

PAKISTAN



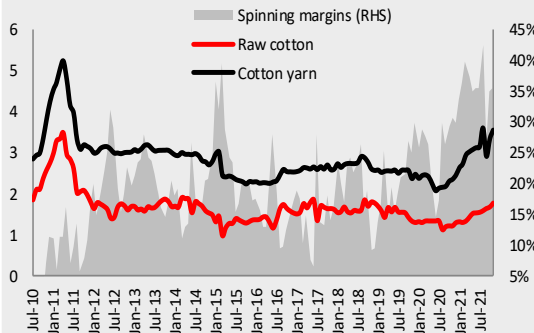
Textile Exports			
US\$ mn	5MFY22	5MFY21	YoY
Cotton yarn	504	305	65%
Cotton cloth	946	773	22%
Knit wear	2,060	1,508	37%
Bed wear	1,406	1,138	24%
Ready made garments	1,487	1,205	23%
Others	1,355	1,113	22%
Total	7,758	6,041	28%

Source: PBS, Foundation Research, December 2021

US\$ mn	Nov-21	Nov-20	YoY	MoM
Cotton yarn	109	74	47%	3%
Cotton cloth	205	148	38%	12%
Knit wear	458	328	40%	0%
Bed wear	315	239	32%	9%
Ready made garments	329	259	27%	11%
Others	321	236	36%	34%
Total	1,736	1,283	35%	8%

Source: PBS, Foundation Research, December 2021

Spinning margins have touched 11 year highs



Source: PBS, Foundation Research, December 2021

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Foundation Securities (Pvt) Ltd
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Pakistan Textiles

Record exports likely in FY22

Event

▪ Growth in textile exports continued their record breaking streak during Nov’21, up by 35% YoY (up 8% MoM) resulting in the 6th consecutive month of exports around or exceeding US\$1.5bn and cumulating into record 5MFY22 exports of US\$7.8bn, up 28% YoY. This is a continuation of the 9 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

▪ **Nov’21 exports jump:** During Nov-21, exports were up by 35/8% YoY/MoM. Exports of readymade garments were up by 27/11% YoY/MoM, knit wear were up by 40% YoY (flat MoM) and bed wear were by 32/9% YoY/MoM. Cotton cloth exports were up by 38/12% YoY/MoM and cotton yarn were by 47/3% YoY/MoM.

▪ **Value added exports climbed:** During 5MFY22, exports of readymade garments increased by 23% YoY as quantity exported was up by 24% YoY (prices remained flat YoY). Bed wear exports increased by 24% YoY as quantity was up by 24% YoY (prices remained flat YoY). Knit wear exports rose by 37% YoY as quantity declined by 14% YoY (prices up by 59% 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.

▪ **Exports of basic textile witnessed increase:** In 5MFY22, cotton cloth exports inclined by 22% YoY as quantity inclined by 16% YoY (prices increased by 5% YoY). Cotton yarn exports increased by 65% YoY as quantity was up by 13% YoY (prices increased by 46% YoY). Share of cotton yarn increased by 1% to 6% whereas cotton cloth declined by 1% YoY to 12%.

▪ **Textile Policy conditionally approved by Gov’t:** The Economic Coordination Committee of the Cabinet (ECC) has approved the 5-year Textile Policy subject to incorporation of inputs from FBR, Finance Division and Power Division. The policy is likely to include the following: (1) electricity at US\$cents9.0/kWh all-inclusive, (2) RLNG at the US\$6.5/mmbtu, (3) payment of Drawback of Local Taxes and Levy (DLTL)/duty drawback of tariff for value-added products (4% on garments & technical textiles, 3% on made-ups) and (4) to continue the existing Export Finance Scheme (EFS)/Long Term Financing Facility (LTFF) schemes at 5/3%.

▪ **Cotton crop recovered in FY22:** Cotton arrivals during the current season are up by 44% YoY as per Pakistan Cotton Ginners Association. Total crop size during FY21 was 7.1mn bales (as per Pakistan Bureau of Statistics) which was a 36-year low. Production has recovered due to timely rains and milder pest attacks despite lower area sown (1.9mn hectares) compared to last year (2.1mn hectares).

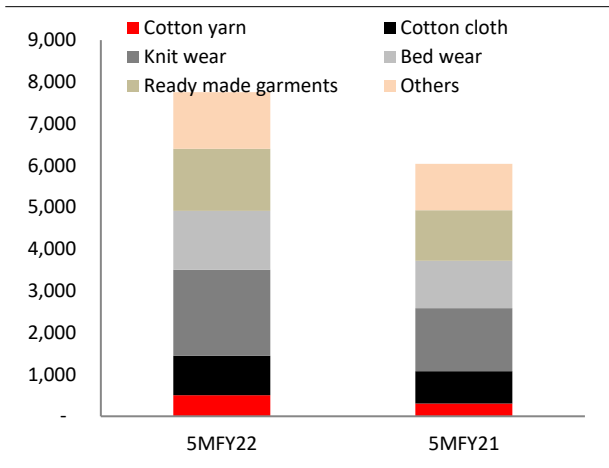
Outlook

▪ Looking ahead, we are optimistic as export markets are projected to continue growing along with strong demand for Pakistani textiles amid 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.

