

Pakistan Textile

Resurgence in cotton crop spurs hope

Pakistan's cotton industry is on the upswing, the favorable weather conditions and increased planting efforts have generated a wave of positive sentiment, countering the challenges of last year's catastrophic floods. Amid subdued textile demand and operational hurdles, the positive start and robust arrival of cotton crop has spurs hopes for the sector.

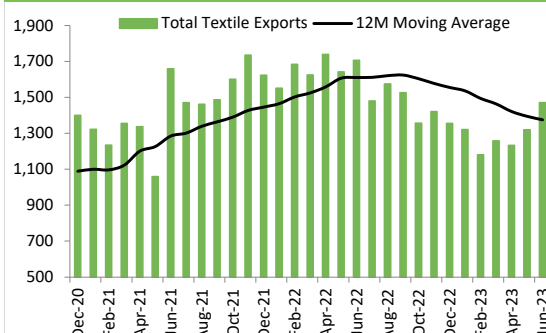
To recall, textile exports declined by 15% YoY to US\$16.5bn in FY23, compared to US\$19.3bn in SPLY, while volumetric sales also declined by ~15% YoY. The slowdown in exports was mainly attributable to suppressed demand caused by recessionary fears in the west (particularly in the US and Europe), coupled with gas shortages, rising cost of working capital, lower cotton arrivals and diversion of export proceeds due to uncertainty regarding exchange rate. To note, government was eyeing to fetch textile exports of US\$25bn for FY23, but recent domestic and global challenges have dampens the outlook.

Upswing in cotton crop

Cotton is considered "white gold" amid its rich significance. Pakistan is the fifth largest producer of cotton, where ~60% of Pakistan's exports consist of cotton and textile products. Pakistan's cotton crop is witnessing a notable resurgence this year, marked by a ~34% increase in expected cotton plantings compared to the previous year's figures, which was hampered by catastrophic floods. The higher cotton output estimates are attributable to increased sowings and favorable weather conditions. Two beneficial spells of monsoon showers during July have supported crop growth followed by dry spells that mitigated any negative effects. However concerns remain for the coming months as Aug-Sept are pivotal period in determining crop health. Historically, this period has witnessed heavy monsoon rains and flooding, which could dampens the outlook. Cotton sowing target for this year is set to 2.767 million hectares of which 87.7% has been achieved as at June'23. Whereas production target is set to 12.77 million bales for this year representing yield of 785 kg/ha which is quite optimistic compared to 10-Year average of 658 kg/ha. However early indication of crop development is promising. The movement of the new cotton crop has began earlier than usual, PCGA reported 1.4 million bales cotton arrival as of July,23.

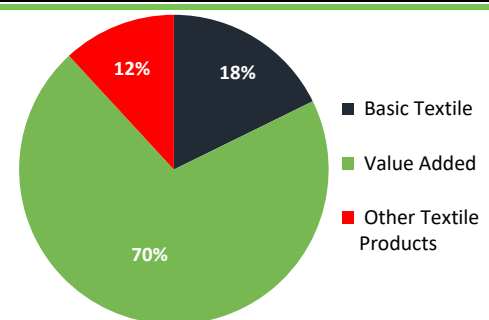
Increased cultivation of cotton was also motivated by the government's announcement of support price at PKR8,500/maund. However, subdued demand from the local textile industry forces cotton seed prices to trade at PKR 7,000 to 8,500/maund. This has been exacerbated by the absence of practical mechanism for the enforcement of support prices, which has led prices to be influenced by market dynamics. However, recent news flows suggests that TCP has decided to buy one million bales in order to regulate the falling price of cotton.

Textile Exports (in US\$m)



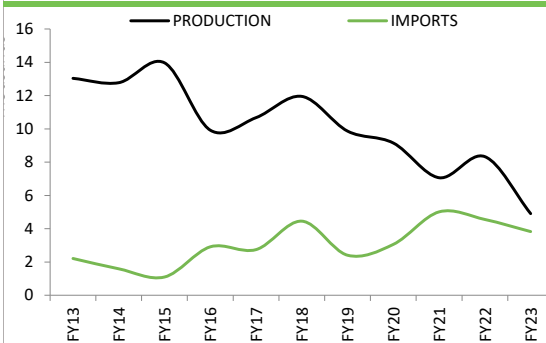
Source: PBS, Insight Research

FY23' TextileExportBreakup



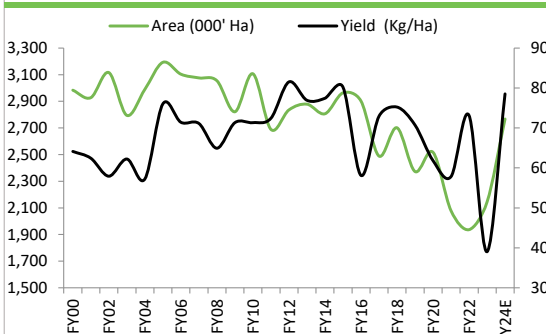
Source: PBS, Insight Research

Cotton consumption (mn bales)



