

## PAKISTAN



## Textile Exports

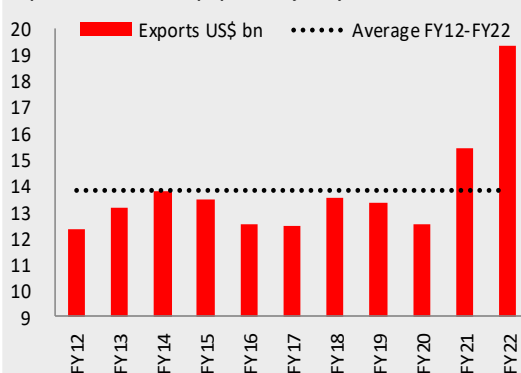
US\$ mn	FY22	FY21	YoY	Share
Cotton yarn	1,207	1,017	19%	6%
Cotton cloth	2,438	1,921	27%	13%
Knit wear	5,121	3,815	34%	26%
Bed wear	3,293	2,772	19%	17%
Ready made garments	3,905	3,033	29%	20%
Others	3,367	2,842	18%	17%
<b>Total</b>	<b>19,330</b>	<b>15,399</b>	<b>26%</b>	<b>100%</b>

Source: PBS, Foundation Research, July 2022

US\$ mn	Jun-22	Jun-21	YoY	MoM
Cotton yarn	94	121	-22%	-12%
Cotton cloth	201	205	-2%	-13%
Knit wear	475	411	16%	11%
Bed wear	284	299	-5%	1%
Ready made garments	369	326	13%	15%
Others	284	299	-5%	4%
<b>Total</b>	<b>1,706</b>	<b>1,661</b>	<b>3%</b>	<b>4%</b>

Source: PBS, Foundation Research, July 2022

## Exports continue on steep upward trajectory



Source: PBS, Foundation Research, July 2022

## Analyst

Zeeshan Azhar                      zeeshan@fs.com.pk  
 +92 213 5612290                      Ext 331

Foundation Securities (Pvt) Ltd  
 Wednesday, July 20, 2022

# Pakistan Textiles

## Exports grew by stellar 26% in FY22

### Event

Textile exports grew by a stellar 26% YoY during FY22 (vs 23% YoY in FY21) to US\$19.3bn on the back of a strong global recovery fueling demand. Growth of double digits was recorded in all sub segments with knitwear and readymade garments leading the charge at 34/29% YoY. During Jun'22, exports increased by a modest 3% YoY (up 4% MoM) to US\$1.7bn as high base effect came into play.

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 steep currency depreciation.

### Impact

**Surge in value added exports:** In FY22, exports of readymade garments increased by 29% YoY as quantity exported was up by 49% YoY (prices down by 14% YoY). Bed wear exports increased by 19% YoY as quantity was up by 11% YoY (prices up by 7% YoY). Knit wear exports rose by 34% YoY as quantity declined by 5% YoY (prices up by 42% YoY). Share of knit wear and readymade garments increased by 2ppt YoY to 26/20%. Whereas share of bed wear declined by 1ppt YoY to 17%.

**Increase in basic textile exports:** During FY22, cotton cloth exports inclined by 27% YoY as quantity inclined by 4% YoY (prices increased by 22% YoY). Cotton yarn exports increased by 19% YoY as quantity was down by 14% YoY (prices increased by 38% YoY). Share of cotton yarn and cotton cloth remained flat YoY at 6/13%.

**Jun'22 exports depict uptick:** During Jun'22, exports were ↑ by 3/4% YoY/MoM. Exports of readymade garments were ↑ by 13/15% YoY/MoM, knit wear were ↑ by 16/11% YoY/MoM and bed wear were ↓/↑ by 5/1% YoY/MoM. Cotton cloth exports were ↓ by 2/13% YoY/MoM and cotton yarn were ↓ by 22/12% YoY/MoM.

**Spinning margins near record highs:** Spinning margins are sustaining near record highs (see Fig 3 below) which would result in continuation of higher profitability for the spinning sector. However, imposition of 10% super tax on textile companies with profit exceeding Rs300mn in FY23 budget would be negative for all subsectors. Going forward, current decline in cotton prices would result in inventory losses for textile.

**ILP profitability to be hit by super tax:** Interloop's EPS is estimated to be Rs1.5 in 4QFY22, down 22/42% YoY/QoQ, due to imposition of 10% super tax. This would cumulate into FY22 EPS of Rs9.3 (up 32% YoY) driven by 49% YoY higher sales.

