

PAKISTAN



FSL Textile Universe Profitability

	1QFY23	1QFY22	YoY	QoQ
ILP	5.3	3.0	76%	-12%
NML	4.0	9.4	-57%	12%

Dividend Expectation (Rs/sh)

ILP	-
NML	-

Textile Exports

US\$ mn	2MFY23	2MFY22	YoY	Share
Cotton yarn	160	193	-17%	5%
Cotton cloth	377	368	3%	12%
Knit wear	885	757	17%	29%
Bed wear	512	528	-3%	17%
Ready made garments	635	585	8%	21%
Others	487	503	-3%	16%
Total	3,056	2,934	4%	100%

Source: PBS, Foundation Research, Oct 2022

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Pakistan Textiles

Profitability to increase in 1QFY23

Event

- Profitability of FSL Textile sector is projected to increase by 3% YoY in 1QFY23 on the back of sustained profitability of Interloop amid robust textile exports (provisionally up 4% YoY in 1QFY23) and ~25.3% YoY Rs-US\$ depreciation. Sequentially, profitability of the sector would fall by 7%.
- Record floods in the South cotton growing belt would not affect textile exports, in our view, as textile companies would rely on imported cotton instead. Gov't has also assured textile companies that it would facilitate cotton imports to meet the shortfall in domestic cotton production.

Impact

- **FSL Textile sector profitability to rise in 1QFY23:** Amid robust textile exports (up 4% YoY in 1QFY23 as per provisional APTMA data) and benefit of steep Rupee-US\$ depreciation of ~25.3% YoY, we project that FSL textile sector profitability would increase by 3% YoY during 1QFY23 but decline by 7% QoQ.
- **ILP profitability to remain elevated:** Interloop's EPS is estimated to be Rs5.27 in 1QFY23, up/down 76/12% YoY/QoQ, driven by 56% YoY higher sales and elevated gross margins amid 25.3% YoY depreciation of Rs-US\$ parity despite 46% YoY higher cotton prices.
- **NML to post EPS of Rs4.0:** Nishat Mills is projected to post profitability of Rs4.02/sh in 1QFY23, down/up 57/12% YoY/QoQ amid lower gross margins given 46% YoY higher cotton cost and elevated gas/coal prices despite higher sales (up by 25% YoY) and benefit of Rs-US\$ depreciation of 25.3% YoY.
- **Gov't goes out of its way to support sector amid record floods:** Gov't has assured textile companies that it would facilitate the sector by (1) easing the process of opening cotton import LC's to meet the shortfall in domestic cotton production amid record floods in the South cotton growing belt and (2) ensuring availability of gas during winters. Pakistan Cotton Ginners Association report dated 3 October 2022 shows that cotton arrivals in Punjab/Sindh were up/down 3/41% YoY resulting in overall decline of 24% YoY with about half of the crop harvested (2.9mn bales).
- **Mixed trend in value added exports:** In 2MFY23, exports of readymade garments increased by 8% YoY as quantity exported was up by 61% YoY (prices down by 33% YoY). Knit wear exports rose by 17% YoY as quantity inclined by 66% YoY (prices down by 30% YoY). Bed wear exports decreased by 3% YoY as quantity was down by 22% YoY (prices up by 25% YoY). Share of readymade garments and knit wear increased by 1/3ppt YoY to 21/29%. Whereas share of bed wear declined by 1ppt YoY to 17%.
- **Basic textile exports also depict mixed trend:** During 2MFY23, cotton cloth exports increased by 3% YoY as quantity declined by 33% YoY (prices increased by 53% YoY). Cotton yarn exports decreased by 17% YoY as quantity was down by 34% YoY (prices increased by 25% YoY). Share of cotton cloth remained flat YoY at 12% and cotton yarn declined by 1ppt YoY at 5%.

