

PAKISTAN

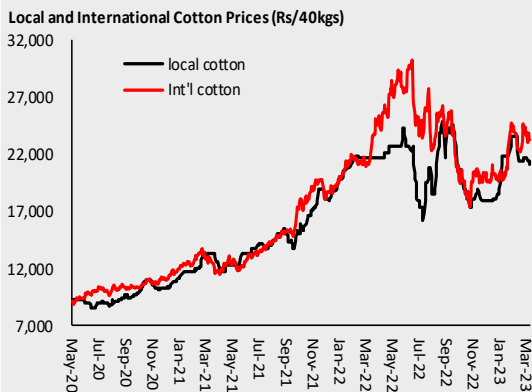


Textile Exports				
US\$ mn	8MFY23	8MFY22	YoY	Share
Cotton yarn	505	816	-38%	5%
Cotton cloth	1,380	1,585	-13%	12%
Knit wear	3,079	3,305	-7%	27%
Bed wear	1,835	2,188	-16%	16%
Ready made garments	2,381	2,519	-5%	21%
Others	2,039	2,205	-8%	18%
Total	11,219	12,617	-11%	100%

Source: PBS, Foundation Research, Mar 2023

US\$ mn	Feb-23	Feb-22	YoY	MoM
Cotton yarn	56	128	-56%	-18%
Cotton cloth	155	233	-33%	-3%
Knit wear	277	414	-33%	-18%
Bed wear	196	262	-25%	-7%
Ready made garments	255	354	-28%	-13%
Others	242	284	-15%	-5%
Total	1,180	1,675	-30%	-11%

Source: PBS, Foundation Research, Mar 2023



Source: Bloomberg, KCA, Foundation Research, Mar 2023

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Foundation Securities (Pvt) Ltd
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Pakistan Textiles

Whooping fall in exports amid demand slowdown

Event

▪ Exports during Feb'23 suffered a steep decline of 30% YoY (down 11% MoM) to US\$1.18bn, the 5th consecutive month of exports declining by double digits due to slowdown in US and European markets given protracted monetary tightening amid multi decade high inflation. This cumulated into 8MFY23 exports declining by 11% YoY.

▪ Looking ahead, we are bearish as exports would continue to be impacted by economic slowdown in developed markets resulting in declining demand for Pakistani textiles. The extraordinary decline in cotton crop during this year due to record floods would cause spinning sector to regress. Moreover, Gov't decision to withdraw concessional electricity tariff for export sector would negatively impact profitability. However, these negatives would be somewhat offset by the recent currency depreciation.

Impact

▪ **Monthly exports fall:** During Feb'23, exports were ↓ 30/11% YoY/MoM. Looking at the breakdown, we note that readymade garments were ↓ 28/13% YoY/MoM, knit wear was ↓ 33/18% YoY/MoM and bed wear was ↓ 25/7% YoY/MoM. Cotton cloth exports were ↓ 33/3% YoY/MoM and cotton yarn were ↓ 56/18% YoY/MoM.

▪ **Across the board decline in exports observed during 8MFY23:** Exports of readymade garments decreased by 5% YoY as quantity exported was up by 65% YoY (prices down by 43% YoY). Knit wear exports fell by 7% YoY as quantity inclined by 7% YoY (prices down by 13% YoY). Bed wear exports decreased by 16% YoY as quantity was down by 24% YoY (prices up by 11% YoY). Share of readymade garments was up 1ppt YoY at 21% and knit wear increased by 1ppts YoY to 27%. Whereas share of bed wear declined by 1ppt YoY to 16%.

▪ Cotton cloth exports decreased by 13% YoY as quantity declined by 27% YoY (prices increased by 19% YoY). Cotton yarn exports declined by 38% YoY as quantity was down by 31% YoY (prices decreased by 10% YoY). Share of cotton cloth remained flat YoY at 12% and cotton yarn declined by 2ppts YoY to 5%.

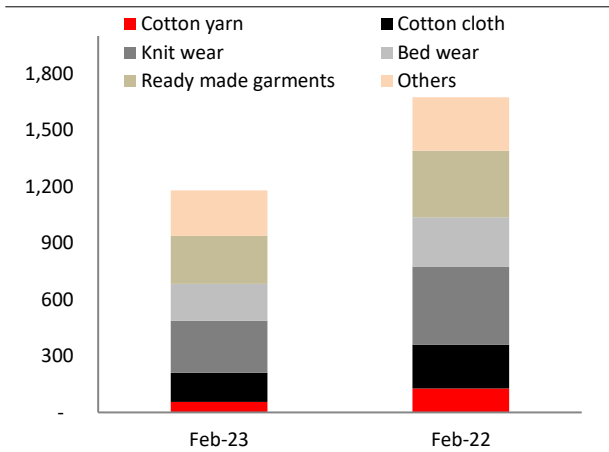
▪ To make up for the shortfall in domestic cotton production amid record floods, Gov't has facilitated the sector by easing the process of importing cotton. Subsequently, cotton imports are ~3.0mn bales in 8MFY23, up by 19.5% YoY. To note, Pakistan Cotton Ginners Association report dated Mar 3'2023 shows that cotton arrivals in Punjab/Sindh were down 24/46% YoY resulting in overall decline of 34% YoY with almost all of the crop harvested (4.88 mn bales) which is a 29 year low.

Outlook

▪ Looking ahead, we are bearish as exports would continue to be impacted by economic slowdown in developed markets resulting in declining demand for Pakistani textiles. The extraordinary decline in cotton crop during this year due to record floods would cause spinning sector to regress. Moreover, Gov't decision to withdraw concessional electricity tariff for export sector would negatively impact profitability. However, these negatives would be somewhat offset by the recent currency depreciation.

