

Pakistan Textiles

Jul'23: Textile exports declined by 11% YoY

As per the latest data reported by PBS, textile exports recorded a decline of ~11% YoY in Jul'23 to clock in at US\$1.3bn vs. US\$1.5bn in SPLY. This downturn can primarily be attributed to the global economic recession, resulting in reduced export orders, as well as a challenging domestic environment.

Breaking down the segments, the exports of value-added textile products such as Knitwear, Bedwear, Towels, and Readymade garments saw a decline of ~13% YoY, to stand at US\$929mn in Jul'23. Similarly, basic textile (i.e. Raw Cotton, Cotton Yarn, Cotton Cloth) slump by ~6% YoY to clocked in at US\$242mn, while other textile exports also plunged by ~9% YoY to reach at US\$141mn in Jul'23.

In volumetric term, the overall textile exports increased by 15% YoY in Jul'23 compared to SPLY. The increase was primarily driven by increase in basic textile by ~33%. Followed by valued added and other textile which experienced increase of 4% and 15%, Respectively. Whereas, on MoM basis volumes declined by 11%.

Value added witnessed a decrease of 11% MoM

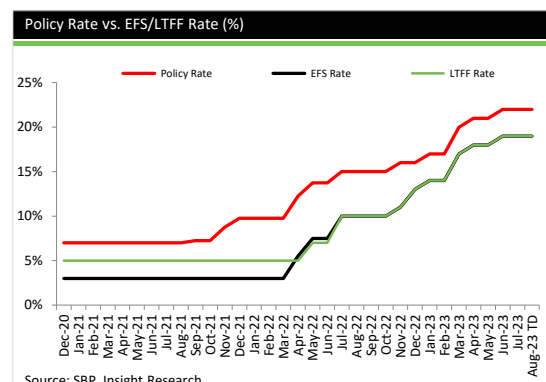
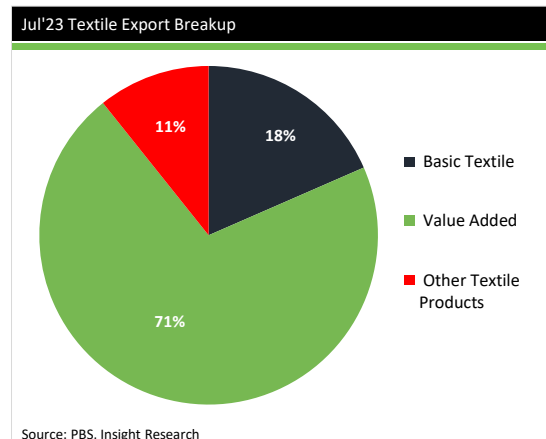
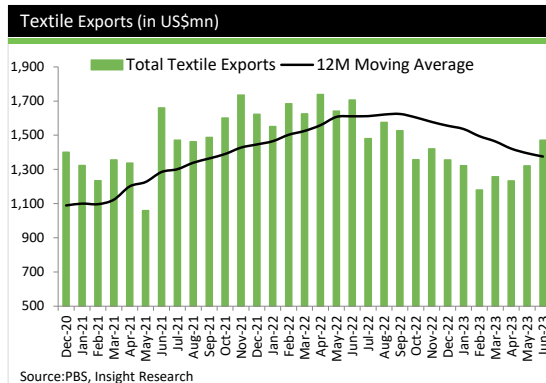
In Jul'23, value added witnessed a volumetric decrease of 9% MoM, along with a price decrease of around 1%, resulting in an overall MoM decrease of 11% in value-added exports, to clock in at US\$929mn. The decline in value-added exports was mainly contributed by readymade garments, observing a decline of 114% MoM. Similarly, Knitwear and Bedwear recorded decreases of 7% and 10% MoM, respectively.

Basic textile witnessed a decline of 12% MoM

Basic textile exports saw a decline of 12% MoM in July'23, with a volume decrease of 11% and a price decrease of 0.5%, reaching US\$242mn compared to US\$258mn in May'23. The decrease in basic textile exports was primarily driven by a 13% decline in cotton cloth exports, mainly due to decrease in volume. Additionally, cotton yarn exports decreased by approximately 9% MoM.

