

Pakistan Textiles

The much awaited export package

Wednesday January 11, 2017

Textile Sector Performance

	1M	3M	12M
Absolute %	2%	12%	35%
Relative to KSE %	-6%	-6%	-15%

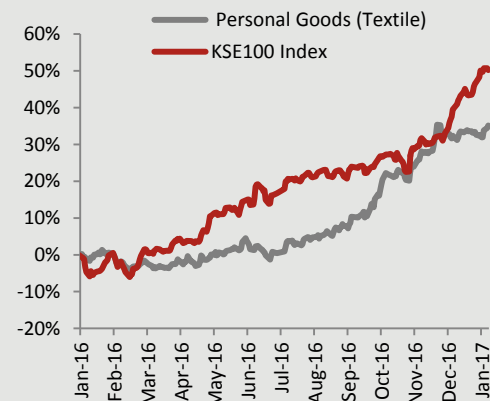
- The much anticipated package for export oriented sectors was announced by the government on Tuesday, with textile sector being the major beneficiary.
- As per the new package, the import duty on cotton, man-made fiber and machinery has been removed.
- The most alluring aspect of the package, however, is the new duty drawback mechanism under which drawback will be available on the entire export value (for six months) instead of the incremental 10% as previously announced in the budget.
- This is aimed at improving the competitive position of Pakistan's exports in the international arena and hence arrest the decline.
- The sector is expected to come in limelight post announcement of the package. We continue our preference for NML owing to i) the recent package announcement, ii) improving core operations and iii) strong portfolio value. Other notable mentions include GATM, NCL, KML, CRTM, REWM, MSOT, TATM and GADT.

Much awaited textile package: In an attempt to revamp the country's exports, the government has announced an incentives package worth PKR180bn for the export oriented sectors, textiles being the major beneficiary. The package envisages abolition of import duty on raw cotton, man-made fiber and textile machinery. The most enticing aspect of the package, however, is the new duty drawback mechanism under which drawback will be granted on the entire export value for the first six months of the ongoing year. It is pertinent to note here that the DLT mechanism already in place allows for a drawback only on the incremental value of exports, i.e. if the exports increased by 10%. The rates for drawback range from 4%-7% across the value chain (from spinning to garment). The package is expected to enhance the competitive position of Pakistan in the international arena as it is also in line with the regional drawback mechanisms (such as that in India where 4%-5% rebate is allowed on garment exports).

Major Beneficiaries: With a stable currency and higher energy costs compared to regional peers, textile exports witnessed a decline of 8% and 2% in FY16 and 5MFY17, respectively. The sector has not been able to gather considerable investor attention in the last couple of years (FY15 and FY16 despite the GSP plus status) owing to negative sentiments surrounding it. However, the recently announced package will save the day for the industry by benefitting the players across the board. In this regard, within BMA Textile Universe, NML, NCL and GATM will have tentative impacts of PKR2.6/sh (16%), PKR1.8/sh (23%) and PKR1.7/sh (36%), respectively (assuming average drawback rate of 5%). Additionally, we expect KML, CRTM, REWM, MSOT, TATM and GADT to be the other beneficiaries of the said development. However, the effectiveness of the new drawback structure remains contingent on the ability of the government to clear the outstanding amounts.

Investment Perspective: After a gloomy end to FY16, we expect the tailwinds for the sector post announcement of the incentive package. We continue our preference for NML owing to i) recent package announcement, ii) improving core operations and iii) strong portfolio value. Other notable mentions include GATM, NCL, KML, CRTM, REWM, TATM and GADT.

Relative Chart KSE100 vs Textile Sector



Source: PSX, BMA Research

Impact of the package on textile companies

Company	Export Sales	Rebate (5%)	Impact (PKR/sh)	FY16 EPS
ADMM	6,049	151	1.80	4.5
ANL	11,737	293	0.65	-1.79
CRTM	6,880	172	2.15	3.57
FML	19,889	497	1.32	10.11
GADT	7,603	190	6.78	-9.77
GATM	19,742	494	1.66	3.84
HIRAT	2,734	68	0.79	1.08
KML	7,134	178	3.50	2.33
KTML	8,180	204	0.72	7.55
MQTM	1,542	39	2.29	-3.59
MSOT	21,851	546	9.10	11.64
NCL	17,690	442	1.84	5.53
NML	35,931	898	2.56	14
RCML	2,619	65	6.36	11.84
REWM	4,947	124	4.01	0.1
SAPT	13,783	345	17.16	72.11
TATM	3,464	87	5.00	-11.22
ZAHID	1,959	49	0.27	1.86

Source: BMA Research

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Rating definitions

Overweight	Total stock return > expected market return + 2%
Market-weight	Expected market return \pm 2%
Underweight	Total stock return < expected market return - 2%

*Total stock return = capital gain + dividend yield

Old rating system (discarded effective Feb 29'16)

Buy	>20% upside potential
Accumulate	>=5% to <=20% upside potential
Hold	<5% to >5% potential
Reduce	<=-5% to >=-20% downside potential
Sell	<-20% downside potential

Valuation Methodology

To arrive at our period end target prices, BMA Capital uses different valuation methodologies including

- Discounted cash flow (DCF, DDM)
- Relative Valuation (P/E, P/B, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)