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Pakistan Market**Textile sector profits up 23% in 1HFY09****MORNING BRIEFING**

KSE100 Index Closing 7635.88 ↑ (+116.95)

Textile sector of Pakistan depicted strong earnings growth of 23% in 1HFY09. Composite sector which accounts for approximately 67% of the entire textile sector market capitalization, posted a remarkable earnings growth of 61%. Moreover, weaving sector came back into profits whereas the spinning sector plunged into losses when compared to the corresponding period last year.

For our analysis, we have used a sample of 24 companies from the composite sector, 6 weaving companies and 31 spinning units representing 92%, 95% and 80% market capitalization of their respective sectors.

Textile sector earnings up 23%

Amid rise in export based revenue due to depreciating rupee (21% in 1HFY09), net sales of the textile sector jumped by 22% to Rs127bn. This resulted in improved margins which rose by 377bps despite high cotton prices (up 21%) during the period. However, a 100% increase in financial cost to Rs12.4bn brought down earnings to Rs3.4bn, still up 23%YoY. Financial cost rose on the back of higher borrowing rates as 6-month KIBOR during the period averaged 14.59% up 458bps.

Textile Sector	1HFY09	1HFY08	%Δ
Net Sales	127,259	104,455	22%
Gross Profits	20,775	13,111	58%
Gross Margins	16%	13%	377bps
EBIT	16,535	9,845	68%
Finance Cost	12,423	6,197	100%
Net Profit	3,418	2,771	23%

Source: Company accounts, JS Research

Composite sector earnings up 61%

Composite sector's impressive earnings growth of 61% was largely driven by improving gross margins which increased by 451bps. Due to its export orientation, depreciating rupee boosted rupee based revenue of the sector which increased by 26% to Rs84bn. Its impact on the bottomline was however impaired by 105% increase in finance cost to Rs8.5bn.

Textile Composite (Rs mn)	1HFY09	1HFY08	%Δ
Net Sales	84,089	66,963	26%
Gross Profits	15,423	9,258	67%
Gross Margins	18%	14%	451bps
EBIT	13,137	7,295	80%
Finance Cost	8,459	4,132	105%
Net Profit	4,149	2,576	61%

Source: Company accounts, JS Research

Weaving sector: Earnings turn positive

Weaving sector which was in losses in 1HFY08, recovered to post earnings of Rs52mn. The sector benefited the most from jump in gross margins which were up by 538bps. Financial cost of Rs485mn, up 43% from last year however diluted earnings of the weaving sector.

Textile Weaving (Rs mn)	1HFY09	1HFY08	%Δ
Net Sales	7,401	5,890	26%
Gross Profits	906	404	124%
Gross Margins	12%	7%	538bps
EBIT	576	258	123%
Finance Cost	485	340	43%
Net Profit	52	(147)	NM

Source: Company accounts, JS Research

Spinning sector plunge into losses

In 1HFY09, spinning sector plunged into losses of Rs783mn as against profits of Rs343mn in the corresponding period last year. Though gross margins rose by 152bps, 102% rise in financial cost dragged the earnings of the spinning sector in to the red zone.

Textile Spinning (Rs mn)	1HFY09	1HFY08	%Δ
Net Sales	35,769	31,602	13%
Gross Profits	4,446	3,448	29%
Gross Margins	12%	11%	152bps
EBIT	2,822	2,292	23%
Finance Cost	3,479	1,726	102%
Net Profit	(783)	343	NM

Source: Company accounts, JS Research

Also in focus**CPI to range between 18.3–18.7% in Mar 2009**

Inflation numbers for the month of March 2009 are expected to be announced shortly. We expect CPI for the month to range between 18.3-18.7%YoY, falling below 20% for the first time since May 2008. On MoM basis, CPI is likely to depict a growth in the range of 0.7-1.1% driven by hike in both food and non food prices during the period. Despite expected increase in MoM CPI going forward, the high base effect would continue to contribute towards decline YoY CPI. Our full year FY09 inflation target is maintained at 20%, with inflation falling to around 11% in June 2009.

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

atif.zafar@js.com

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