Outlook

Textile exports have remained sluggish amid multiple headwinds in domestic environment and weak global demand. We expect textile exports to increase in volumetric terms amid resurgence of demand in export regions, however, decline in product prices is likely to offset the impact. Furthermore, headwinds in domestic economy will continue to hamper textile players which includes elevated gas & electricity tariffs, delays in clearance of essential inputs and increased finance rate. However, cotton production for the upcoming year looks promising which would provide some respite to local textile manufacturers.



Pakistan Textile Exports

US\$ mn	Jul-23	Jul-22	YoY	Jun-23	MoM
Raw Cotton	1	1	NM	0	NM
Cotton Yarn	97	71	36%	107	-9%
Cotton Cloth	141	182	-23%	163	-13%
Cotton Carded or Combed	0	-	NM	0	NM
Yarn Other Than Cotton Yarn	3	3	-2%	4	-26%
Basic Textile	242	258	-6%	274	-12%
Knitwear	365	435	-16%	392	-7%
Bed Wear	217	254	-15%	240	-10%
Towels	73	75	-3%	87	-17%
Readymade Garments	275	305	-10%	320	-14%
Value Added	929	1,068	-13%	1,039	-11%
Other Textile Products	141	155	-9%	158	-11%
Total Textile Export	1,312	1,481	-11%	1,472	-11%

Source: PBS, Insight Research

Volumes ('000)	Jul-23	Jul-22	YoY	Jun-23	MoM
Raw Cotton (MT)	0	0	NM	0	NM
Cotton Yarn (MT)	35	18	90%	38	-10%
Cotton Cloth (MT)	28	29	-4%	32	-13%
Cotton Carded or Combed (MT)	0	-	NM	0	NM
Yarn Other Than Cotton Yarn (MT)	1	1	42%	2	-29%
Basic Textile	64	48	33%	72	-11%
Knitwear (TH.DOZ)	20	17	20%	19	3%
Bed Wear (MT)	34	37	-7%	39	-11%
Towels (MT)	15	14	5%	18	-18%
Readymade Garments (TH.DOZ)	7	5	31%	8	-14%
Value Added	76	73	4%	84	-9%
Other Textile Products	9	8	3%	11	-18%
Total Textile Export	149	130	15%	167	-11%

Source: PBS, Insight Research

IMPORTANT DISCLAIMER AND DISCLOSURES

Disclaimer: This report has been prepared by **Insight Securities (Private) Ltd.** hereinafter referred as 'ISL' and is provided for information purposes only. Under no circumstances is to be used or considered as an offer to sell or solicitation of any offer to buy. While all reasonable care has been taken to ensure that the information contained therein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. This report is provided solely for the information of professional advisers who are expected to make their own investment decisions without undue reliance on this report. Statements regarding future prospects may not be realized while all such information and opinions are subject to change without notice. ISL recommends investors to independently evaluate particular investments and strategies and it encourages investors to seek the advice of a financial advisor.

Investments in capital markets are subject to market risk and ISL accepts no responsibility whatsoever for any direct or indirect consequential loss arising from any use of this report or its contents. In particular, the report takes no account of the investment objectives, financial situation and particular need of individuals, who should seek further advice before making any investment or rely upon their own judgment and acumen before making any investment. The views expressed in this document are those of the ISL Research Department and do not necessarily reflect those of ISL or its directors.

ISL may, to the extent permissible by applicable law or regulation, use the above material, conclusions, research or analysis in which they are based before the material is disseminated to their clients. ISL, as a full-service firm, has/intends to have business relationships, including investment-banking relationships, with the companies in this report. Investors should be aware of that the ISL may have a conflict of interest that could affect the objectivity of the report. Investors should consider this report as only a single factor in making their investment decision. This report may not be reproduced, distributed or published by any recipient for any purpose whatsoever without prior written approval by ISL. Action may be taken for unauthorized reproduction, distribution or publication.

