INTERMARKET SECURITIES LTD
Tellimer

Pakistan Textiles

16 March 2022

Textile Exports

February 2022: Many factors driving the momentum

Pakistan's total exports in February 2022 clocked in at US$2.8bn, up a sharp c.35% yoy, sustaining above the US$2.6bn level since November 2021 (up c.10% mom).

Textile exports led the sharp growth, rising by a similar c.35% yoy (up c.10% mom), to US$1.7bn – the second highest monthly exports in FY22 – sustaining the US$1.5bn level since October 2021. The robust growth is a testament to the strong demand for Pakistan's textiles in the global market.

Key Highlights in Textile exports

- The impressive yoy growth in exports is due to (i) strong demand ahead of the spring/summer seasons in the West, and (ii) resumption of normal economic activities, reflected by the strong retail textile sales in the US and EU (up c.30% yoy during 7MFY22 in the US), in our view. Also, competitive utility and borrowing rates, as well as continued US-China trade rift, continue to favor Pakistan, in our view.
- Cumulative exports of value-added segments rose by a handsome c.40% yoy (average), led by the Readymade Garments segment (up c.50% yoy). However, in terms of volumes, that of Knitwear increased by a staggering c.85% yoy, followed by a c.15% yoy growth in Bedwear exports. We highlight that overall volumes have increased by an average c.20% yoy, while per unit prices have increased in a similar manner.
- Overall Textile imports remained flat yoy at c.US$0.4bn (though up c.10% mom), dragged by the c.20% yoy decline in cotton imports. However, Textile machinery imports rose by c.85% yoy amid extensive ongoing capacity enhancements and BMR in the sector.

Outlook

We highlight that the healthy Textile exports growth is likely to remain strong for the remainder of FY22 due to continued rerouting of orders out of China and other regional countries. Also, the surge in freight charges on shipments of unfinished products to competitors like Bangladesh is likely to fare well for Pakistan, as various brands have started routing orders to Pakistani exporters in order to arrest thinning margins, in our view.

According to channel checks, demand for value-added products is likely to remain strong, as orders have been booked for at least the next 3-6mths, while procurement of cotton at lower than prevailing rates is likely to result in strong revenues and profitability for the remainder of FY22. However, the ongoing Russia-Ukraine issue has led to a surge in global inflation, which if prolonged, may potentially lead to a moderate slowdown in exports growth (as seen during the period which followed the global financial crisis). But, the present rerouting of orders from competing countries is likely to offset any export growth headwinds, in our view. We therefore reiterate our Overweight stance on the sector, preferring ILP (TP of PKR115/sh) and GATM (TP of PKR60/sh) as our top picks.

Textile exports in February surge by c.35% yoy

(US$'mn)	Feb-22	Jan-22	Feb-21	yoy	mom	8MFY22	8MFY21	yoy
Total Textile Exports	**1,675**	**1,552**	**1,234**	**36%**	**8%**	**12,609**	**10,004**	**26%**
Knitwear	414	387	292	42%	7%	3,302	2,471	34%
Bed Wear	262	264	203	29%	-1%	2,186	1,817	20%
Readymade Garments	354	331	238	49%	7%	2,519	2,013	25%
Others	284	275	231	23%	3%	2,202	1,862	18%
Cotton Yarn	128	77	120	6%	65%	815	607	34%
Cotton Cloth	233	217	149	56%	7%	1,584	1,235	28%

Source: PBS

Abdul Ghani Mianoor
abdul.ghani@imsecurities.com.pk
+92-21-111-467-000 Ext: 102

I, Abdul Ghani Mianoor certify that the views expressed in the report reflect my personal views about the subject securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations made in this report. I further certify that I do not have any beneficial holding of the specific securities that I have recommendations on in this report..

Ratings Guide*	Criteria
Buy	Total return expectation of ≥ 15% or expected to outperform the KSE-100 index
Neutral	Total return expectation of > -5% or expected to match the return of KSE-100 index
Sell	Expected downside of more than 5% or expected to underperform the KSE-100 index

*Based on 12 month horizon unless stated otherwise in the report.

Valuation Methodology: We use multiple valuation methodologies in arriving at a Target Price including, but not limited to, Discounted Cash Flow (DCF), Dividend Discount Model (DDM) and relative multiples based valuations.

Downside Risks: (i) Disruptions in exports due to new variants and shipping constraints, (ii) more aggressive incentives by governments of regional competitors, (iii) discontinuation of subsidized utility tariffs, and (iv) discontinuation of GSP+ status

Disclaimer: Intermarket Securities Limited has produced this report for private circulation only. The information, opinions, and estimates herein are not direct at, or intended for distribution to or use by, any person or entity in any jurisdiction where doing so would be contrary to law or regulation or which would subject Intermarket Securities Limited to any additional registration or licensing requirement within such jurisdiction. The information and statistical data herein have been obtained from sources we believe to be reliable where such information has not been independently verified and we make no representation or warranty as to its accuracy, completeness, and correctness. This report makes use of forward looking statements that are based on assumptions made and information currently available to us and those are subject to certain risks and uncertainties that could cause the actual results to differ materially. No part of the compensation of the author(s) of this report is related to the specific recommendations or views contained in this report.

