

**PAKISTAN**



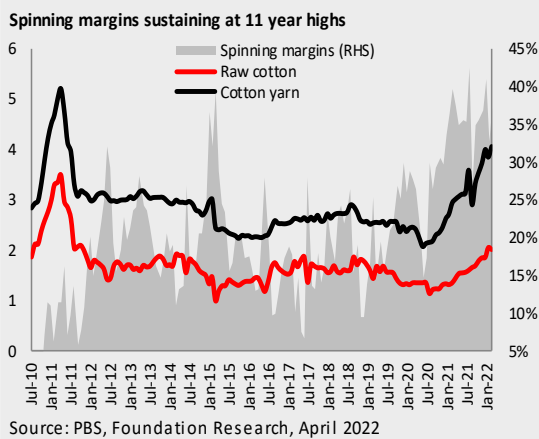
**Textile Exports**

US\$ mn	9MFY22	9MFY21	YoY
Cotton yarn	908	721	26%
Cotton cloth	1,795	1,419	27%
Knit wear	3,730	2,781	34%
Bed wear	2,449	2,052	19%
Ready made garments	2,864	2,268	26%
Others	2,497	2,114	18%
<b>Total</b>	<b>14,243</b>	<b>11,355</b>	<b>25%</b>

Source: PBS, Foundation Research, April 2022

US\$ mn	Mar-22	Mar-21	YoY	MoM
Cotton yarn	92	115	-19%	-28%
Cotton cloth	210	184	14%	-10%
Knit wear	425	314	35%	3%
Bed wear	261	235	11%	-1%
Ready made garments	345	257	34%	-3%
Others	292	251	16%	3%
<b>Total</b>	<b>1,625</b>	<b>1,356</b>	<b>20%</b>	<b>-3%</b>

Source: PBS, Foundation Research, April 2022



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Foundation Securities (Pvt) Ltd  
Monday, April 18, 2022

# Pakistan Textiles

## Growth streak continues

### Event

- Textile exports during Mar'22 jumped by 20% YoY (down 3% MoM) to US\$1.6bn. This was the 10<sup>th</sup> consecutive month of exports around or exceeding US\$1.5bn and cumulated into record 9MFY22 exports of US\$14.2bn, up 25% YoY. This is a continuation of the 13 month trend of double digit YoY growth in exports as the recovery continues to strengthen globally.

- FSL Textile sector profitability is expected to clock in at Rs4.2bn during 3QFY22, up by 17% YoY, on the back of 48% YoY higher sales. During 3QFY22, ILP is expected to post earnings of Rs2.42, up by 28% YoY and NML's EPS is projected at Rs5.94, up by 12% YoY.

### Impact

- Mar'22 exports surge:** During Mar'22, exports were ↑/↓ by 20/3% YoY/MoM. Exports of readymade garments were ↑/↓ by 34/3% YoY/MoM, knit wear were ↑ by 35/3% YoY/MoM and bed wear were ↑/↓ by 11/1% YoY/MoM. Cotton cloth exports were ↑/↓ by 14/10% YoY/MoM but cotton yarn were ↓ by 19/28% YoY/MoM.

- Value added exports recorded increase:** In 9MFY22, exports of readymade garments increased by 26% YoY as quantity exported was up by 34% YoY (prices down by 6% YoY). Bed wear exports increased by 19% YoY as quantity was up by 15% YoY (prices up by 4% YoY). Knit wear exports rose by 34% YoY as quantity declined by 5% YoY (prices up by 41% YoY).

- Share of knit wear increased by 2ppt YoY to 26%. Whereas share of bed wear declined by 1ppt YoY to 17% and readymade garments remained flat YoY at 20%.

- Basic textile exports also rose:** During 9MFY22, cotton cloth exports inclined by 27% YoY as quantity inclined by 9% YoY (prices increased by 16% YoY). Cotton yarn exports increased by 26% YoY as quantity was down by 11% YoY (prices increased by 42% YoY). Share of cotton yarn and cotton cloth remained flat YoY at 6/13%.

- ILP to post bumper earnings:** Interloop is expected to post profitability of Rs2.42/sh in 3QFY22, up/down 28/3% YoY/QoQ on the back of higher sales (up 60% YoY and flat QoQ).

- NML profitability to jump:** Nishat Mills is expected to post EPS of Rs5.94 in 3QFY22, up/down 12/10% YoY/QoQ due to higher sales (up by 40% YoY) amid lower dividend income from MCB which paid a bumper dividend in 4QCY20 due to Gov't restrictions on dividend payments during COVID.

### Outlook

- Looking ahead, we are optimistic as export markets are projected to continue growing along with strong demand for Pakistani textiles given currency depreciation. Also playing to Pakistan's advantage is the diversification of procurement countries by Western buyers amid realization of over dependence on Chinese textiles in the backdrop of concerning geopolitical environment and resurgence of COVID in China.

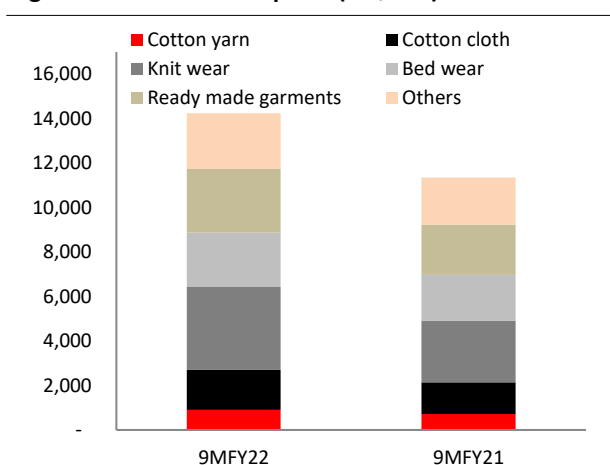
- In the long run, the sector's fate depends on (1) better cotton-seed quality, (2) improvement in value addition, (3) removal of capacity constraints and (4) investment in latest technology. We believe that the new textile policy, the mainstay of which is regionally competitive energy prices, would propel sector to new heights.

