

Pakistan Textile Sector

Earnings Preview - Rising textile exports to keep earnings robust in 3Q

Tuesday, April 26, 2022

BMA Textile universe is estimated to undergo an impressive jump in revenue and profitability to PKR 78Bn ($\uparrow 48/5\%$ YoY/QoQ) and PKR 6.6Bn ($\uparrow 25/2\%$ YoY/QoQ), respectively for the quarter ended Mar'22, primarily on the back of rising textile exports (Jan-Mar'22 Exports: USD 4.9Bn, $\uparrow 24\%$ YoY), strong demand from the retail segment and hefty inventory gains. Talking about individual companies, NML, ILP & GATM are expected to post earnings of PKR 6.1/2.4/3.7 per share respectively in QEMar22, $\uparrow 15/23/35\%$ YoY respectively. We do not expect interim pay-outs from these companies, however, remain bullish on the sector on account of rising textile exports amid conducive policy environment.

NML: NML is expected to announce PAT of PKR 2.2Bn (EPS: PKR 6.1) in 3QFY22 ($\uparrow 15\%$ YoY, $\downarrow 7\%$ QoQ), taking overall profitability in 9MFY22 to PKR 7.8Bn (EPS: PKR 22.1, $\uparrow 113\%$ YoY). The YoY improvement in earnings is expected on the back of strong core operations due to higher sector exports ($\uparrow 24\%$ YoY in QEMar22) and PKR depreciation of 2% during Jan-Mar'22. Moreover, inventory gains are also expected to boost profitability given the fact that the company procured cotton at ~PKR 15k/maund compared to current market prices of ~PKR 20k/maund. Finance cost is expected to increase by $\sim 47/25\%$ YoY/QoQ on account of rising short term debt ($\uparrow 80\%$ since Jun-21) and higher interest rates.

ILP: ILP is expected to post PAT of PKR 2.1Bn (EPS: PKR 2.4) in 3QFY22 ($\uparrow 23/6\%$ YoY/QoQ). Resultantly, overall profitability in 9MFY22 is expected to surge to PKR 6.9Bn (EPS: PKR 7.6, $\uparrow 43\%$ YoY). We expect major impetus to come from the hosiery segment that is a direct beneficiary of rising exports. Note that cross border revenue constitutes $\sim 90\%$ of overall revenues for the company. ILP is also expected to benefit from exchange gains as PKR depreciated by $\sim 2\%$ in the past quarter. Finance costs are expected to increase by $\sim 92/13\%$ YoY/QoQ on the back of rising debt levels, despite subsidized financing through TERF and LTFF.

GATM: GATM is expected to post a PAT of PKR 2.3Bn (EPS: PKR 3.7) in 3QFY22 ($\uparrow 35/7\%$ YoY/QoQ) pulling profitability in 9MFY22 to PKR 5.6Bn (EPS: PKR 9.2, $\uparrow 64\%$ YoY). We expect exports, which constitute $\sim 65\%$ of total sales mix of the company to continue to keep earnings momentum strong in the near term. Other income is also expected to rise on the back of exchange gains and higher income from fixed investments. Major revenue growth is expected to stem from the value-added segment in lieu of sizable order backlog from the company's major exporting markets (USA & EU). Finance costs are expected to increase by $\sim 95/10\%$ YoY/QoQ due to greater leverage ($\uparrow 6\%$ since Jun-21) and higher interest rates.

Textile Sector vs. KSE-100 Index



%	3M	6M	12M
Absolute	-1	-6	-0
Relative	-2	-6	-2

Source: PSX

Table 1: BMA Textile Universe Estimates

EPS	3QFY22E	3QFY21	% YoY	2QFY22	QoQ	9MFY22	9MFY21	YoY
NML	6.1	5.3	15%	6.6	-7%	22.1	10.4	113%
ILP	2.4	1.9	23%	2.3	6%	7.6	5.3	43%
GATM	3.7	2.7	35%	3.5	7%	9.2	5.6	64%

Source: BMA Research

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Buy	>15% expected total return
Hold	10%-15% expected total return
Underperform	<10% expected total return
*Total stock return = capital gain + dividend yield	

Old rating system

Overweight	Total sector return > expected market return
Marketweight	Expected market return
Underweight	Total stock return < expected market return

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.)