This report is not a solicitation or any offer to buy or sell any of the securities mentioned herein. It is meant for information purposes only and does not take into account the particular investment objectives, financial situation or needs of individual recipients. Before acting on any information in this report, you should consider whether it is suitable for your particular circumstances and, if appropriate, seek professional advice. Neither Intermarket Securities Limited nor any of its affiliates or any other person associated with the company directly or indirectly accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein.

Subject to any applicable law and regulations, Intermarket Securities Limited, its affiliates or group companies or individuals connected with Intermarket Securities Limited directly or indirectly may have used the information contained herein before publication and may have positions in, or may from time to time purchase or sell or have a material interest in any of the securities mentioned or may currently or in future have or have had a relationship with, or may provide investment banking, capital markets and/or other services to, the entities mentioned herein, their advisors and/or any other connected parties.

RESEARCH DISCLOSURES

Third Party Research

This is third party research. It was prepared by Intermarket Securities Limited (IMS), with headquarters in Karachi, Pakistan. Intermarket Securities Limited (IMS) is authorized to engage in securities activities according to its domestic legislation. Intermarket Securities Limited (IMS) has sole control over the contents of this research report.

Intermarket Securities Limited (IMS) is the employer of the research analyst(s) responsible for the content of this report and research analysts preparing this report are resident outside the U.S. and are not associated persons of any U.S. regulated broker-dealer. The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

None of the materials provided in this report may be used, reproduced, or transmitted, in any form or by any means, electronic or mechanical, including recording or the use of any information storage and retrieval system, without written permission.

Disclaimers

Investing in any non-U.S. securities or related financial instruments (including ADRs) discussed in this report may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the U.S. Securities and Exchange Commission. Information on such non-U.S. securities or related financial instruments may be limited. Foreign companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect within the United States. The value of any investment or income from any securities or related financial instruments discussed in this report denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related financial instruments.

Frontier and Emerging Market laws and regulations governing investments in securities markets may not be sufficiently developed or may be subject to inconsistent or arbitrary interpretation or application. Frontier and Emerging Market securities are often not issued in physical form and registration of ownership may not be subject to a centralized system. Registration of ownership of certain types of securities may not be subject to standardized procedures and may even be effected on an ad hoc basis. The value of investments in Frontier and Emerging Market securities may also be affected by fluctuations in available currency rates and exchange control regulations. Not all of these or other risks associated with the relevant company, market or instrument which are the subject matter of the report are necessarily considered.

US Distribution

This Report is considered independent third-party research and was prepared by **Intermarket Securities Limited (FBD)**, with headquarters in **Pakistan**. The distribution of this Research is provided pursuant to the exemption under Rule 15a-6(a)(2) and is only intended for an audience of Major U.S. Institutional Investors (MUSIIs) as defined by Rule 15a-6(b)(4). This research is not a product of **StoneX Financial Inc.**. **Intermarket Securities Limited** has sole control over the contents of this research report. **StoneX Financial Inc.** does not exercise any control over the contents of, or the views expressed in, any research reports prepared by **Intermarket Securities Limited** and under Rule 15a-6(a)(3), any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through **StoneX Financial Inc.** For any information, please contact Gene Turok. Under no circumstances should any U.S. recipient of this research report effect any transaction to buy or sell securities or related financial instruments through **Intermarket Securities Limited.**

Intermarket Securities Limited (IMS) is not registered as a broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution to "major U.S. institutional investors" and other "U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act").

Distribution outside US

This report is not intended for distribution to the public and may not be reproduced, redistributed or published, in whole or in part, for any purpose without the written permission of Tellimer. Tellimer shall accept no liability whatsoever for the actions of third parties in this respect. This report is for distribution only under such circumstances as may be permitted by applicable law.

This report may not be used to create any financial instruments or products or any indices. Neither Tellimer, nor its members, directors, representatives, or employees accept any liability for any direct or consequential loss or damage arising out of the use of all or any part of the information herein.

United Kingdom: Distributed by Exotix Partners LLP only to Eligible Counterparties or Professional Clients (as defined in the FCA Handbook). The information herein does not apply to, and should not be relied upon by, Retail Clients (as defined in the FCA Handbook); neither the FCA's protection rules nor compensation scheme may be applied.

UAE: Distributed in the Dubai International Financial Centre by Exotix Partners LLP (Dubai) which is regulated by the Dubai Financial Services Authority ("DFSA"). Material is intended only for persons who meet the criteria for Professional Clients under the Rules of the DFSA and no other person should act upon it.

Other distribution: The distribution of this report in other jurisdictions may be restricted by law and persons into whose possession this document comes should inform themselves about, and observe, any such restriction