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

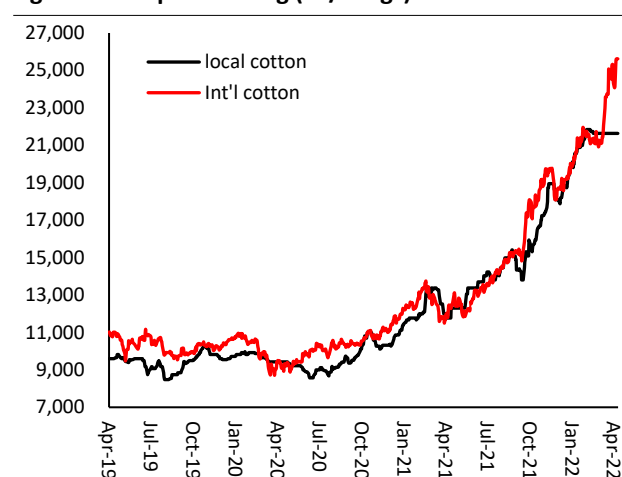
**Table 1: FSL Textile sector 3QFY22 Profitability**

	3QFY22	3QFY21	YoY	MoM	9MFY22	9MFY21	YoY
<b>Net sales</b>	45,731	30,878	48%	-6%	137,969	90,277	53%
Cost of sales	36,992	24,817	49%	-8%	110,427	73,974	49%
<b>Gross profit</b>	<b>8,739</b>	<b>6,061</b>	<b>44%</b>	<b>3%</b>	<b>27,543</b>	<b>16,303</b>	<b>69%</b>
Distribution expenses	1,985	1,489	33%	-8%	6,158	4,110	50%
Administrative expenses	1,424	1,070	33%	0%	4,192	3,010	39%
Other operating expenses	420	311	35%	-21%	1,726	922	87%
Other operating income	1,061	1,575	-33%	-32%	3,631	2,920	24%
<b>EBIT</b>	<b>5,971</b>	<b>4,765</b>	<b>25%</b>	<b>0%</b>	<b>19,098</b>	<b>11,180</b>	<b>71%</b>
Finance Cost	1,151	647	78%	15%	2,799	1,772	58%
<b>Profit before taxation</b>	<b>4,820</b>	<b>4,119</b>	<b>17%</b>	<b>-3%</b>	<b>16,299</b>	<b>9,408</b>	<b>73%</b>
Taxation	632	550	15%	2%	1,787	1,161	54%
<b>Profit after taxation</b>	<b>4,189</b>	<b>3,568</b>	<b>17%</b>	<b>-4%</b>	<b>14,512</b>	<b>8,246</b>	<b>76%</b>

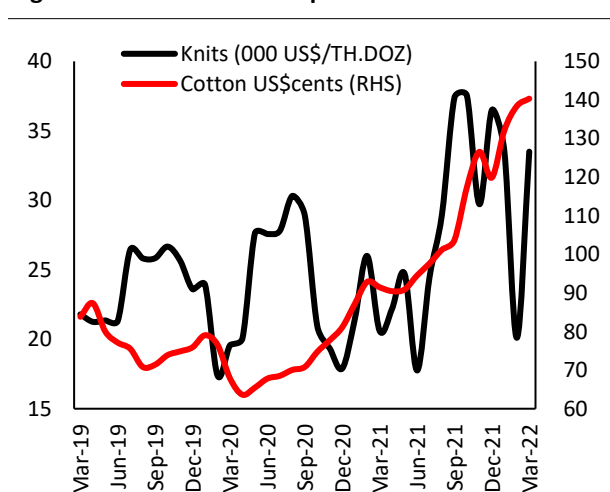
Source: Company Accounts, Foundation Research, April 2022

**Fig 1: 9MFY22 textile exports (US\$ mn)**

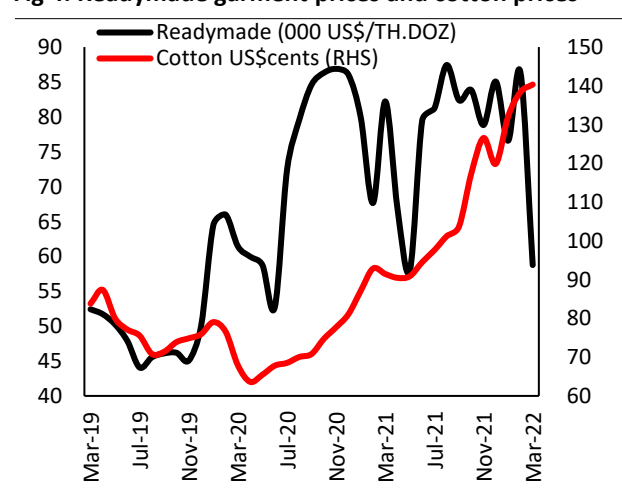
Source: PBS, Foundation Research, Apr 2022

**Fig 2: Cotton prices rising (Rs/40kgs)**

Source: PBS, Foundation Research, Apr 2022

**Fig 3: Knitwear and cotton prices**

Source: Bloomberg, PBS, FSL Research, Apr 2022

**Fig 4: Readymade garment prices and cotton prices**

Source: Bloomberg, PBS, FSL Research, Apr 2022

**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.