

PAKISTAN



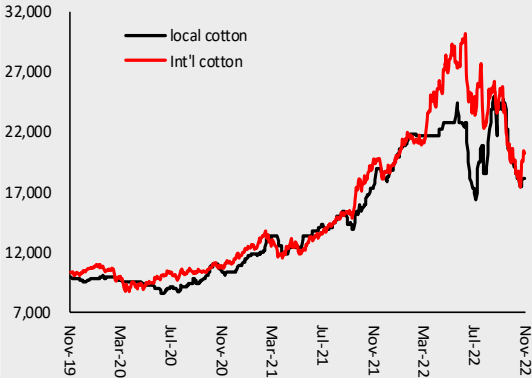
Textile Exports	4MFY23	4MFY22	YoY	Share
US\$ mn				
Cotton yarn	285	395	-28%	5%
Cotton cloth	750	741	1%	13%
Knit wear	1,713	1,602	7%	29%
Bed wear	997	1,091	-9%	17%
Ready made garments	1,187	1,159	2%	20%
Others	1,009	1,035	-2%	17%
Total	5,941	6,022	-1%	100%

Source: PBS, Foundation Research, Nov 2022

US\$ mn	Oct-22	Oct-21	YoY	MoM
Cotton yarn	49	106	-54%	-35%
Cotton cloth	170	184	-8%	-17%
Knit wear	392	457	-14%	-10%
Bed wear	217	288	-25%	-19%
Ready made garments	276	297	-7%	0%
Others	254	269	-5%	-5%
Total	1,357	1,601	-15%	-11%

Source: PBS, Foundation Research, Nov 2022

Local and International Cotton Prices (Rs/40kgs)



Source: Bloomberg, KCA, Foundation Research, Nov 2022

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Foundation Securities (Pvt) Ltd
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Pakistan Textiles

Exports fall off a cliff

Event

- Exports during Oct'22 exhibited a sharp decline of 15% YoY (down 11% MoM) to US\$1.36bn breaking a 16 month record run of exports exceeding US\$1.4bn due to slowdown in US and European markets given protracted monetary tightening amid multi decade high inflation. This cumulated into 4MFY23 exports declining by 1% YoY.
- Looking ahead, we are cautious as exports would continue to be impacted by economic slowdown in developed markets resulting in tepid demand for Pakistani textiles. However, this would be somewhat offset by the (1) recent currency depreciation and (2) Gov't support in facilitating cotton imports and fixing of electricity tariff at concessional rates.

Impact

- **Monthly exports fall:** During Oct'22, exports were ↓ 15/11% YoY/MoM. Looking at the breakdown, we note that readymade garments were ↓ 7%/flat YoY/MoM, knit wear was ↓ 14/10% YoY/MoM and bed wear was ↓ 25/19% YoY/MoM. Cotton cloth exports were ↓ 8/17% YoY/MoM and cotton yarn were ↓ 54/35% YoY/MoM.
- **Value added exports mostly rise:** In 4MFY23, exports of readymade garments increased by 2% YoY as quantity exported was up by 59% YoY (prices down by 35% YoY). Knit wear exports rose by 7% YoY as quantity inclined by 47% YoY (prices down by 27% YoY). Bed wear exports decreased by 9% YoY as quantity was down by 23% YoY (prices up by 19% YoY). Share of readymade garments was up 1ppt YoY at 20% and knit wear increased by 2ppts YoY to 29%. Whereas share of bed wear declined by 1ppt YoY to 17%.
- **Varied trend in basic textile exports:** During 4MFY23, cotton cloth exports increased by 1% YoY as quantity declined by 19% YoY (prices increased by 26% YoY). Cotton yarn exports decreased by 28% YoY as quantity was down by 31% YoY (prices increased by 5% YoY). Share of cotton cloth remained flat YoY at 13% and cotton yarn declined by 2ppts YoY to 5%.
- **Gov't to support sector amid record floods:** Gov't has assured textile companies that it would facilitate the sector by 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. Pakistan Cotton Ginners Association report dated 3rd November 2022 shows that cotton arrivals in Punjab/Sindh were down 29/51% YoY resulting in overall decline of 41% YoY with ~85% of the crop harvested (3.7mn bales). Resultantly, FY23 production is projected at ~4.4mn bales.

