

PAKISTAN TEXTILE SECTOR

Growth momentum sustains but outlook remains bleak

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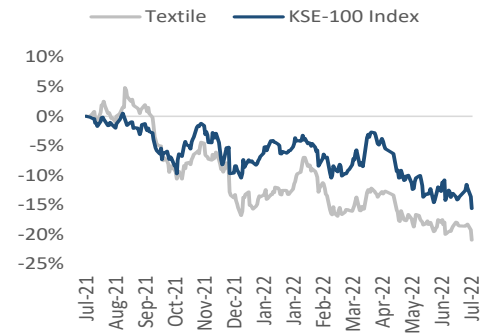
As per data released by Pakistan Bureau of Statistics (PBS), textile exports for the month of Jun'22 clocked-in at USD 1.7Bn (↑3/4% YoY/MoM). Cumulatively, this equates to exports of USD 19.3Bn in FY22 against USD 15.4Bn in the SPLY, registering robust growth of 25% YoY. This was achieved on the back of multiple incentives on offer by the govt (subsidized energy tariffs, low cost financing for expansion and working capital), strong demand for textile products and hefty PKR depreciation.

Value-added segment continues to drive performance: During the outgoing month, value-added exports clocked-in at USD 1.2Bn (↑7.4% YoY) despite a substantial volumetric decline of ~29% on a YoY basis. In FY22, total value-added exports clocked-in at USD 13.4Bn (↑27% YoY) despite marginal increase in volumes (7% YoY) on the back of ongoing commodity super cycle that resulted in record cotton prices, high global inflation, and hefty PKR depreciation (↓30% in FY22). Key contributions to the segment came from Knitwear (FY22: USD 5.1Bn, ↑34% YoY), Bedwear (FY22: USD 3.3Bn, ↑19% YoY), Towels (FY22: USD 1.1Bn, ↑18% YoY) and Readymade Garments (FY22: USD 3.9Bn, ↑29% YoY).

High cotton prices bode well for the basic textile segment: In FY22, basic textiles have contributed USD 3.7Bn to total exports as compared to USD 3.0Bn in SPLY (↑25% YoY). On the volumes front, the segment has shown sluggish performance having undergone a decline of ~46% largely because of rising focus on value-added products. Though volumes have declined, the segment has shown robust growth on the back of high cotton prices which increased by ~60% over the past year. Notable contributions from the segment have come from Cotton Yarn (FY22: USD 1.2Bn, ↑19% MoM) and Cotton Cloth (FY22: USD 2.4Bn, ↑27% YoY).

Outlook: Being the primary source of export-based revenue, textile sector continues to hold utmost importance in the country. With multiple incentives on offer by the govt. through favorable policies, the sector has shown robust performance during FY22. However, recent dynamics have created hurdles for the sector in the form of global inflation and reduced consumer spending, due to which growth is expected to come down sharply. The major exporting destinations i.e. US and EU are facing severe economic challenges in the form of high interest rates and multi-decade high inflation that are trickling down into a slowdown in demand for textile products. Moreover, with cotton prices showing a significant decline of ~35% (currently trading at PKR 14.5k/maund from its high of PKR 22k/maund in Apr-22), exporters will face inventory losses in the near term as average inventory is procured at PKR 16-17k/maund. The govt. has also revised rates of LTFF/EFS to 10% from 7%, which are expected to increase finance costs and put a dent on earnings. Hence, we have a 'Hold' stance on the sector until further clarity.

Textiles vs. KSE-100 Index



Pakistan Textile Exports - Jun'22

USD Mn	Jun-22	Jun-21	YoY	May-22	MoM	FY22	FY21	YoY
Cotton Yarn	94	121	-22.2%	107	-11.7%	1,206	1,017	18.6%
Cotton Cloth	201	205	-1.8%	231	-13.1%	2,437	1,921	26.8%
Basic Textiles	301	330	-9.0%	344	-12.7%	3,717	2,972	25.1%
Knitwear	475	411	15.6%	428	10.9%	5,119	3,833	33.6%
Bedwear	284	299	-5.0%	281	0.9%	3,291	2,772	18.7%
Towels	91	99	-7.9%	92	-1.1%	1,110	938	18.4%
Readymade Garments	369	195	13.1%	322	14.6%	3,903	3,034	28.7%
Value-added Textiles	1,219	1,135	7.4%	1,124	8.5%	13,424	10,576	26.9%
Others	187	195	-4.1%	174	7.4%	2,180	1,868	16.7%
Total Textile Exports	1,706	1,660	2.8%	1,642	3.9%	19,321	15,416	25.3%

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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

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- Discounted cash flow (DCF, DDM)
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