

PAKISTAN



Textile Exports

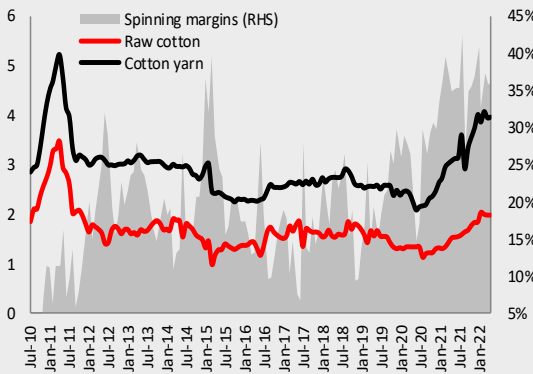
US\$ mn	11MFY22	11MFY21	YoY	Share
Cotton yarn	1,113	896	24%	6%
Cotton cloth	2,237	1,716	30%	13%
Knit wear	4,646	3,405	36%	26%
Bed wear	3,009	2,473	22%	17%
Ready made garments	3,536	2,707	31%	20%
Others	3,083	2,543	21%	17%
Total	17,624	13,740	28%	100%

Source: PBS, Foundation Research, June 2022

US\$ mn	May-22	May-21	YoY	MoM
Cotton yarn	107	72	48%	9%
Cotton cloth	231	135	72%	10%
Knit wear	428	293	46%	-12%
Bed wear	281	181	55%	1%
Ready made garments	322	195	65%	-8%
Others	273	185	47%	-13%
Total	1,642	1,061	55%	-6%

Source: PBS, Foundation Research, June 2022

Spinning margins sustaining at 11 year highs



Source: PBS, Foundation Research, June 2022

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Pakistan Textiles

On track for record exports in FY22

Event

- Textile exports during May'22 jumped by 55% YoY (down 6% MoM) to US\$1.6bn. This was the 12th consecutive month of exports around or exceeding US\$1.5bn and cumulated into record 11MFY22 exports of US\$17.6bn, up 28% YoY. This is a continuation of the 15 month trend of double digit YoY growth in exports as the recovery continues to strengthen globally.

- Looking ahead, we are cautious as export markets would be impacted by the anticipated economic slowdown in US and European markets given monetary tightening. We see demand slowdown for Pakistani textiles which would result in lower growth and be somewhat offset by recent currency depreciation.

Impact

- May'22 exports surge:** During May'22, exports were ↑/↓ by 55/6% YoY/MoM. Exports of readymade garments were ↑/↓ by 65/8% YoY/MoM, knit wear were ↑/↓ by 46/12% YoY/MoM and bed wear were ↑ by 55/1% YoY/MoM. Cotton cloth exports were ↑ by 72/10% YoY/MoM and cotton yarn were ↑ by 48/9% YoY/MoM.

- Value added exports recorded increase:** In 11MFY22, exports of readymade garments increased by 31% YoY as quantity exported was up by 50% YoY (prices down by 13% YoY). Bed wear exports increased by 22% YoY as quantity was up by 15% YoY (prices up by 6% YoY). Knit wear exports rose by 36% YoY as quantity declined by 4% YoY (prices up by 43% 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 11MFY22, cotton cloth exports inclined by 30% YoY as quantity inclined by 8% YoY (prices increased by 20% YoY). Cotton yarn exports increased by 24% YoY as quantity was down by 11% YoY (prices increased by 40% YoY). Share of cotton yarn and cotton cloth remained flat YoY at 6/13%.

- Area under cotton expected to increase:** Cotton sowing has started across Pakistan amid reports of water shortage in Punjab and Sindh. Tail end growers in Sindh, which grew negligible quantity of cotton in FY22, would again be unable to sow cotton given record breaking heat wave and severe heat wave. Whereas in Southern Punjab growers have used tube wells water to overcome the situation. Gov't FY23 target for cotton area is 2.5mn hectares (up by 31% YoY) and production is 11.0 mn bales (up by 33% YoY).

- Spinning margins near record highs:** Spinning margins (see panel) are sustaining near record highs which would result in continuation of higher profitability for the spinning sector.

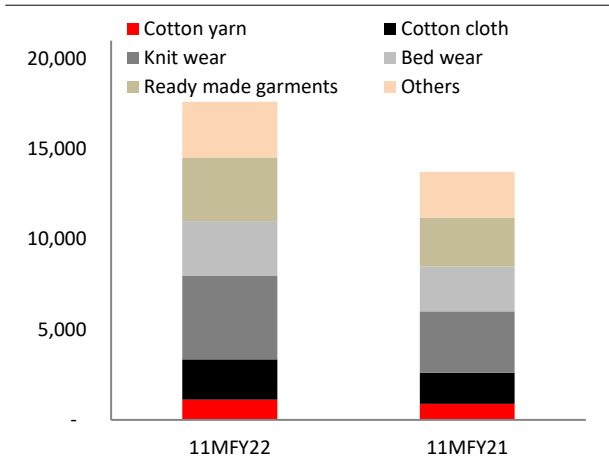
Outlook

- Looking ahead, we are cautious as export markets would be impacted by the anticipated economic slowdown in US and European markets given monetary tightening. We see demand slowdown for Pakistani textiles which would result in lower growth and be somewhat offset by recent 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 that the new textile policy, the mainstay of which is regionally competitive energy prices, would propel sector to new heights.

