

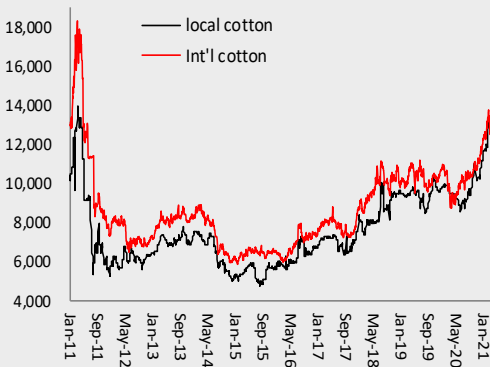
PAKISTAN



Textile Exports	Jul-21	Jul-20	YoY	MoM
US\$ mn				
Cotton yarn	90	61	48%	-26%
Cotton cloth	179	149	20%	-12%
Knit wear	393	316	24%	-4%
Bed wear	263	243	8%	-12%
Ready made garments	301	274	10%	-8%
Others	245	230	7%	7%
Total	1,471	1,273	16%	-11%

Source: PBS, Foundation Research, August 2021

Cotton prices approaching 10yr high (Rs/40kgs)



Source: PBS, Foundation Research, August 2021

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Foundation Securities (Pvt) Ltd
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Pakistan Textiles

Exports still near record highs

Event

▪ Robust growth was seen in textile exports during the first month of FY22 which were up by 16% YoY (down 11% MoM) resulting in the 2nd highest monthly exports of US\$1.5bn. This is a continuation of the last 5 month trend of double digit YoY growth in exports 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

▪ **Value added exports inclined:** During July-21, exports of readymade garments increased by 10% YoY (down 8% MoM) as quantity exported shrank by 2% YoY (prices up 12% YoY). Bed wear exports increased by 8% YoY (down 12% MoM) as quantity declined by 1% YoY (prices up by 9% YoY). Knit wear exports rose by 24% YoY (down 4% MoM) as quantity inclined by 41% YoY (prices down by 12% YoY). Share of knit wear increased by 2% YoY to 27%. Whereas share of bed wear and readymade garments declined by 1/1% YoY to 20 and 18% respectively.

▪ **Basic textile exports recorded significant growth:** In July-21, cotton cloth exports inclined by 20% YoY (down 12% MoM) as quantity declined by 80% YoY (prices increased by 500% YoY). Cotton yarn exports increased by 48% YoY (down 26% MoM) as quantity was up by 1% YoY (prices increased by 47% YoY). Share of cotton yarn declined by 1% to 6% whereas cotton cloth remained flat YoY at 12%.

▪ **Textile sector contributes 63% of exports:** The share of textiles in total exports of the country rose to 63% in Jul-21 from 47% in Jul-20 whereas total exports of the country were up 17% in FY21.

▪ **Cotton sowing falls again:** Cotton production during FY21 was 7.1mn bales, a 36-year low. Cotton sowing reports indicate that cotton cultivation during FY22 has declined by 17/4% in Punjab/Sindh (13% overall) to 1.3/0.6mn hectares in FY22 which is 79/93% of the gov't target of 2.25mn hectares. We believe that the Gov't cotton target for the current year is ambitious given (1) lower yield of cotton given infrequent rains and low seed quality and (2) higher working capital requirement given costlier seeds and higher pesticide requirement. We conclude that cotton production will hit a further low this year as well and would result in record cotton imports (FY21 cotton imports were 5.0mn bales and cost US\$1.5bn).

▪ **Margins to sustain despite high cotton prices:** Domestic and international cotton prices are approaching the highs seen 10 years ago mostly driven by higher demand and constrained production. We do not expect that textile companies would face margin compression as international cotton prices have risen as well and the sector would thus be able to pass on the increase in cost. Textile companies profitability would also be boosted by inventory gains on stock and rupee depreciation.

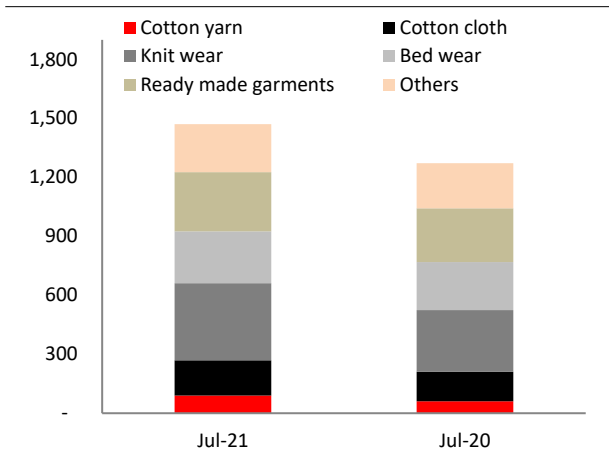
Outlook

▪ 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.

