

Pakistan Textile

Turbulence continues

As the season has almost come to an end, domestic cotton arrivals clocked in at 8.38mn bales till Feb'24, with total sowing at 2.3mn/ha representing a yield of 619kg/ha which is higher than its 5-year average yield of 605kg/ha. Initially, 12.8mn bales of cotton production target was set by GoP for this year, which was revised to 11.15mn bales for this year. To highlight, out of total arrivals from this year, 4.26mn bales came from Punjab and 4.11mn bales came from Sindh.

From the past 2 years textile industry has been facing severe challenges that have dampened their profitability. The linkage of LTFF & EFS rates with policy rates has abnormally increased the borrowing cost for local manufacturers. Moreover, the abrupt rise in energy cost has dampened their margins and made them uncompetitive in the international market.

Textile facing hindrance

In 7MFY24, textile exports clocked in at US\$9.7bn vs. US\$10bn in SPLY, down by ~3%. Textile exports recorded an increase of ~10% YoY in Jan'24 to clock in at US\$1.45bn vs. US\$1.32bn in SPLY. The increase is primarily attributable to the low base effect in SPLY.

Country's value added textile export clocked in US\$6.8bn in 7MFY24 vs. US\$7.1bn in SPLY, down by 3%. In 7MFY24, knitwear, bedwear, and readymade saw a decline of ~8%, 1%, and 6% YoY. However, the downside is mainly attributable to decline in prices across the board. To highlight, in 7MFY24, knitwear, bedwear, towels, and readymade garments witnessed a volumetric growth of 20%, 12%, 13%, and 45%, respectively.

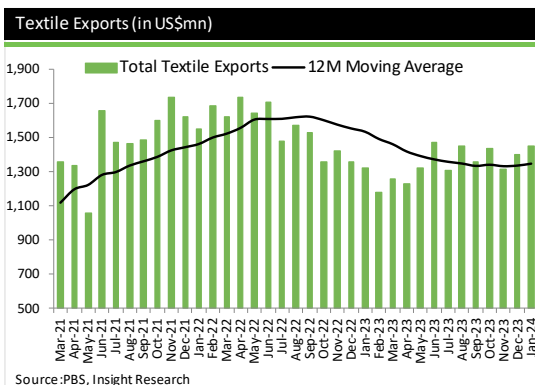
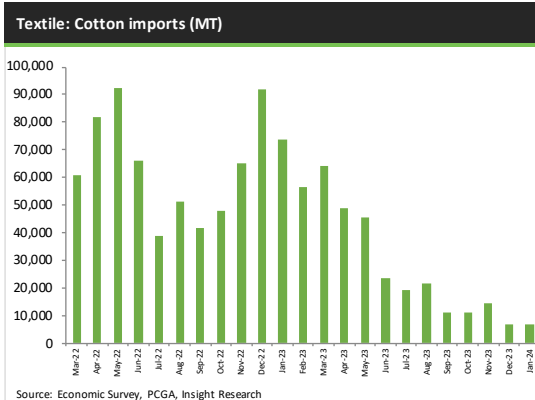
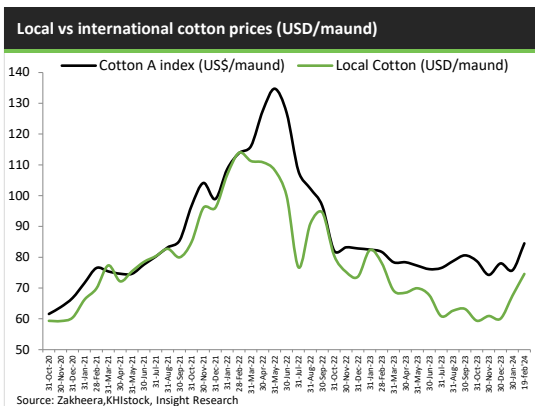
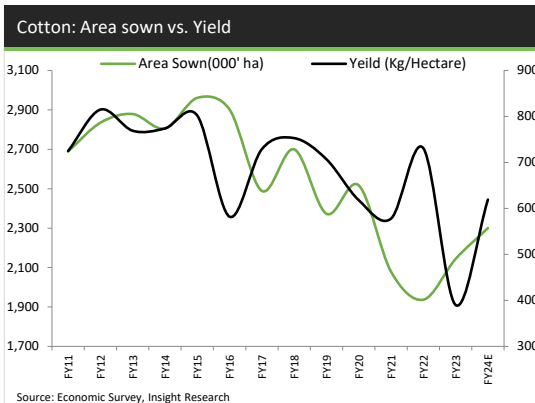
Changing dynamics of local cotton

