

**PAKISTAN**



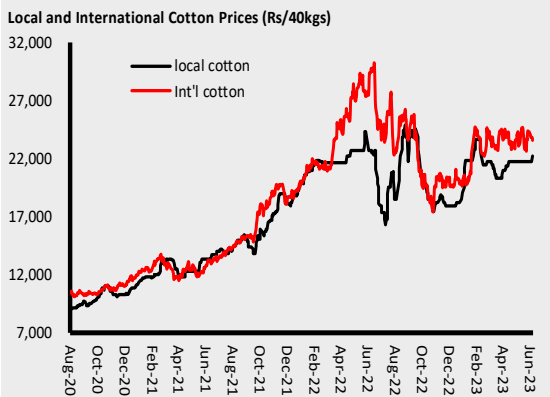
**Textile Exports**

US\$ mn	11MFY23	11MFY22	YoY	Share
Cotton yarn	737	1,113	-34%	5%
Cotton cloth	1,859	2,237	-17%	12%
Knit wear	4,045	4,646	-13%	27%
Bed wear	2,451	3,009	-19%	16%
Ready made garments	3,172	3,536	-10%	21%
Others	2,765	3,083	-10%	18%
<b>Total</b>	<b>15,030</b>	<b>17,624</b>	<b>-15%</b>	<b>100%</b>

Source: PBS, Foundation Research, Jun 2023

US\$ mn	May-23	May-22	YoY	MoM
Cotton yarn	100	107	-6%	57%
Cotton cloth	175	231	-24%	19%
Knit wear	333	428	-22%	3%
Bed wear	201	281	-28%	-8%
Ready made garments	268	322	-17%	8%
Others	244	273	-11%	4%
<b>Total</b>	<b>1,321</b>	<b>1,642</b>	<b>-20%</b>	<b>7%</b>

Source: PBS, Foundation Research, Jun 2023



Source: Bloomberg, KCA, Foundation Research, Jun 2023

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# Pakistan Textiles

## Exports continue sliding amid Gov't withdrawing energy subsidy in Budget

### Event

- Exports during May'23 suffered a steep decline of 20% YoY (up 7% MoM) to US\$1.3bn, the 8th 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 11MFY23 exports declining by 15% 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 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.

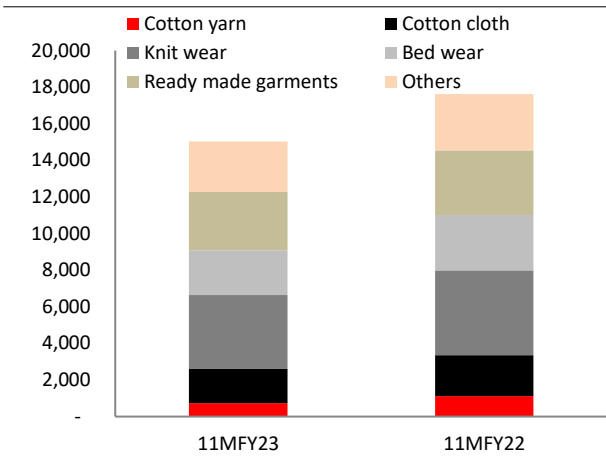
### Impact

- **Monthly exports fall YoY but mostly rise sequentially:** During May'23, exports were ↓/↑ 20/7% YoY/MoM. Looking at the breakdown, we note that readymade garments were ↓/↑ 17/8% YoY/MoM, knit wear was ↓/↑ 22/3% YoY/MoM and bed wear was ↓ 28/8% YoY/MoM. Cotton cloth exports were ↓/↑ 24/19% YoY/MoM and cotton yarn were ↓/↑ 6/57% YoY/MoM.
- **Exports declined across the board during 11MFY23:** Exports of readymade garments decreased by 10% YoY as quantity exported was up by 46% YoY (prices down by 39% YoY). Knit wear exports fell by 13% YoY as quantity inclined by 9% YoY (prices down by 20% YoY). Bed wear exports decreased by 19% YoY as quantity was down by 23% YoY (prices up by 5% 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 17% YoY as quantity declined by 24% YoY (prices increased by 10% YoY). Cotton yarn exports declined by 34% YoY as quantity was down by 22% YoY (prices decreased by 15% YoY). Share of cotton cloth remained flat YoY at 12% and cotton yarn declined by 1ppts YoY to 5%.
- **Concessionary tariffs withdrawn:** The FY24 budget last week revealed that the Gov't has not allocated any subsidy for zero-rated industry or the industrial support package. This implies that the regionally competitive tariff for gas of US\$9/mmbtu and for electricity of US\$c9/kWh has been removed for FY24 and would negatively impact the profitability of the sector. Moreover, continuation of super tax at the rate of 10% in the FY24 budget would also impinge on the profitability of the sector.

