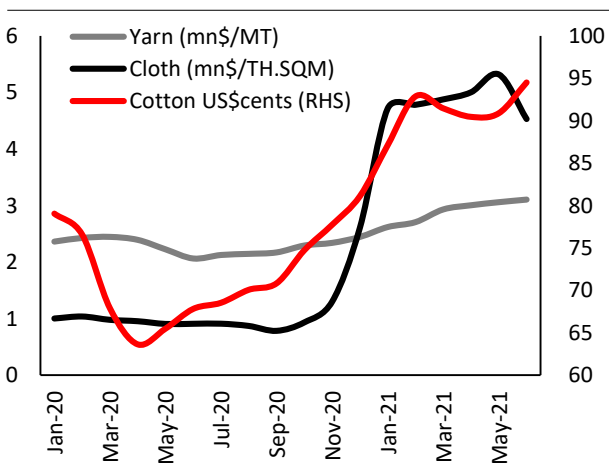
Source: PBS, Foundation Research, July 2021

Fig 2: Exp. quantities exhibit mixed trend in FY21



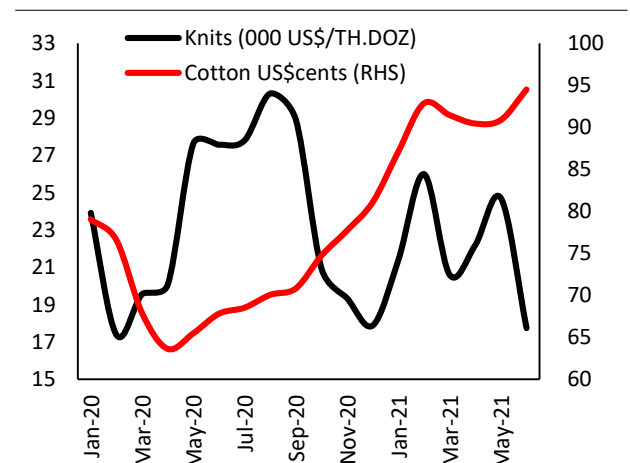
Source: PBS, Foundation Research, July 2021

Fig 3: Basic textile prices vs cotton prices



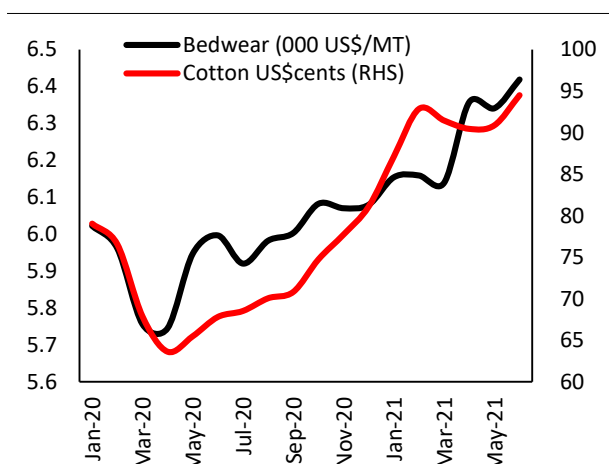
Source: Bloomberg, PBS, FSL Research, July 2021

Fig 4: Knitwear prices fall



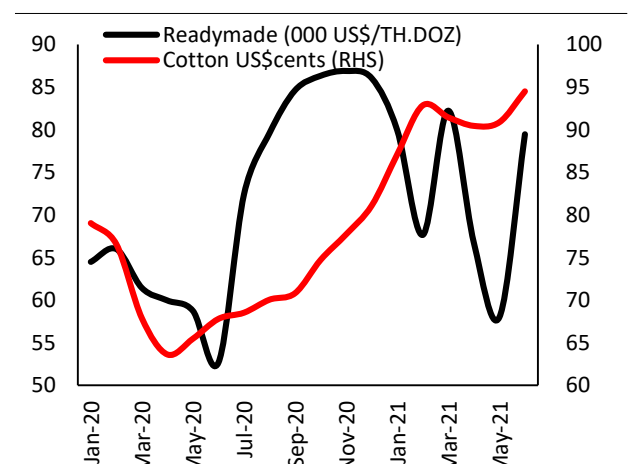
Source: Bloomberg, PBS, FSL Research, July 2021

Fig 5: Bedwear and cotton prices in tandem



Source: Bloomberg, PBS, FSL Research, July 2021

Fig 6: Readymade garment prices show erratic trend



Source: Bloomberg, PBS, FSL Research, July 2021

Abbreviations

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

Important disclosures:

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