Recently, there has been a significant shift from imported to local cotton, mainly driven by increased availability of local cotton, improvement in the quality of local cotton and lower prices. The shift is evident by a reduction in the country's cotton imports. In 7MFY24, cotton imports clocked in at ~91k tons vs. 410k tons in SPLY.

However, the spread between local and international cotton prices is shrinking. Decline in the spread is mainly due to a shortage of local cotton and higher demand, which has caused an abrupt increase in local cotton prices. According to industry sources, local cotton prices has surpassed international cotton prices, this made local manufacturers to cover inventory from the imported cotton until the arrival of the new season.

Bumpy ride ahead

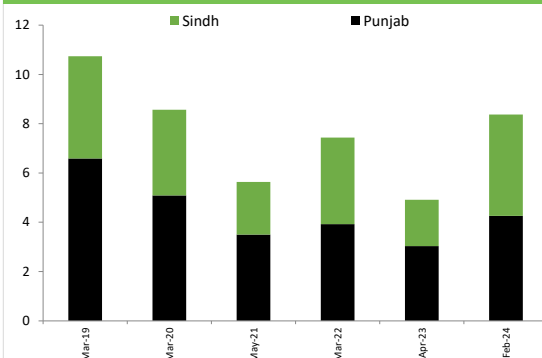
The rising tension between Israel and Palestine has caused serious tension in the region which has resulted in trade disruption in the Red Sea. Meanwhile, changes in the route from the Red Sea to Africa have significantly increased the freight charges from ~US\$1,500 to ~US\$2,500/container, up by ~67%.



Similarly, the extended routes from European countries to Pakistan have severely impacted delivery time from 1 week to 3 weeks disrupting the supply chain.

Rising delivery time and shortage of local cotton have increased the prices of local cotton. As per APTMA, after the recent hike in gas prices it is expected to take energy tariff for the captive generations to ~12.2 cents/kwh from ~10 cents/kwh, up by ~22%. An abrupt increase in energy prices and rising raw material costs will severely impact the margins of the local manufacturers.

Going forward, we expect upcoming cotton season of the country may witness a decline in the cotton sowing, despite rising local cotton prices due to uncertainty and losses incurred to farmers in 2023 season. According to the sources, preparation of the new cotton crop has already been started in the lower Sindh. The new season may bring more challenges for the local manufacturers as the lower arrivals will create a shortage of local cotton which may result into higher prices of local cotton relative to international cotton, resulting into higher raw material cost.

Cotton Arrivals (mn bales)


Source: PCGA, Insight Research

Pakistan Textile Exports

US\$ mn	Jan-24	Jan-23	YoY	Dec-23	MoM	7MFY24	7MFY23	YoY
Raw Cotton	2	1	NM	14	-83%	56	12	354%
Cotton Yarn	81	68	20%	95	-15%	670	449	49%
Cotton Cloth	160	159	0%	144	11%	1,086	1,225	-11%
Cotton Carded or Combed	0	0	NM	0	NM	1	1	-37%
Yarn Other Than Cotton Yarn	2	3	NM	2	NM	22	26	-17%
Basic Textile	245	231	6%	255	-4%	1,834	1,714	7%
Knitwear	365	337	8%	367	0%	2,568	2,804	-8%
Bed Wear	252	211	19%	226	11%	1,629	1,639	-1%
Towels	96	91	5%	88	10%	596	583	2%
Readymade Garments	333	293	14%	299	12%	2,003	2,126	-6%
Value Added	1,047	932	12%	979	7%	6,796	7,151	-5%
Other Textile Products	163	158	3%	166	-1%	1,109	1,174	-6%
Total Textile Export	1,455	1,322	10%	1,400	4%	9,739	10,039	-3%

Source: PBS, Insight Research

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- Discounted cash flow (DCF)
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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

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