

PAKISTAN



Textile Exports

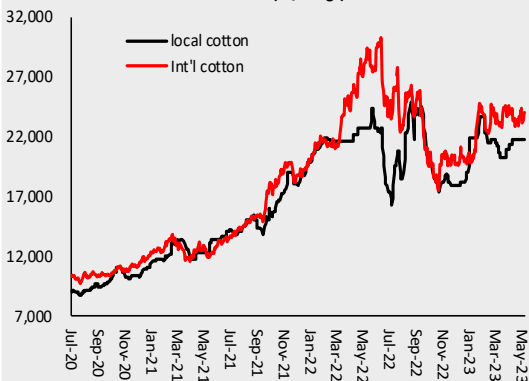
US\$ mn	10MFY23	10MFY22	YoY	Share
Cotton yarn	637	1,006	-37%	5%
Cotton cloth	1,685	2,006	-16%	12%
Knit wear	3,712	4,218	-12%	27%
Bed wear	2,250	2,727	-18%	16%
Ready made garments	2,905	3,214	-10%	21%
Others	2,521	2,811	-10%	18%
Total	13,709	15,982	-14%	100%

Source: PBS, Foundation Research, May 2023

US\$ mn	Apr-23	Apr-22	YoY	MoM
Cotton yarn	64	98	-35%	-6%
Cotton cloth	147	210	-30%	-7%
Knit wear	322	488	-34%	3%
Bed wear	218	279	-22%	11%
Ready made garments	247	351	-29%	-10%
Others	235	314	-25%	-5%
Total	1,233	1,739	-29%	-2%

Source: PBS, Foundation Research, May 2023

Local and International Cotton Prices (Rs/40kgs)



Source: Bloomberg, KCA, Foundation Research, May 2023

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Foundation Securities (Pvt) Ltd
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Pakistan Textiles

Unabated decline in exports amid protracted slowdown

Event

Exports during Apr'23 suffered a steep decline of 29% YoY (down 2% MoM) to US\$1.2bn, the 7th consecutive month of exports declining by double digits due to slowdown in US and European markets given monetary tightening amid multi decade high inflation. This cumulated into 10MFY23 exports declining by 14% 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 steep currency depreciation during FY23.

Impact

Monthly exports mostly fall: During Apr'23, exports were ↓ 29/2% YoY/MoM. Looking at the breakdown, we note that readymade garments were ↓ 29/10% YoY/MoM, knit wear was ↓ 34% YoY (↑ 3% MoM) and bed wear was ↓ 22% YoY (↑ 11% MoM). Cotton cloth exports were ↓ 30/7% YoY/MoM and cotton yarn were ↓ 35/6% YoY/MoM.

Across the board decline in exports observed during 10MFY23: Exports of readymade garments decreased by 10% YoY as quantity exported was up by 51% YoY (prices down by 40% YoY). Knit wear exports fell by 12% YoY as quantity inclined by 7% YoY (prices down by 18% YoY). Bed wear exports decreased by 18% YoY as quantity was down by 23% YoY (prices up by 7% YoY). Share of readymade garments was up 1ppt YoY to 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 16% YoY as quantity declined by 15% YoY (prices increased by 13% YoY). Cotton yarn exports declined by 37% YoY as quantity was down by 27% YoY (prices decreased by 13% YoY). Share of cotton cloth remained flat YoY at 12% and cotton yarn declined by 2ppts YoY to 5%.

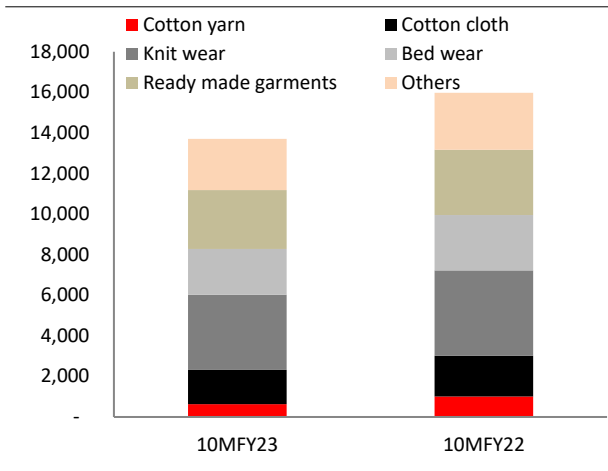
Crops facing water shortage: Cotton sowing is underway across the country amidst shortage of irrigation water. In Punjab and Sindh provinces, water shortage is projected to be 27% in this kharif season. Whereas, water shortage would be more acute in Sindh. Also, areas in the cotton growing belt of South Punjab (which produces 91% of the provinces' cotton) are currently being provided 53k cusecs against share of 45k cusecs. To note, cotton production in Punjab/Sindh was down 23/47% YoY in FY23 resulting in overall decline of 34% YoY to 4.91 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.