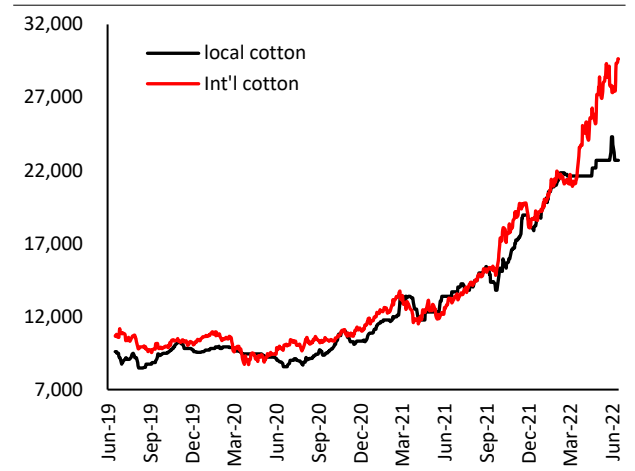
- Our top picks in the sector are ILP and NML.

Fig 1: 11MFY22 textile exports (US\$ mn)



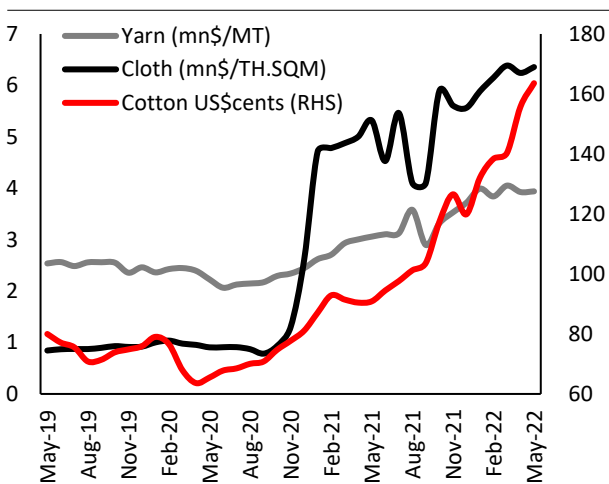
Source: PBS, Foundation Research, Jun 2022

Fig 2: Cotton prices remain elevated (Rs/40kgs)



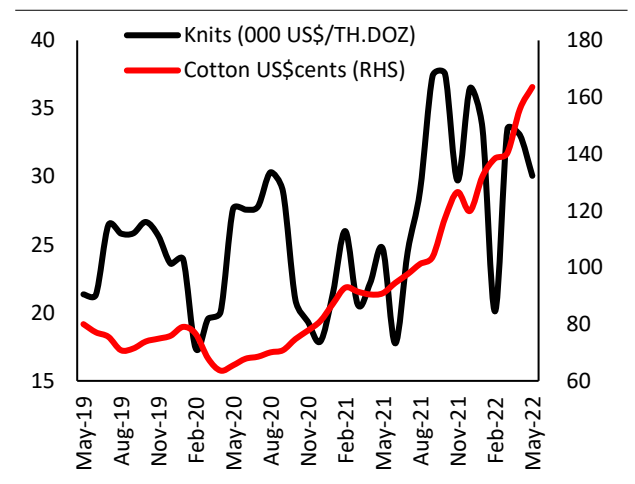
Source: PBS, Foundation Research, Jun 2022

Fig 3: Basic textile and cotton prices



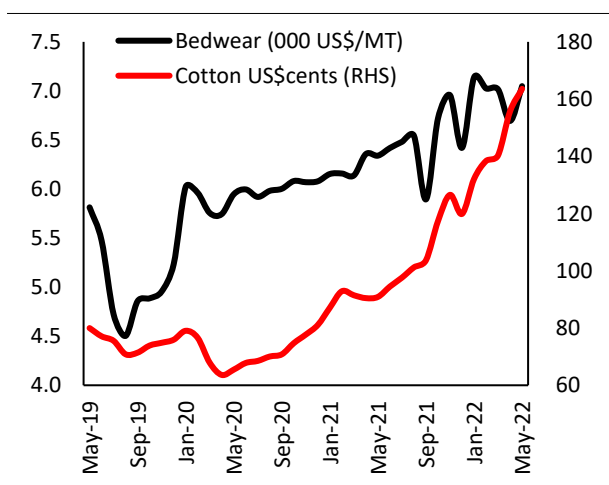
Source: Bloomberg, PBS, FSL Research, Jun 2022

Fig 4: Knitwear prices and cotton prices



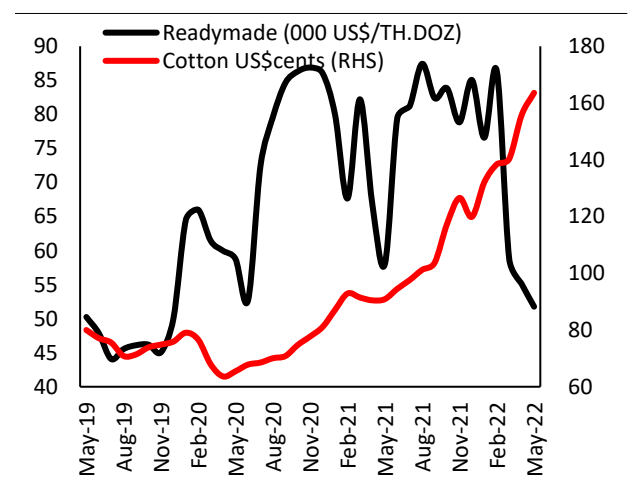
Source: Bloomberg, PBS, FSL Research, Jun 2022

Fig 5: Bedwear and cotton prices rose in tandem



Source: Bloomberg, PBS, FSL Research, Jun 2022

Fig 6: Readymade garment prices and cotton prices



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