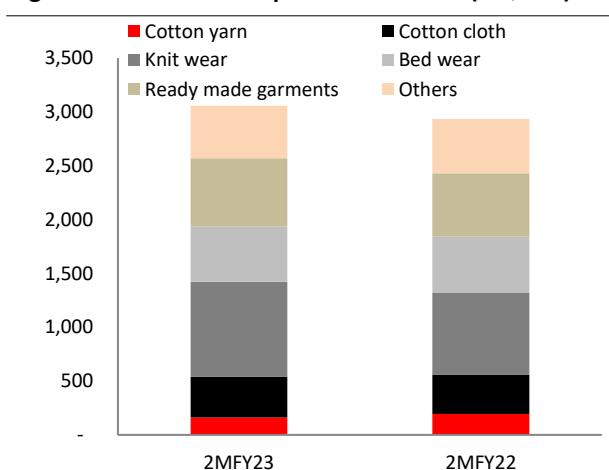
Outlook

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

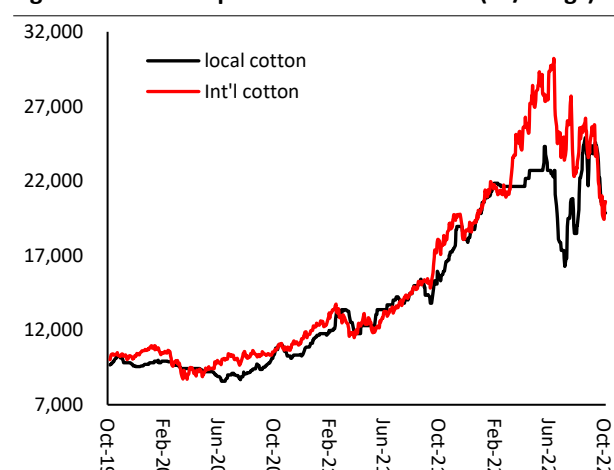
Table 1: FSL Textile sector 1QFY23 Profitability

	1QFY23	1QFY22	YoY	QoQ
Net sales	60,644	43,722	39%	-2%
Cost of sales	47,713	33,439	43%	-1%
Gross profit	12,931	10,282	26%	-6%
Distribution expenses	2,427	2,005	21%	-1%
Administrative expenses	1,917	1,337	43%	-1%
Other operating expenses	625	772	-19%	-25%
Other operating income	986	998	-1%	-38%
EBIT	8,948	7,166	25%	-11%
Finance Cost	1,664	648	157%	4%
Profit before taxation	7,284	6,518	12%	-14%
Taxation	1,140	537	112%	-39%
Profit after taxation	6,144	5,981	3%	-7%

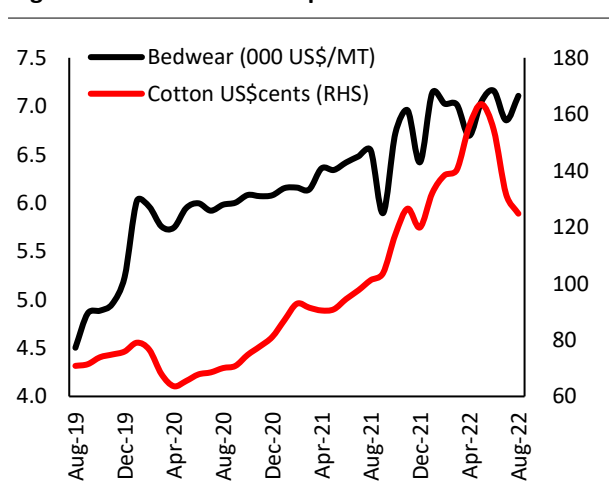
Source: Company Accounts, Foundation Research, October 2022

Fig 1: 2MFY23 textile exports breakdown (US\$ mn)

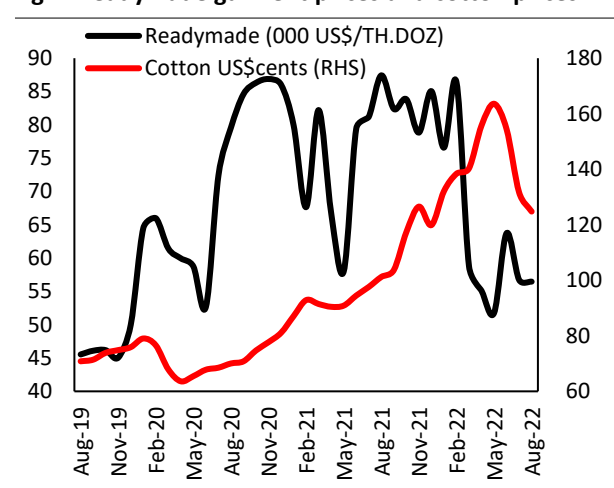
Source: PBS, Foundation Research, Oct 2022

Fig 2: Local cotton prices rose amid floods (Rs/40kgs)

Source: PBS, Foundation Research, Oct 2022

Fig 3: Bedwear and cotton prices

Source: Bloomberg, PBS, FSL Research, Oct 2022

Fig 4: Readymade garment prices and cotton prices

Source: Bloomberg, PBS, FSL Research, Oct 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:

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Recommendations definitions

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