**NML to post EPS of Rs3.1:** Nishat Mills is projected to post profitability of Rs3.1/sh in 4QFY22, down 52/68% YoY/QoQ, due to imposition of 10% super tax. This would cumulate into FY22 EPS of Rs28.9 (up 72% YoY) given 63% YoY increase in sales.

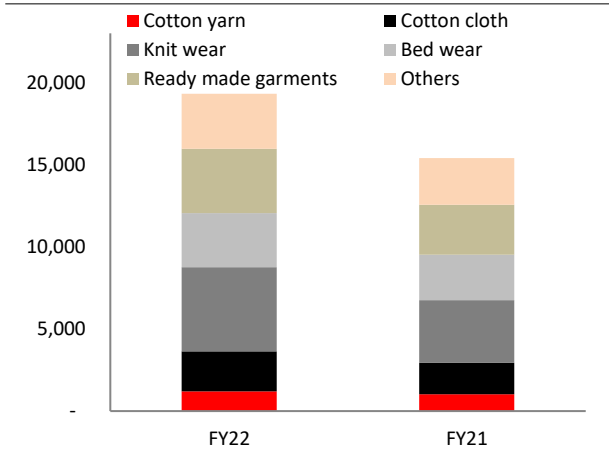
### Outlook

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. For FY23, Gov't has eliminated allocation for duty drawback (from Rs62bn disbursed in FY22) which would impact textile profitability.

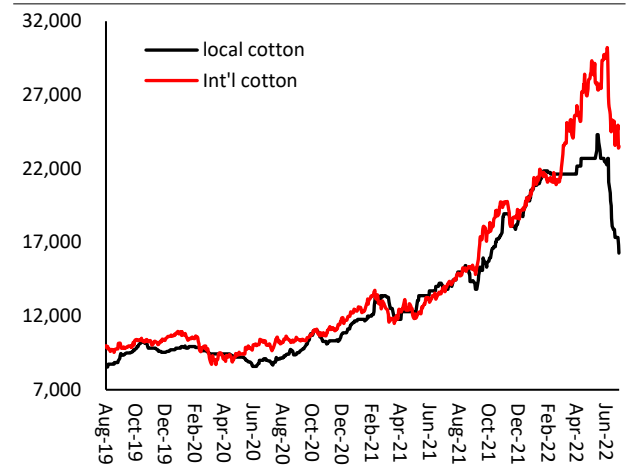
Our top picks in the sector are ILP and NML.

**Fig 1: FY22 textile exports breakdown (US\$ mn)**



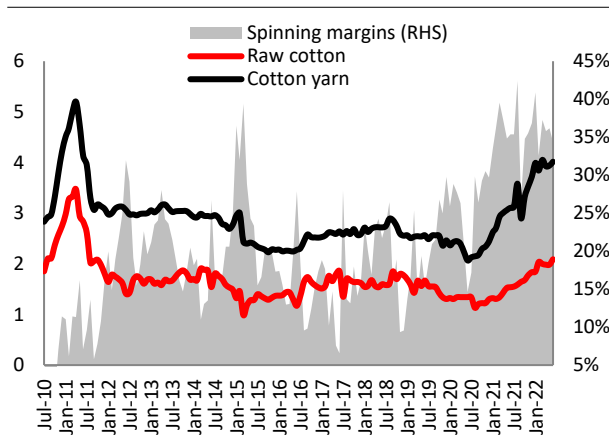
Source: PBS, Foundation Research, Jul 2022

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



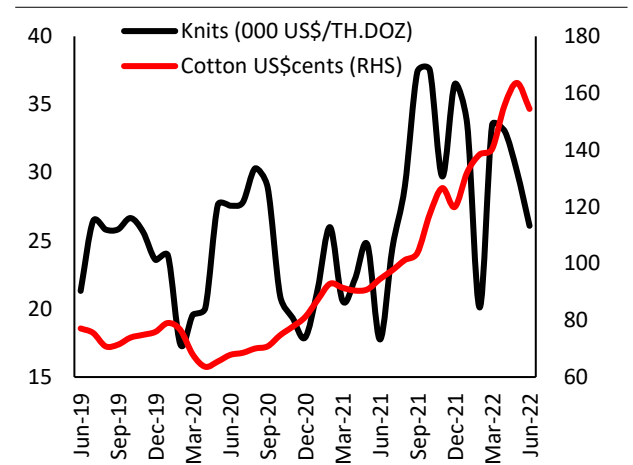
Source: PBS, Foundation Research, Jul 2022