ISL Stock Rating System: ISL employs a 3-tier rating mechanism i.e 'BUY', 'HOLD' and 'SELL', which is based upon the level of expected annualized return for a specific stock. When total annualized return (capital gain + dividends) exceeds 22%, a 'BUY' rating is assigned. A 'SELL' rating is issued whenever total annualized return is less than negative 5% and for return in between the 2 ranges, 'HOLD' rating is meted out. An 'Under Review' stance is given if ISL research stance depends upon the outcome of an uncertain event having significant impact on the valuations. Different securities firms use a variety of rating terms/systems to describe their recommendations. Similar rating terms used by other securities companies may not be equivalent to ISL rating system.

Time horizon is usually the annual financial reporting period of the company (unless otherwise mentioned in the report). Ratings are updated daily and can therefore change daily. They can change because of a move in the stock's price, a change in the analyst's estimate of the stock's fair value, a change in the analyst's assessment of a company's business risk, or a combination of any of these factors. In addition, research reports contain information carrying the analyst's views and investors should carefully read the entire research report and not infer its contents from the rating ascribed by the analyst. In any case, ratings or research should not be used or relied upon as investment advice. An investor's decision to buy, sell or hold a stock should depend on individual circumstances (such as the investors existing holdings or investment objectives) and other considerations.

Target price risk disclosures: Any inability to compete successfully in the markets may harm the business. This could be a result of many factors which may include (but not limited to) geographic mix and introduction of improved products or service offerings by competitors. The results of operations may be materially affected by global economic conditions generally, including conditions in financial markets. The company is exposed to market risks, such as changes in interest rates, foreign exchange rates and input prices. From time to time, the company may enter into transactions, including transactions in derivative instruments, to manage/offset certain of these exposures.

Valuation Methodology: To arrive at our period end target prices, ISL uses different valuation methodologies including

- Discounted cash flow (DCF)
- Relative Valuation (P/E, P/Bv, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)

Frequently Used Acronyms

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

ANALYST CERTIFICATION AND IMPORTANT DISCLOSURES

Analyst Certification: The research analyst(s), if any, denoted by AC on the cover of this report, who exclusively reports to the research department head, primarily involved in the preparation, writing and publication of this report, certifies that (1) the views expressed in this report are unbiased and independent opinions of the Research Analyst(s) which accurately reflect his/her personal views about all of the subject companies/securities and (2) no part of his/her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

The research analyst or any of its close relatives do not have a financial interest in the securities of the subject company aggregating more than 1% of the value of the company and the research analyst or its close relative have neither served as a director/officer in the past 3 years nor received any compensation from the subject company in the past 12 months. The Research analyst or its close relatives have not traded in the subject security in the past 7 days and will not trade in next 5 days.

Disclosure of Financial Interest: ISL or any of its officers and directors does not have a significant financial interest (above 1% of the value of the securities of the subject company) in the securities of the subject company. Under normal course of business, ISL, their respective directors, officers, representatives, employees and/or related persons may have a long or short position in any of the securities or other financial instruments mentioned or issues described herein at any time and may make a purchase and/or sale, or offer to make a purchase and/or sale of any such securities or other financial instruments from time to time in the open market or otherwise. ISL or its employees may trade contrary to the recommendation given by ISL Research through this report or any other. ISL may be providing, or have provided within the previous twelve months, significant advice or brokerage services to the subject company. ISL may have, within the past twelve months, served as manager or co-manager of a public offering of securities for, or currently may make a primary market in issues of, any or all, the entities mentioned in this report or received compensation for corporate advisory services, brokerage services or underwriting services from the subject company. Close relative of one of the Research Analysts in ISL is currently under employment in the middle management of HBL (a stock covered by ISL), as branch manager. Apart from this, ISL or any other of its officers and directors have neither served as a director/officer in any company under ISL research coverage in the past 3 years nor received any compensation from the subject company in the past 12 months.

ISL Research Dissemination Policy: ISL endeavors to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as mail, fax and/or email. Nevertheless, not all clients may receive the material at the same time.

Insight Securities (Pvt.) Limited

Suite 509, Business and Finance Centre,

I. I. Chundrigar Road , Karachi, Pakistan

+92-21-32462541-44