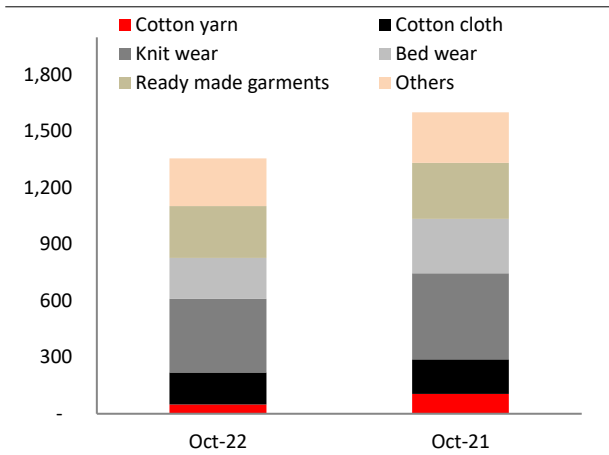
- **Gas woes to disrupt winter production:** SSGC has notified that gas supply to all local industrial customers for power generation in the south of the country would be suspended for three and a half months from Nov'15 2022 to Feb'28 2023. As grid electricity would neither be sufficient nor efficient for textile units, we expect that profitability of textile companies would be impacted.

Outlook

- Looking ahead, we are cautious as exports would continue to be impacted by economic slowdown in developed markets resulting in tepid demand for Pakistani textiles. However, this would be somewhat offset by the (1) recent currency depreciation and (2) Gov't support in facilitating cotton imports and fixing of electricity tariff at concessional rates.

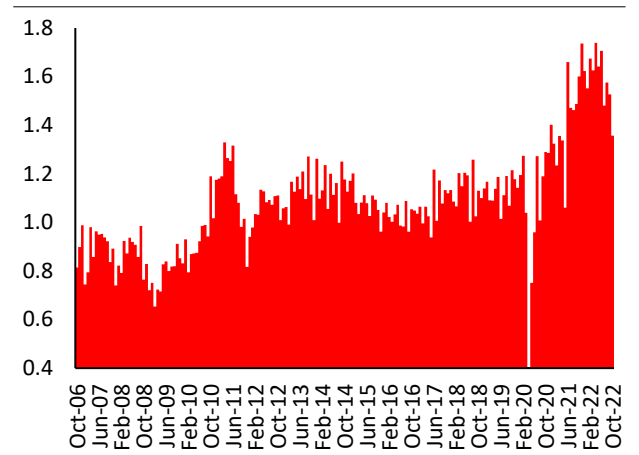
- Our top picks in the sector are ILP and NML.

Fig 1: Oct'22 textile exports breakdown (US\$ mn)



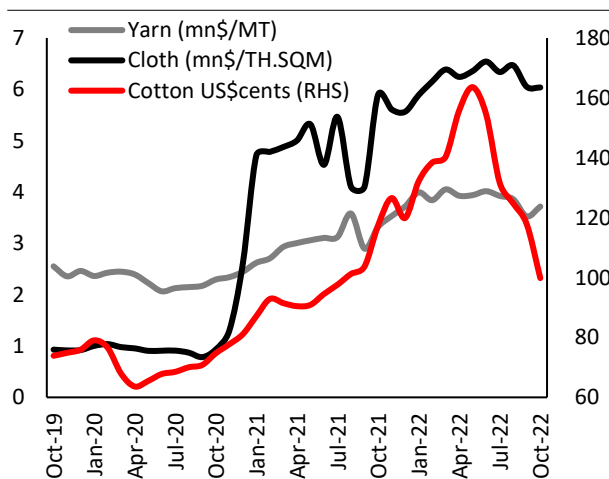
Source: PBS, Foundation Research, Nov 2022

