

PAKISTAN



Textile Exports

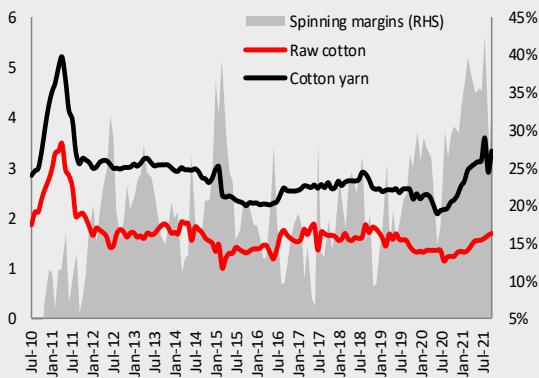
US\$ mn	4MFY22	4MFY21	YoY
Cotton yarn	395	230	71%
Cotton cloth	741	625	19%
Knit wear	1,602	1,183	35%
Bed wear	1,091	900	21%
Ready made garments	1,159	947	22%
Others	1,035	874	18%
Total	6,022	4,758	27%

Source: PBS, Foundation Research, November 2021

US\$ mn	Oct-21	Oct-20	YoY	MoM
Cotton yarn	106	60	77%	11%
Cotton cloth	184	168	9%	-3%
Knit wear	457	323	42%	18%
Bed wear	288	248	16%	5%
Ready made garments	297	246	21%	8%
Others	269	245	9%	9%
Total	1,601	1,290	24%	8%

Source: PBS, Foundation Research, November 2021

Spinning margins have touched 11 year highs



Source: PBS, Foundation Research, November 2021

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Foundation Securities (Pvt) Ltd
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Pakistan Textiles

Exports continue winning streak

Event

- Growth in textile exports continued their record breaking streak during Oct'21, up by 24% YoY (up 8% MoM) resulting in the 5th consecutive month of exports around or exceeding US\$1.5bn and cumulating into record 4MFY22 exports of US\$6.0bn, up 27% YoY. This is a continuation of the 8 month trend of double digit YoY growth in exports as the recovery continued to strengthen globally. Looking ahead, we are optimistic as export markets are projected to continue growing along with strong demand for Pakistani textiles given recent currency depreciation.

Impact

- **Exports climb during Oct'21:** During Oct-21, exports were up by 24/8% YoY/MoM. Exports of readymade garments were up by 21/8% YoY/MoM, knit wear were up by 42/18% YoY/MoM and bed wear were by 16/5% YoY/MoM. Cotton cloth exports were up/down by 9/3% YoY/MoM and cotton yarn were by 77/11% YoY/MoM.

- **Jump in value added exports:** During 4MFY22, exports of readymade garments increased by 22% YoY as quantity exported was up by 20% YoY (prices up 2% YoY). Bed wear exports increased by 21% YoY as quantity was up by 24% YoY (prices down by 2% YoY). Knit wear exports rose by 35% YoY as quantity declined by 13% YoY (prices up by 56% 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 18 and 19% respectively.

- **Basic textile exports also increased:** In 4MFY22, cotton cloth exports inclined by 19% YoY as quantity declined by 77% YoY (prices increased by 412% YoY). Cotton yarn exports increased by 71% YoY as quantity was up by 17% YoY (prices increased by 47% YoY). Share of cotton yarn increased by 2% to 7% whereas cotton cloth declined by 1% YoY to 12%.

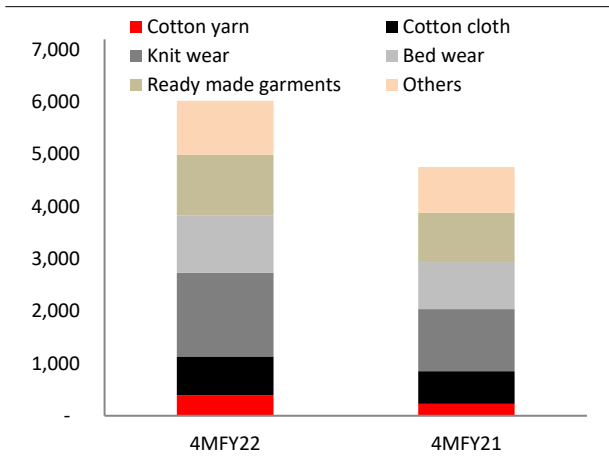
- **Cotton arrivals exhibit extraordinary increase:** Cotton arrivals during the current season are up by 81% YoY to 6.3mn bales till Nov 1'2021 based on data from Pakistan Cotton Ginners Association (PCGA). This compares to total crop size of 7.1 mn bales during FY21 which was a 36 year low. It is pertinent to note that higher cotton arrivals does not correspond with domestic cotton prices which have recently hit record high. Also worth noting that at the level of PCGA reported numbers, cotton yield this year would hit record high and be almost double compared to last years' level. 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.

- **Gas price increase to prompt shift to electricity:** The Gov't has increased the gas price for captive power plants to US\$9.0/mmbtu from US\$6.5/mmbtu which would impact export orientated sector and promote use of unreliable grid electricity.