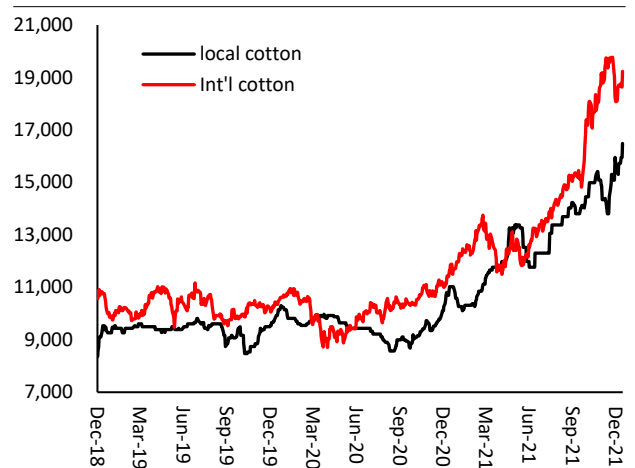
▪ Our top picks in the sector are ILP and NML.

Fig 1: 5MFY22 textile exports (US\$ mn)



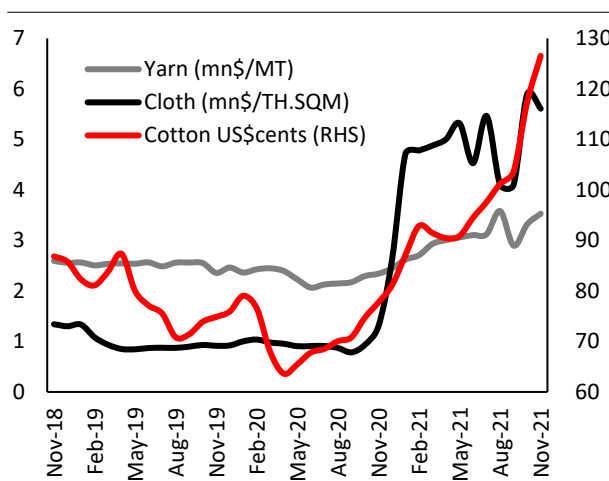
Source: PBS, Foundation Research, Dec 2021

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



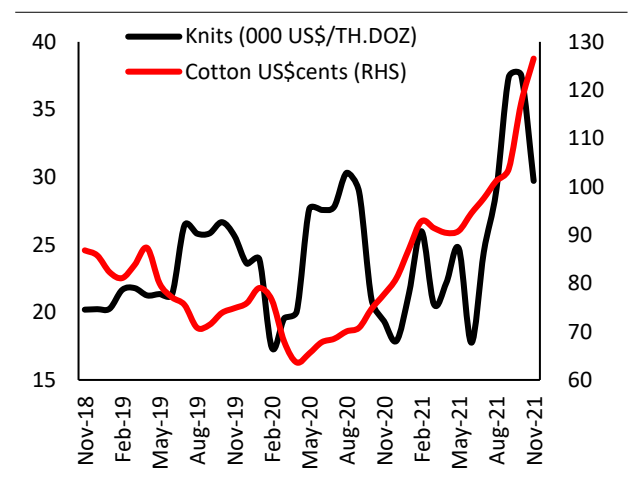
Source: PBS, Foundation Research, Dec 2021

Fig 3: Basic textile and cotton prices



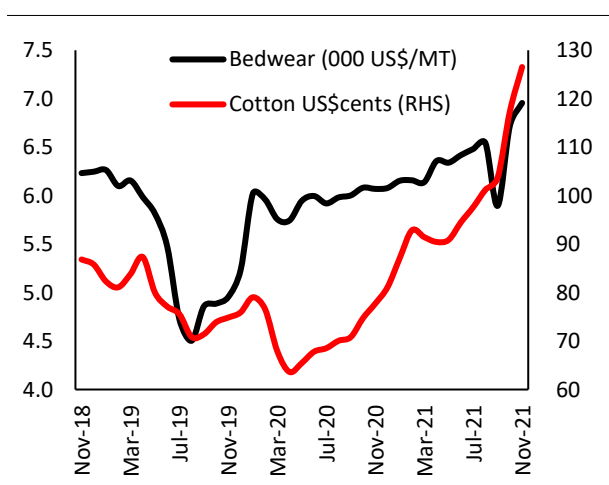
Source: Bloomberg, PBS, FSL Research, Dec 2021

Fig 4: Knitwear prices diverge from cotton price



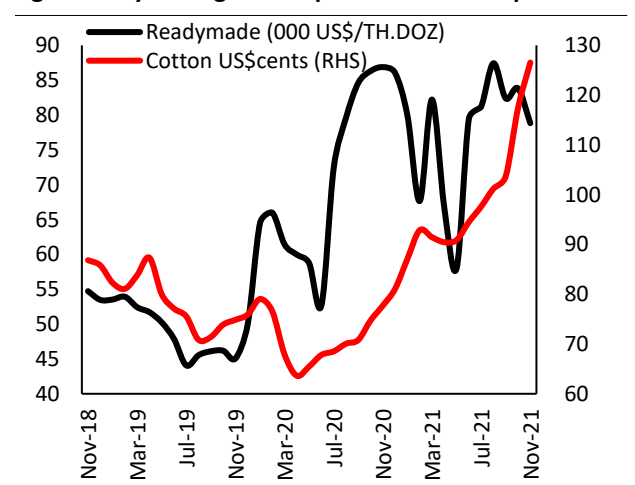
Source: Bloomberg, PBS, FSL Research, Dec 2021

Fig 5: Bedwear and cotton prices rose in tandem



Source: Bloomberg, PBS, FSL Research, Dec 2021

Fig 6: Readymade garment prices and cotton prices



Source: Bloomberg, PBS, FSL Research, Dec 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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Recommendations definitions

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