

February 02, 2009

**Pakistan Market****Textile: Sector Update and Outlook****MORNING BRIEFING**

KSE100 Index Closing 5377.42 ↑ (+194.20)

Textile sector, Pakistan's largest export revenue source, is going through tough times. Pakistan's weakening economic fundamentals, political and security issues and international recession have contributed towards the deteriorating dynamics of the textile industry. Today, in this report, we provide an update on important issues relating to the textile sector.

**Rally in local cotton prices as arrivals fall short**

According to the latest numbers released by Pakistan Cotton Ginners Association (PCGA), cotton arrivals stood at 10.3mn bales as of Jan 15, 2009 depicting a marginal growth of 3.5%. While overall arrivals have shown some improvement from last year, the growth has slowed considerably as arrivals in the last fortnight i.e. Jan 1 to Jan 15, 2009 stood at 0.58mn bales, down 32% from 0.86mn bales recorded in the corresponding period last year. This was the fourth consecutive fortnight to witness a decline in cotton arrivals this season. We expect cotton arrivals for FY09 to be close to 11.6mn bales (11.4mn bales last year), lower than government's revised target of 12.1mn bales.

Therefore, a recent rally in local cotton prices have been witnessed due to expected shortage of cotton production from earlier official estimates. Since Jan 1 2009, cotton prices have shot up by 7.2% in the local market and currently stands at Rs3,350/maund from Rs3,125/maund. Cotton prices for the first half of FY09 have averaged Rs3,557/maund compared to Rs2,935/maund in corresponding period last year depicting an increase of 21%.

**Textile exports decline by 2% in 1HFY09**

According to latest data released by Federal Bureau of Statistics (FBS), in the first 6 months (Jul-Dec 2008) Pakistan's textile exports have depicted a decline of 2% in US\$ terms. However, due to Rupee devaluation, Pakistan exports in Rupee terms have significantly increased by 24%. Contribution of textile exports in Pakistan's total exports in

these 6 months has declined to 53.7% from 60.4% in the corresponding period last year.

**Table: Textile Exports**

	1HFY09	1HFY08	% Δ
US\$ (mn)	5,138	5,228	-2%
PKR (mn)	394,289	317,473	24%

Source: JS Research

Pakistan textile exports to USA, who is the largest importer of Pakistan textile products, stood at US\$2.9bn for the Jan-Nov 2008 depicting a decline of 3.74%. Pakistan's share in US textile exports has slightly declined by 3 bps to 2.98%. (Source: US Department of Commerce)

**Nishat Mills: 'Buy' maintained**

Amongst textile companies we only cover Nishat Mills as others are of small size with limited volumes in their stock. Nishat Mills gross margins for FY09 are expected to improve to about 19% compared to 15.4% in FY08 on account of higher rupee based sales amid Rupee depreciation.

At current levels, NML is trading at a forward looking PE of 3.2x for FY09 which is at 38% discount to the market's PE for FY09 of 5.1x. Therefore we maintain our 'Buy' stance on Nishat Mills.

atif.zafar@js.com

92 (21) 111-574-111(Ext. 3118)

**Also in focus****Net foreign selling of US\$150mn in Jan 2009**

As was widely expected after lifting of the price floor, foreign selling at the KSE gathered pace in Jan 2009, as foreigners bought shares worth US\$45mn and sold shares worth US\$195mn resulting in a net selling of US\$150mn. As a result of sharp selling in Jan 2009, the cumulative net selling since lifting of the floor has now reached US\$167mn.

**JS Global Capital Limited**

6th Floor, Faysal House, Main Shahrah-e-Faisal, Karachi

**Research:**

Tel: +92 (21) 2799005

Fax: +92 (21) 2800163

js.research@js.com

**Fixed Income Sales:**

Tel: +92 (21) 2799541-44

Fax: +92 (21) 2800165

tariq.usman@js.com

**Equity Sales:**

Tel: +92 (21) 2799513

Fax: +92 (21) 2800166

junaid.iqbal@js.com

**Corporate Finance:**

Tel: +92 (21) 2799005

Fax: +92 (21) 2800166

azhar.iqbal@js.com

**JS RESEARCH IS AVAILABLE ON BLOOMBERG & THOMSON REUTERS**