Outlook

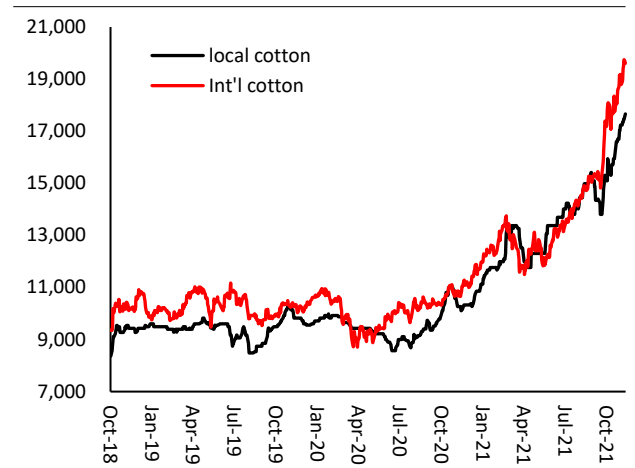
- Looking ahead, we are optimistic as export markets are projected to continue growing along with strong demand for Pakistani textiles given currency depreciation.
- In the long run, the sector's fate depends on (1) better cotton-seed quality, (2) improvement in value addition, (3) removal of capacity constraints and (4) investment in latest technology. We believe new textile policy would help improve sector's dynamics.
- Our top picks in the sector are ILP and NML.

Fig 1: 4MFY22 textile exports (US\$ mn)



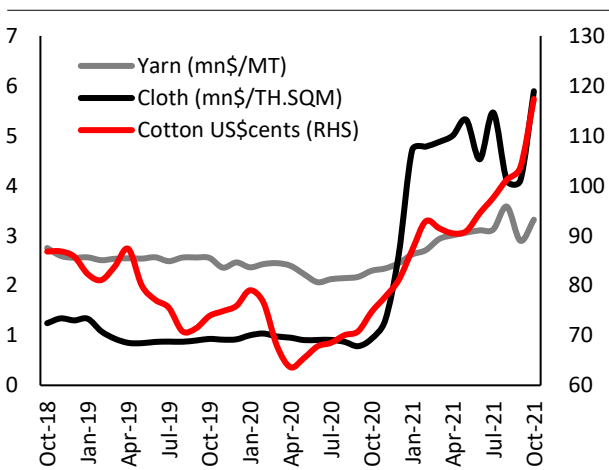
Source: PBS, Foundation Research, Nov 2021

Fig 2: Cotton prices climbing higher (Rs/40kgs)



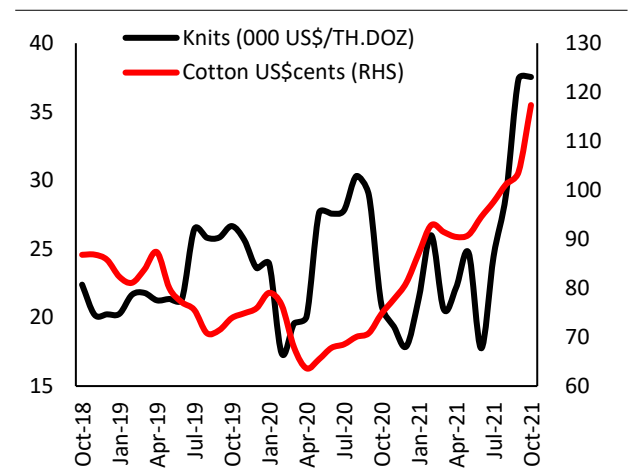
Source: PBS, Foundation Research, Nov 2021

Fig 3: Basic textile and cotton prices rose recently...



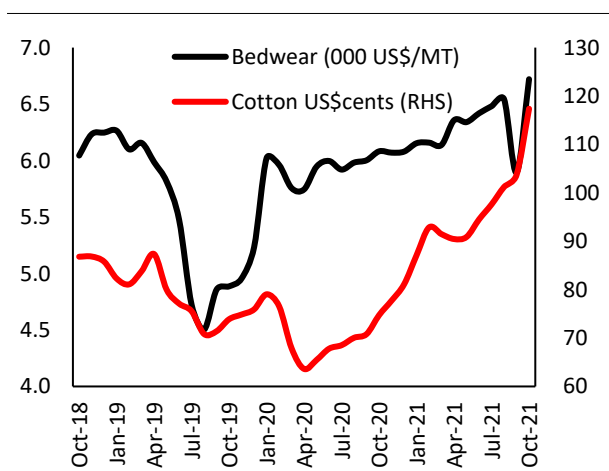
Source: Bloomberg, PBS, FSL Research, Nov 2021

Fig 4: ...so too have knitwear prices



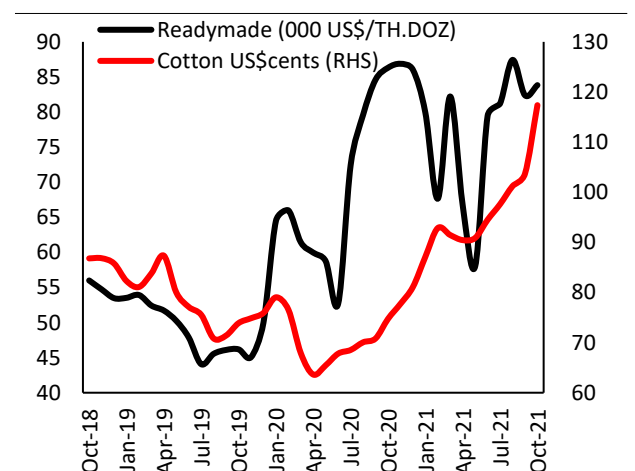
Source: Bloomberg, PBS, FSL Research, Nov 2021

Fig 5: Bedwear and cotton prices rose in tandem



Source: Bloomberg, PBS, FSL Research, Nov 2021

Fig 6: Readymade garment prices and cotton prices



Source: Bloomberg, PBS, FSL Research, Nov 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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If	
Expected return >+10%	Outperform.
Expected return from -10% to +10%	Neutral.
Expected return <-10%	Underperform.