### Outlook

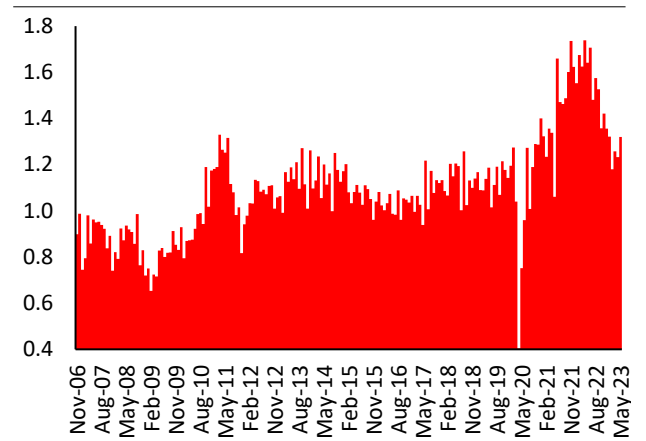
- Looking ahead, we are bearish as exports would continue to be impacted by economic slowdown in developed markets resulting in declining demand for Pakistani textiles. The extraordinary decline in cotton crop during this year due to record floods would cause spinning sector to regress. Moreover, Gov't decision to withdraw concessional electricity and gas 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: May'23 textile exports breakdown (US\$ mn)**



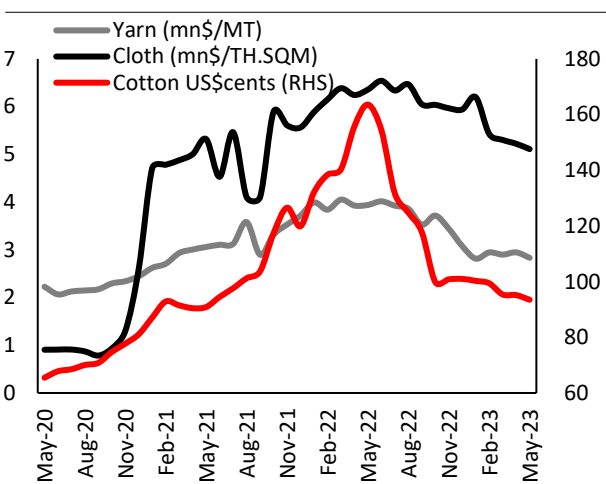
Source: PBS, Foundation Research, Jun 2023

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



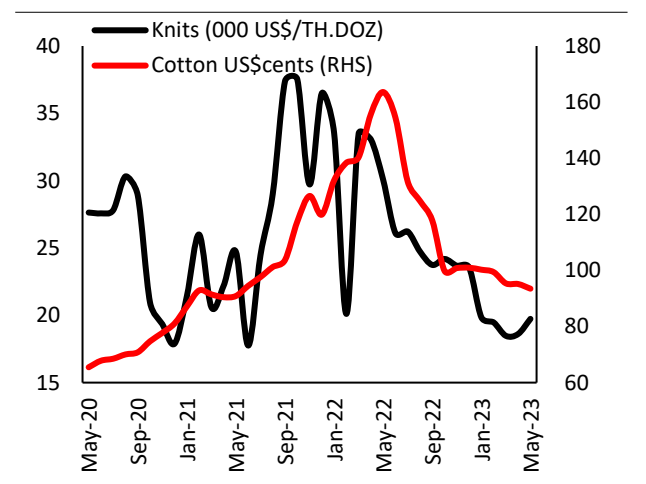
Source: PBS, Foundation Research, Jun 2023

**Fig 3: Basic textile and cotton prices**



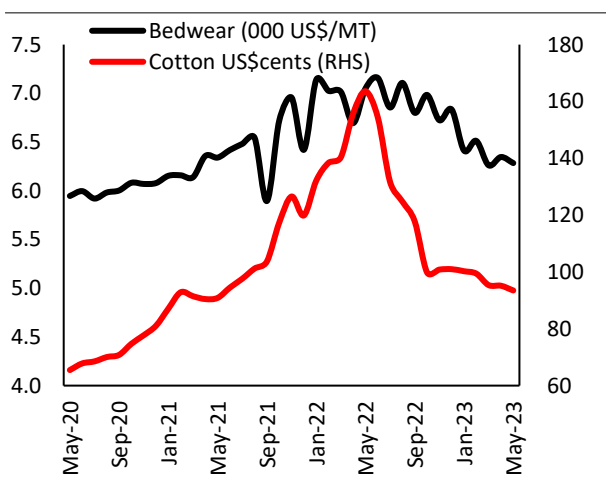
Source: Bloomberg, PBS, FSL Research, Jun 2023

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



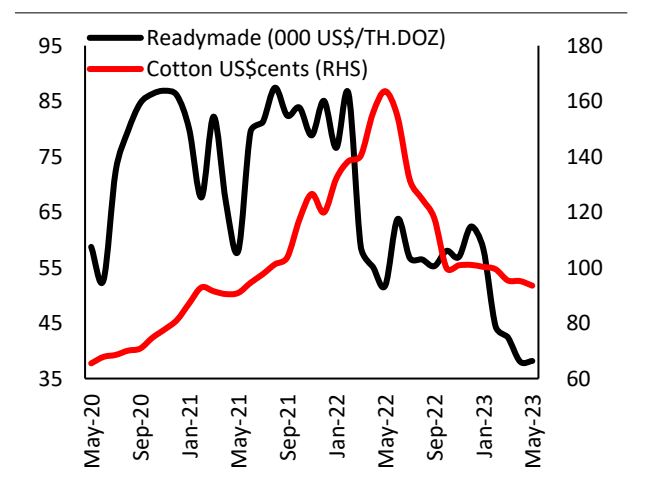
Source: Bloomberg, PBS, FSL Research, Jun 2023

**Fig 5: Bedwear prices remain sticky**



Source: Bloomberg, PBS, FSL Research, Jun 2023

**Fig 6: Readymade garment prices nosedived**



Source: Bloomberg, PBS, FSL Research, Jun 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.