Source: Economic Survey, PBS, Insight Research

Cotton: Area sown vs. Yield



Source: Economic Survey, Insight Research

Shift from imported to local cotton

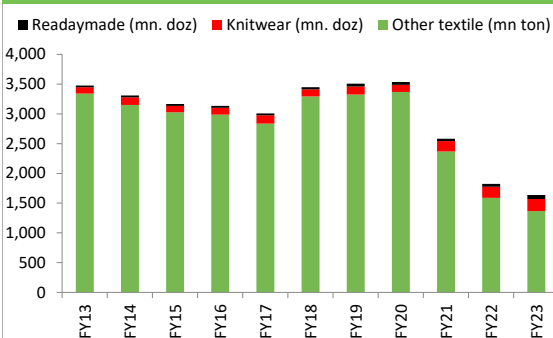
The interest in purchasing imported cotton from domestic textile mills has been subdued in recent times. In June 2023, cotton imports hit a 42-month low at 23.3 MT. This shift from imported to local cotton is likely attributable improvement in the quality of the new cotton crop, difficulties in opening LCs coupled with lower priced cotton in comparison to international prices. Notably, local cotton was recently being traded at ~\$62/maund compared to international price of \$77/maund.

During the previous fiscal year, Pakistan purchased cotton valuing at approximately \$2.4 billion, while the average expenditure on cotton imports over the past five years has been around \$1.8 billion. Given the current challenges with foreign exchange availability in the country, a successful harvest of abundant cotton crops could potentially offer significant relief to the import expenses.

Yield sensitivity on Govt Estimates	Govt Est	10-Yr Avg	05-Yr Avg	10-Yr Low	10-Yr High
Area Sown (mn ha)	2.767				
Yield (kg/ha)	785	666	605	390	802
Production ('000' bales)	12,777	10,840	9,847	6,348	13,054

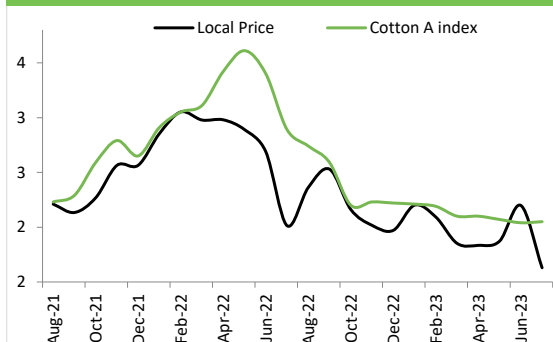
Source: Insight Research

Textile exports volume



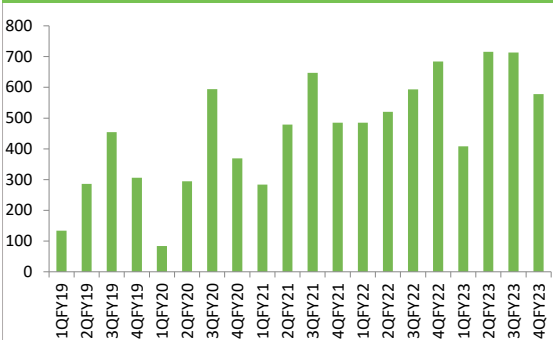
Source: PBS, Insight Research

Local cotton prices vs. Cotton A index (US\$/kg)



Source: Zakheera, PCCC, Insight Research

Textile: Cotton imports (US\$ '000)



Source: SBP, Insight Research

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TP	Target Price	DCF	Discounted Cash Flows	FCF	Free Cash Flows
FCFE	Free Cash Flows to Equity	FCFF	Free Cash Flows to Firm	DDM	Dividend Discount Model
SOTP	Sum of the Parts	P/E	Price to Earnings ratio	P/Bv	Price to Book ratio
P/S	Price to Sales	EVA	Economic Valued Added	BVPS	Book Value per Share
EPS	Earnings per Share	DPS	Dividend per Share	DY	Dividend Yield
ROE	Return on Equity	ROA	Return on Assets	CAGR	Compounded Annual Growth Rate

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