**Fig 3: Spinning margins sustaining at 12yr highs**



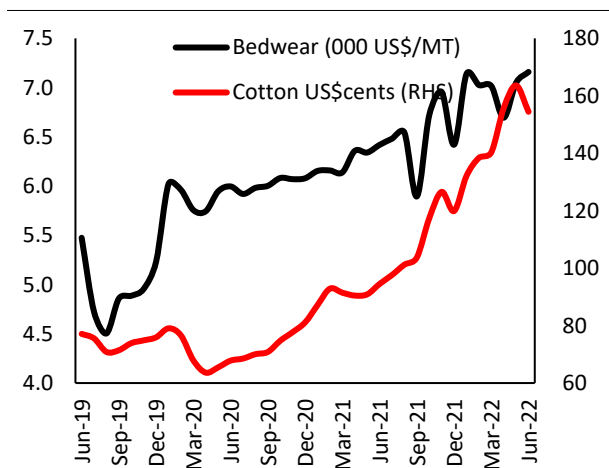
Source: Bloomberg, PBS, FSL Research, Jul 2022

**Fig 4: Knitwear prices and cotton prices**



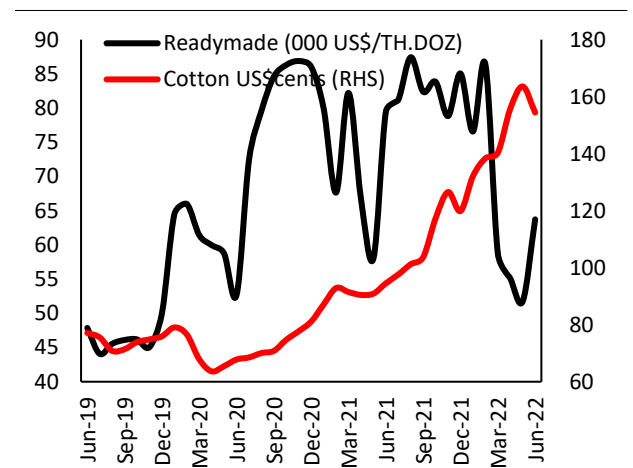
Source: Bloomberg, PBS, FSL Research, Jul 2022

**Fig 5: Bedwear and cotton prices rose in tandem**



Source: Bloomberg, PBS, FSL Research, Jul 2022

**Fig 6: Readymade garment prices and cotton prices**



Source: Bloomberg, PBS, FSL Research, Jul 2022

**Abbreviations**

FBR	Federal Board of Revenue
LT	Long Term
MoM	Month on Month
SBP	State Bank of Pakistan
YoY	Year on Year

**Important disclosures:**

**Disclaimer:** This report has been prepared by FSL. The information and opinions contained herein have been compiled or arrived at based upon information obtained from sources believed to be reliable and in good faith. Such information has not been independently verified and no guaranty, representation or warranty, express or implied is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. This document is for information purposes only. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete and this document is not, and should not be construed as, an offer, or solicitation of an offer, to buy or sell any securities or other financial instruments. FSL may, to the extent permissible by applicable law or regulation, use the above material, conclusions, research or analysis before such material is disseminated to its customers. Not all customers will receive the material at the same time. FSL, their respective directors, officers, representatives, employees, related persons may have a long or short position in any of the securities or other financial instruments mentioned or issuers described herein at any time and may make a purchase and/or sale, or offer to make a purchase and/or sale of any such securities or other financial instruments from time to time in the open market or otherwise, either as principal or agent. FSL may make markets in securities or other financial instruments described in this publication, in securities of issuers described herein or in securities underlying or related to such securities. FSL may have recently underwritten the securities of an issuer mentioned herein. This document may not be reproduced, distributed or published for any purposes.

**Research Dissemination Policy:** Foundation Securities (Pvt.) Ltd. endeavors to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as mail, fax and/or email. Nevertheless, not all clients may receive the material at the same time.

**Target price risk disclosures:** Any inability to compete successfully in their markets may harm the business. This could be a result of many factors which may include geographic mix and introduction of improved products or service offerings by competitors. The results of operations may be materially affected by global economic conditions generally, including conditions in financial markets. The company is exposed to market risks, such as changes in interest rates, foreign exchange rates and input prices. From time to time, the company will enter into transactions, including transactions in derivative instruments, to manage certain of these exposures.

**Analyst certification:** The views expressed in this research accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst principally responsible for the preparation of this research receives compensation based on overall revenues of Foundation Securities and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

**Recommendations definitions**

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