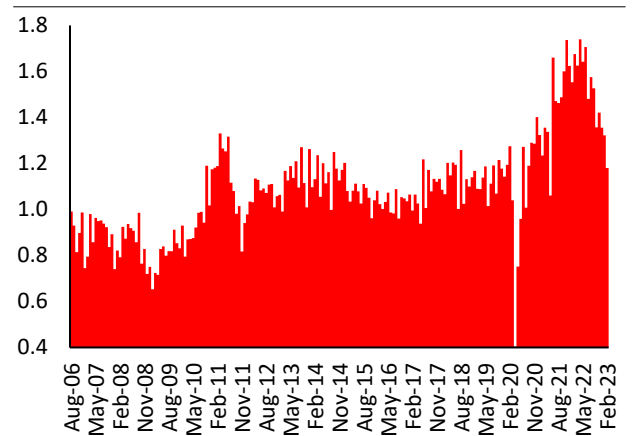
▪ Our top picks in the sector are ILP and NML.

Fig 1: Feb'23 textile exports breakdown (US\$ mn)



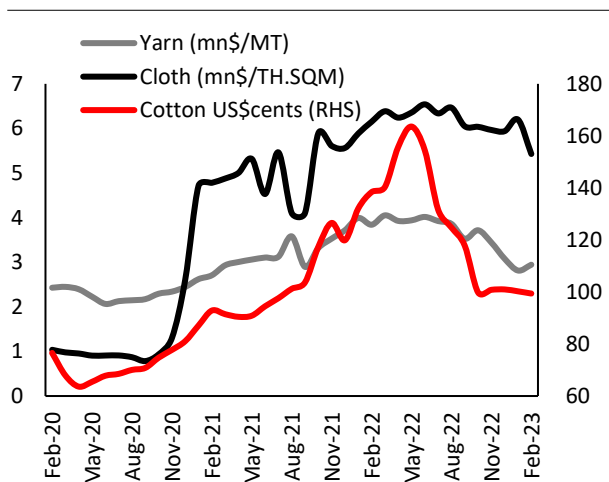
Source: PBS, Foundation Research, Mar 2023

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



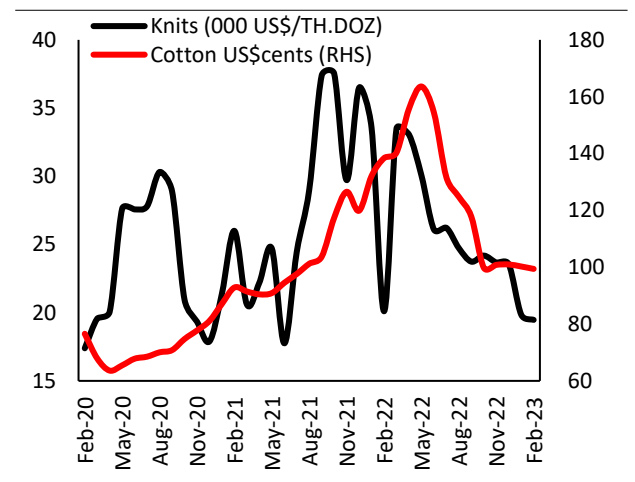
Source: PBS, Foundation Research, Mar 2023

Fig 3: Basic textile and cotton prices



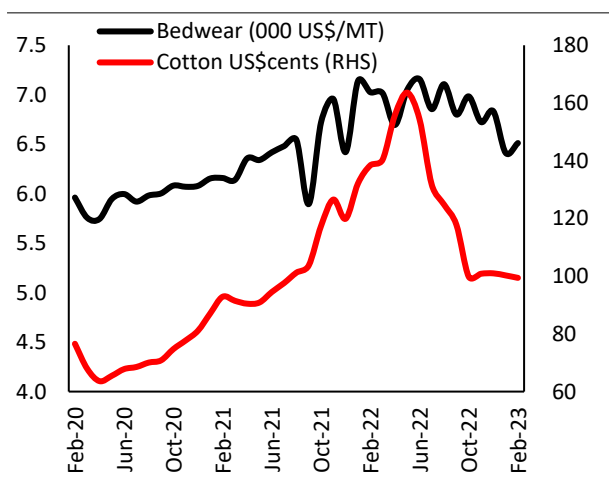
Source: Bloomberg, PBS, FSL Research, Mar 2023

Fig 4: Knitwear prices and cotton prices



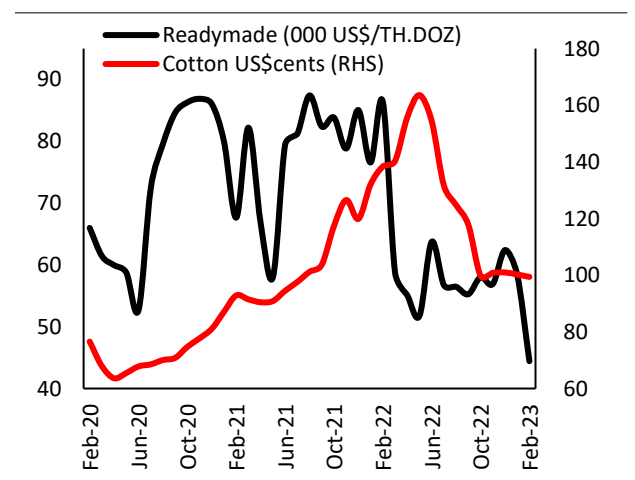
Source: Bloomberg, PBS, FSL Research, Mar 2023

Fig 5: Bedwear prices remain sticky



Source: Bloomberg, PBS, FSL Research, Mar 2023

Fig 6: Readymade garment prices nosedived



Source: Bloomberg, PBS, FSL Research, Mar 2023

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.