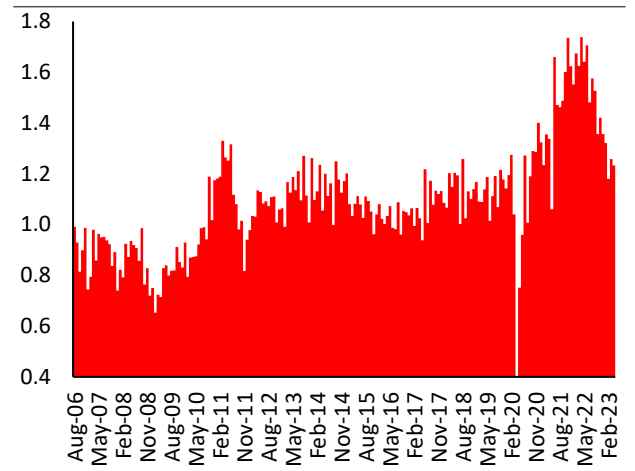
Our top picks in the sector are ILP and NML.

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



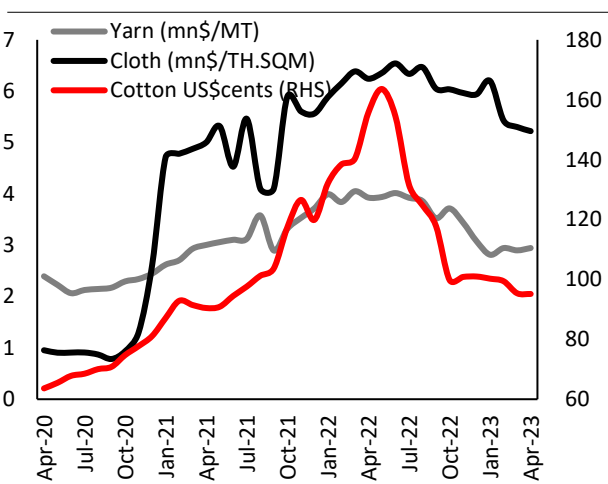
Source: PBS, Foundation Research, May 2023

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



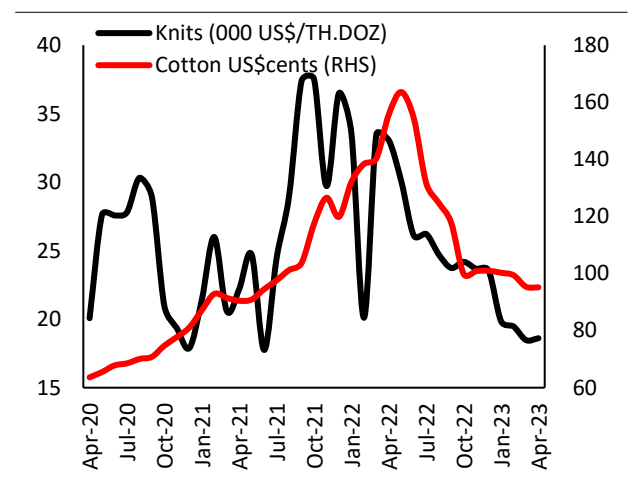
Source: PBS, Foundation Research, May 2023

Fig 3: Basic textile and cotton prices



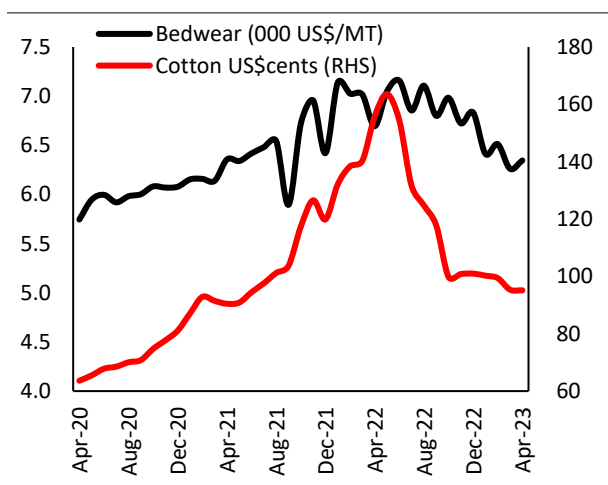
Source: Bloomberg, PBS, FSL Research, May 2023

Fig 4: Knitwear prices and cotton prices



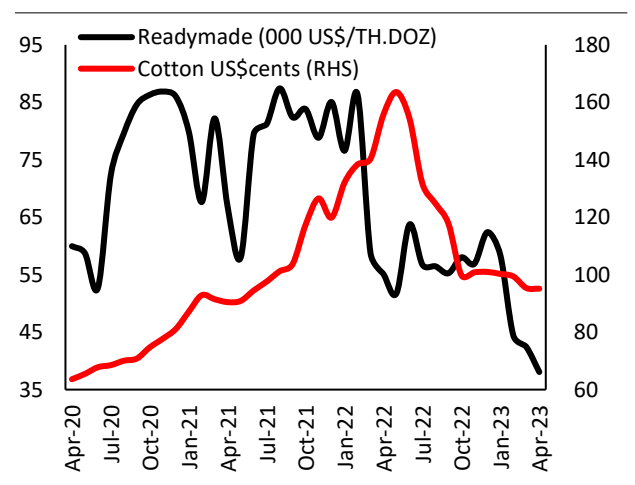
Source: Bloomberg, PBS, FSL Research, May 2023

Fig 5: Bedwear prices remain sticky



Source: Bloomberg, PBS, FSL Research, May 2023

Fig 6: Readymade garment prices nosedived



Source: Bloomberg, PBS, FSL Research, May 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.