Fig 2: Monthly textile exports (US\$ bn)



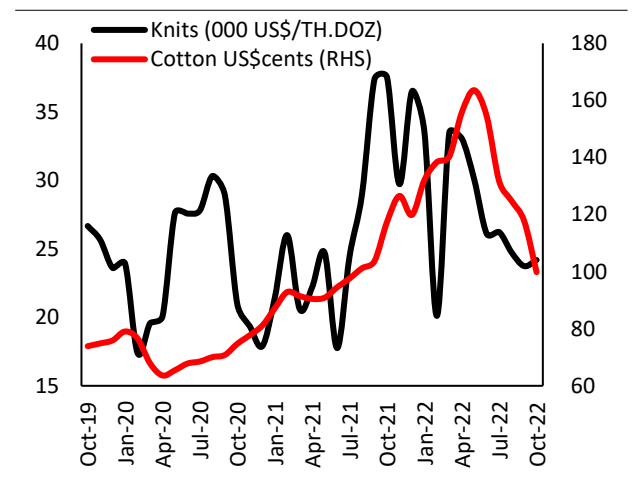
Source: PBS, Foundation Research, Nov 2022

Fig 3: Basic textile and cotton prices



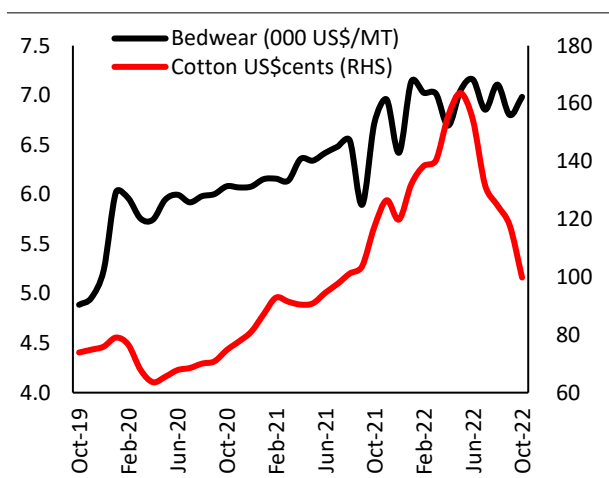
Source: Bloomberg, PBS, FSL Research, Nov 2022

Fig 4: Knitwear prices and cotton prices



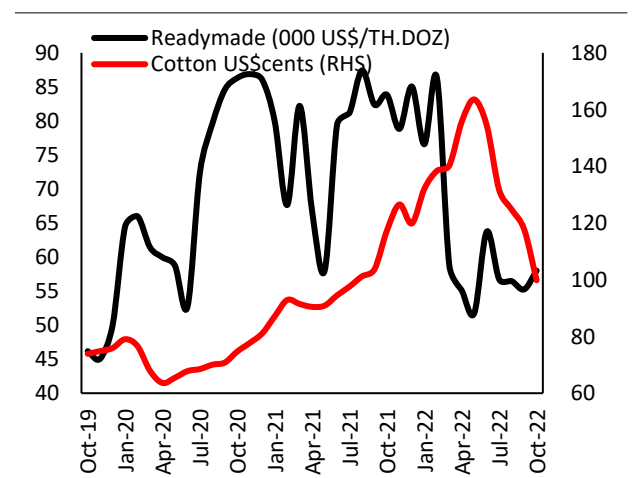
Source: Bloomberg, PBS, FSL Research, Nov 2022

Fig 5: Bedwear and cotton prices



Source: Bloomberg, PBS, FSL Research, Nov 2022

Fig 6: Readymade garment prices and cotton prices



Source: Bloomberg, PBS, FSL Research, Nov 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.