

## Pakistan Textiles

20 July 2022

## Textile Exports

June 2022: Record FY22 but headwinds loom

**Pakistan's textile exports reached USD 1.7bn during Jun'22, taking annual textile exports to a record high of USD 19.3bn (+25% YoY). Apart from increased summer demand and adequate energy availability, most of it was driven by increased competitiveness of Pakistan's total exports which also hit the highest level of USD 31.8bn (+26% YoY). However, macro headwinds loom at large, in terms of, i) sobering demand from global slowdown, ii) sharp decline in cotton prices, and iii) higher energy and finance costs.**

### Key Highlights

- Cumulative exports of value-added segments in June rose by a decent 8% YoY (average), led by Knitwear and Readymade Garments segments, while that of Bedwear decreased 5% YoY. In terms of volumes, Readymade Garments witnessed a sharp growth of c.40% YoY (low base due to depressed demand as lockdowns prevailed in the West).
- Overall textile imports increased 15% YoY (down c.10% MoM) to USD 0.4bn in June, led by raw cotton imports. A noteworthy observation is that cotton volumes increased 10% YoY amid surge in textile demand. Simultaneously, textile machinery imports declined c.60% YoY, likely due to fulfilment of TERF orders, in our view.

### Outlook

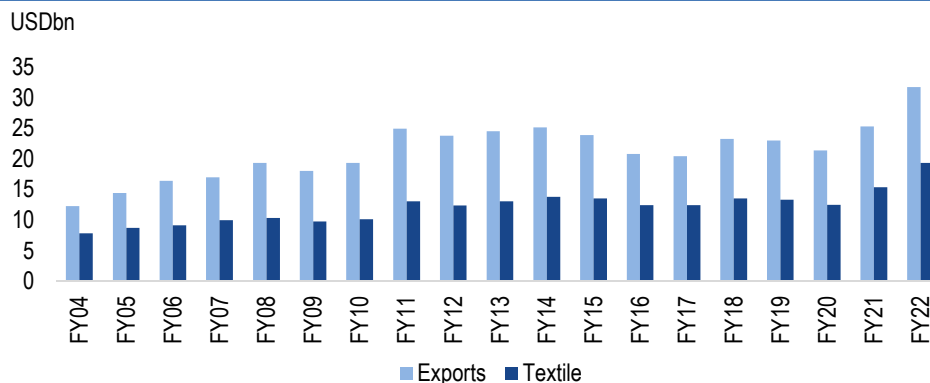
Textile exports growth is likely to falter in the ongoing month on account of long Eid holidays, monsoon rain and production constraints from lower energy availability. According to channel checks, demand for Hosiery and other value-added products such as garments are likely to remain intact in the near-term, while that of Home Textiles is likely to contract. Also, the ongoing global monetary tightening to contain inflation may potentially lead to a significant moderation in exports growth, while piling up of inventory at major retailers such as Target and Walmart (among others) will further slowdown exports during FY23. We retain our Overweight stance on the sector and continue to prefer ILP (TP of PKR109/sh) and GATM (TP of PKR61/sh) as our top picks.

#### Textile exports have grown in tandem to overall exports

(USDm)	Jun-22	May-22	Jun-21	YoY	MoM	FY22	FY21	YoY
<b>Total Textile Exports</b>	<b>1,706</b>	<b>1,642</b>	<b>1,660</b>	<b>3%</b>	<b>4%</b>	<b>19,331</b>	<b>15,417</b>	<b>25%</b>
Knitwear	475	428	411	16%	11%	5,121	3,834	34%
Bed Wear	284	281	299	-5%	1%	3,293	2,772	19%
Readymade Garments	369	322	326	13%	15%	3,907	3,034	29%
Others	284	273	298	-5%	4%	3,366	2,840	19%
Cotton Yarn	94	107	121	-22%	-12%	1,207	1,017	19%
Cotton Cloth	201	231	205	-2%	-13%	2,438	1,921	27%
<b>Pakistan Total Exports</b>	<b>2,918</b>	<b>2,626</b>	<b>2,729</b>	<b>7%</b>	<b>11%</b>	<b>31,794</b>	<b>25,298</b>	<b>26%</b>
- Textile (% of total)	58.5%	62.5%	60.8%			60.8%	60.9%	

Source: PBS

#### Textile exports clock in at all-time high



Source: PBS

#### Abdul Ghani Mianoor

abdul.ghani@imsecurities.com.pk

+92-21-111-467-000 Ext: 102

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Ratings Guide*	Criteria
Buy	Total return expectation of $\geq 15\%$ 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 global slowdown and shipping constraints, (ii) more aggressive incentives by governments of regional competitors, (iii) discontinuation of subsidized utility tariffs, and (iv) discontinuation of GSP+ status

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