

September 03, 2009

Pakistan Market

NML: Textile Policy coming into shape

MORNING BRIEFING



KSE100 Index: Closing 8878.64 ↑ (+109.40)

Contrary to the news flow regarding the elimination of subsidies on mark-up for export oriented units by the State Bank of Pakistan (SBP) on August 29, 2009, the Ministry of Textile (MOT) yesterday issued SROs, reiterating the supportive measures for the sector initiated in Textile Policy 2009. According to the notifications issued yesterday, drawback of taxes and levies on fabrics, home textiles & garments, mark-up rate support on import/purchase of textile machinery and export financing mark up rate facility of 2.5% have been announced by the Ministry.

These measures are expected to boost the export performance of industry as part of government's efforts to reduce the trade gap. All SROs will be effective from September 1, 2009.

Drawback of taxes and levies

Under the "Drawback of Local Taxes & Levies Order 2009" textile companies can avail drawbacks on taxes and levies collected from fabrics, home textiles & garment units for all export shipments, starting Sept 1, 2009. Though the SROs have yet to be formally released, we believe the drawback on the aforementioned products would be available at the rate of 1%, 2% and 3% respectively, broadly inline with the provisions of the earlier released "Textile Policy". Such a supportive measure carries great significance for the composite companies such as Nishat Mills (NML), as this drawback would be available to the manufacturing units with processing, knit to shape or in house stitching and cutting facility.

Mark up Support

Other positive news flows for the textile sector is the availability of mark up rate subsidy under the LTTF scheme and extension of the export refinancing scheme by SBP. Mark up rate subsidy will be available to the extent of 5% or the difference in mark up rate between the floating rate loan and LTTF rate, which ever is lower. This facility will be available on all outstanding long term loans availed for financing import

of textile machinery. Moreover, 2.5% subsidy will given by the government on loans taken from the commercial banks for exports of eligible commodities under the SBP's Export Finance Scheme.

These facilities will be monitored by the commercial banks or Development Finance Institutions (DFIs) which in turn would claim reimbursement from SBP. The necessary support would be paid on 6 month basis by the commercial banks in March and September depending on the needed budget allocation by the GoP.

NML – earnings impact of Rs1.0–1.2 per share

As an export oriented business these orders issued by the Textile Ministry is likely to bode well for NML. Fabrics comprise of a major part of total revenue for NML and as per our estimates the above mentioned drawback on taxes and levies would have a positive earnings impact of Rs0.7-0.8 per share. Similarly, the 2.5% subsidy by the government on export financing scheme is likely to bring finance cost savings of Rs200-250mn, assuming an average of Rs6bn short term borrowings each year. This would have an earnings impact of Rs0.3-0.4 per share. On the whole, these orders are likely to impact NML's earnings by Rs1.0-1.2 per share supporting our 'Buy'. The scrip currently is trading at a respective PE of 5.1x and 4.1x at a discount of 37-42% to the market's FY10F and FY11F PE of 8.1x and 7.1x, respectively. Hence, we maintain our 'Buy' stance on NML with a revised target price of Rs68 on the back of increasing portfolio value which consists of MCB Bank, DG Khan Cement and Adamjee insurance.

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Also in focus**10 year PIB yields drop to 12.5%**

SBP yesterday conducted a PIB auction and reduced the benchmark 10 year PIB's by 13bps to 12.5%. Cut-off yields for 15 and 30 year PIB were reduced by 47bps and 55bps to 12.929% and 13.7493%, respectively. SBP received bids worth Rs25.79bn while it accepted bids worth Rs15.32bn.

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