Pakistan Equity | Textile

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Textile Exports increased to record high of US$11bn in 7MFY22
Textile & Apparel Policy Approved

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Textile exports reached US$11bn in 7MFY22

Pakistan Textile Exports: Monthly trend
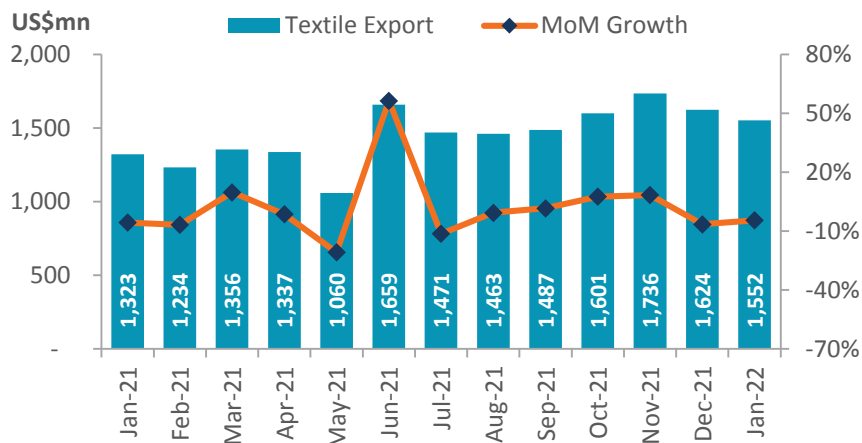
Source: PBS, Topline Research

Pakistan Textile Exports January Summary

US$mn	Jan-22	YoY	MoM	7MFY22	YoY
Cotton Cloth	217	43%	15%	1,352	24%
Other basic	87	-3%	-24%	729	45%
Basic Textile	**304**	**26%**	**0%**	**2,080**	**31%**
Knitwear	387	19%	-12%	2,888	33%
Bed Wear	264	21%	4%	1,924	19%
Towels	91	4%	-4%	615	15%
Readymade Garments	331	17%	-4%	2,163	22%
Value-added Textile	**1,074**	**17%**	**-5%**	**7,590**	**25%**
Other Textile	175	4%	-6%	1,263	17%
Total Textile Exports	**1,552**	**17%**	**-4%**	**10,933**	**25%**

Source: PBS, Topline Research

- As per the data reported by Pakistan Bureau of Statistics (PBS), Pakistan textile exports has witnessed a record 7MFY22 exports of ~US$11bn in FY22, up by 25% YoY.

- In PKR terms, the same has clocked in at Rs1,861bn, up 30% YoY due to ~4% currency devaluation.

- During 7MFY22, key export driver was increase in value-added exports where knitwear segment contributed the most as it increased by 33% YoY to US$2.9bn followed by Ready-made garments (+22% YoY to US$2.2bn) and Bedwear (+19% YoY to US$1.9bn) exports, respectively.

- On MoM basis, Pakistan textile exports is down 4% to US$1.5bn in Jan-2022, led by lower value-added exports segments mainly in Knitwear (down 12% MoM) and Ready-made garments (down 4% MoM) respectively.

- Compared to last year, Pakistan textile exports are up by 17% YoY (29% YoY up in PKR terms) in Jan-22 led by significant recovery witnessed in value-added segments, largely in knitwear (up 19% YoY), Ready-made (up 17% YoY) and Bedwear (up 21% YoY).

- Increased volumetric growth and improved pricing were the key drivers resulting in higher exports.

- Going forward, we expect textile exports to keep robust in ongoing FY22 fiscal year to clock in at ~US$18.5-19bn.

- Ease of lockdown in European economies is likely to drive increased orders and help overall textile exports.

Federal Cabinet Approved Textile Policy 2020-25

Pakistan textile exports target

US$bn

Legend: Textile Export (L.H.S) ▬ | Growth (R.H.S) ◆
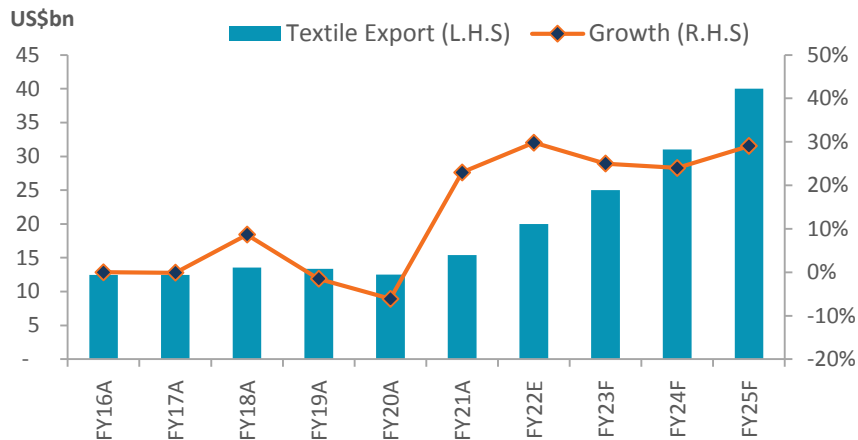
Source: PBS, MoC, Topline Research

Energy Tariff Comparison

Country	Electricity Tariff (Cents/kWh)	RLNG (US$/MMBTU)
Vietnam	7.3	N/A
Bangladesh	9.0	4.1
India	7.8	4.1
China	9.8	N/A
Pakistan	**9.0**	**6.5**

Source: PIDE, Topline Research

- The Federal Cabinet on 15th Feb, 2022 has finally approved the Textile and Apparel Policy 2020-25, after Ministry of Commerce (MoC) submitted the revised draft of textile policy to Economic Coordination Committee (ECC) incorporating few amendments.

- The key reason behind the late approval was the dispute between MoC and Energy Ministry on the issue of Energy Tariffs (RLNG and Electricity).

- As per news sources, the updated draft stated that Energy Tariffs (RLNG and Electricity) will be provided to textiles and apparel industry at regionally competitive rates during the policy years. For this, tariff will be reviewed and announced in federal budget by Finance Division.

- As per Pakistan Institute of Development Economics (PIDE), the average regional electricity tariff rate stood at 7.4 cents/kWh in Mar-21, which we believe has likely increased since than. Pakistan's current electricity tariff is around 9 cents/Kwh.

- In case of RLNG, the average regional RLNG rate stood at ~US$4/MMBTU as per PIDE vs. Pakistan's tariff rate at US$6.5/MMBTU. We believe the above stated textile policy will have a neutral impact on the sector. Given, Pakistan is already offering subsidized energy & RLNG tariffs to textile players and Pakistan being part of an IMF program, a further reduction from the current levels is highly unlikely.

- RLNG tariff is expected to remain intact at US$6.5/MMBTU level although regional average is comparatively low. To note, RLNG is currently being provided at US$9/MMBTU to textile sector till March-22 due to supply issues.

- Subsidized energy rates, increasing export numbers, and currency weakness bodes well for the sector. We have an 'Overweight' stance on Textile Sector with Interloop Limited (ILP) and Nishat Mills Limited (NML) as our top picks.

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Sell	Stock will underperform the average total return of stocks in universe

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Market Weight	= Weight in KSE-100 Index
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