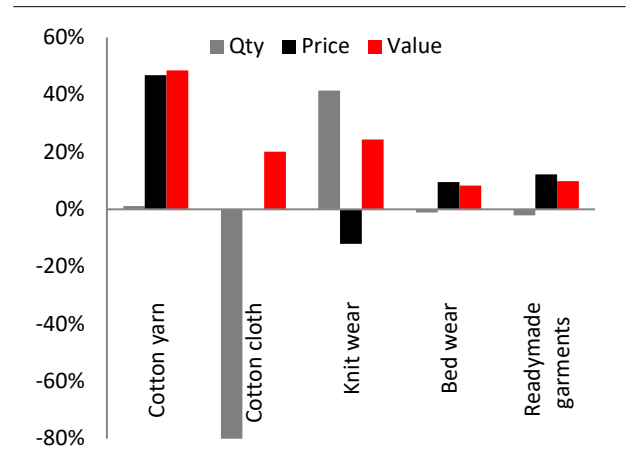
▪ We believe (1) new textile policy, (2) continuation of preferential energy rates and (3) shift of tax refund mechanism to SBP would help improve sector's dynamics.

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



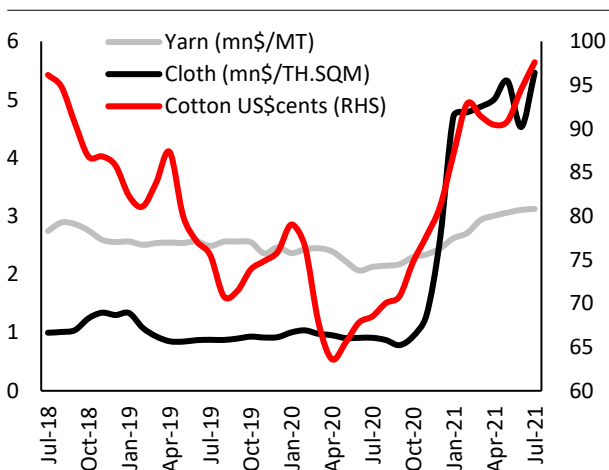
Source: PBS, Foundation Research, Aug 2021

Fig 2: Exp. quantities exhibit mixed trend in FY21



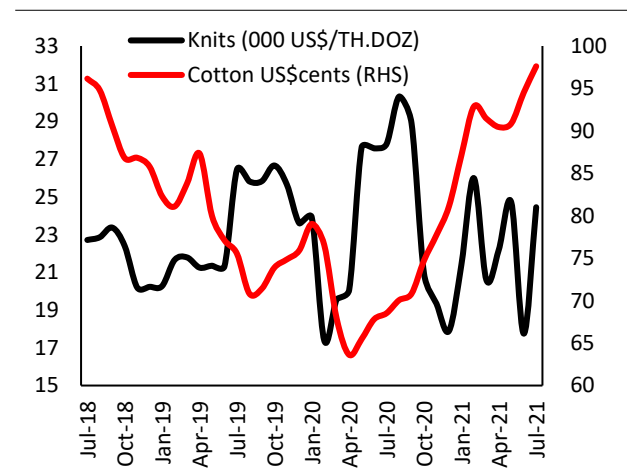
Source: PBS, Foundation Research, Aug 2021

Fig 3: Basic textile prices vs cotton prices



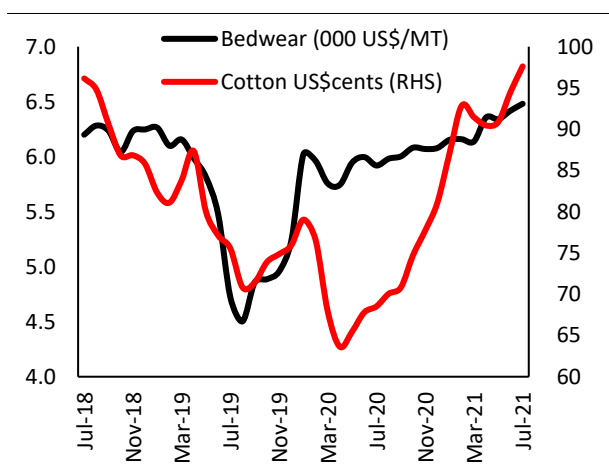
Source: Bloomberg, PBS, FSL Research, Aug 2021

Fig 4: Knitwear prices have been erratic recently



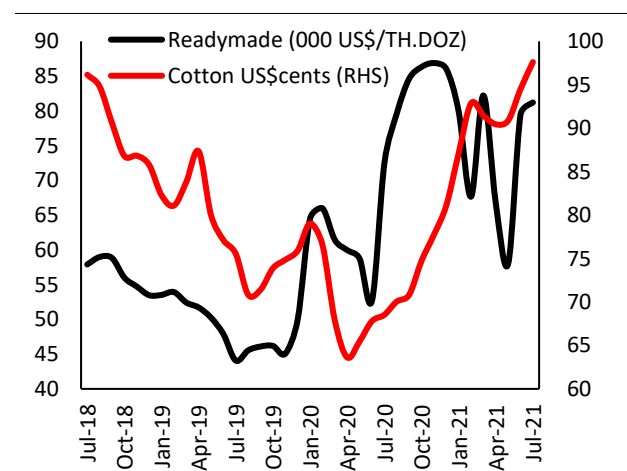
Source: Bloomberg, PBS, FSL Research, Aug 2021

Fig 5: Bedwear and cotton prices in tandem



Source: Bloomberg, PBS, FSL Research, Aug 2021

Fig 6: Readymade garment prices show erratic trend



Source: Bloomberg, PBS, FSL Research, Aug 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.