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Pakistan Market**Textile profits down 57% in FY09****MORNING BRIEFING**

KSE100 Index: Closing 9686.40 ↑ (+43.84)

Pakistan's textile exports were hit hard by intense competition from the regional countries in FY09. This, alongside rising interest rates and prolonged power cuts proved to be a hindrance to earnings of the textile industry in FY09 as depicted by a decline of 57%YoY. For our analysis, we have created a sample of 13 composite, 11 spinning and 5 weaving units representing 88%, 60% and 90% market cap of their respective sectors.

Textile sector: profits down 57%YoY

Textile sector's topline witnessed a growth of 17%YoY to record at Rs177bn in FY09. The main reason behind the surge in sales was rupee depreciation (20% in FY09). Amid higher revenues and lower cotton prices, gross margins improved by 190bps YoY to 16% in FY09. However, long power cuts and rising interest rates negated the impact of the topline on the reported profits. The 6 month KIBOR rate surged up by 380bps which in turn increased the finance costs by 50% resulting in a decline of 57% in the sector's earnings to Rs2bn as against Rs4.7bn in FY08.

Textile Sector (Rs mn)	FY09	FY08	% Δ
Net Sales	176,711	151,462	17%
Gross Profit	28,353	21,297	33%
Gross Margin	16.0%	14.1%	190bps
Operating Profit	16,324	12,185	34%
Other Income	3,744	5,157	-27%
Financial Charges	16,803	11,202	50%
Net (Loss) / Profit	2,026	4,664	-57%

Source: JS Research

Composite sector: Net sales up 18%YoY

Reported profits of composite textile segment stood at Rs3bn, down 38%YoY. The decline was mainly led by an increase in financial charges by 52% which were recorded at Rs12.4bn. However, the top line of the segment was recorded at Rs122bn, up 18%YoY mainly due to rupee depreciation against the dollar. Resultantly, gross margins improved to

17.7% as against 15.7% recorded in FY08. Moreover, reduction in dividend income and decline in profits from associates affected the other income which was recorded at Rs3.6bn, down 24%YoY.

Composite Sector (Rs mn)	FY09	FY08	% Δ
Net Sales	122,448	103,679	18%
Gross Profit	21,715	16,250	34%
Gross Margin	17.7%	15.7%	200bps
Operating Profit	12,797	9,478	35%
Other Income	3,563	4,681	-24%
Financial Charges	12,423	8,162	52%
Net (Loss) / Profit	3,099	4,976	-38%

Source: JS Research

Spinning sector: Profits turn into losses

Despite a 13% jump in revenues to Rs42bn and a 110bps improvement in gross margins to 12.7%, spinning segment's earnings turned negative posting a loss of Rs962mn in FY09. This was in sharp contrast to profits of Rs78mn recorded in FY08. Surge in financial charges, up 53% to Rs3.6bn completely wiped out the growth in topline and caused a severe dent in segment's performance in FY09.

Spinning Sector (Rs mn)	FY09	FY08	% Δ
Net Sales	42,268	37,456	13%
Gross Profit	5,365	4,355	23%
Gross Margin	12.7%	11.6%	110bps
Operating Profit	2,909	2,538	15%
Other Income	77	287	-73%
Financial Charges	3,602	2,354	53%
Net (Loss) / Profit	(962)	78	NM

Source: JS Research

Weaving sector: Net losses persist

Despite an increase of 16% in net sales, weaving segment remained in losses in FY09. This increase in sales was undone by higher financial charges, up 13% to Rs778mn. Hence, the segment posted net loss of Rs111mn compared to a loss Rs389mn in FY08.

Weaving Sector (Rs mn)	FY09	FY08	% Δ
Net Sales	11,996	10,327	16%
Gross Profit	1,274	692	84%
Gross Margin	10.6%	6.7%	390bps
Operating Profit	619	169	265%
Other Income	103	189	-45%
Financial Charges	778	686	13%
Net (Loss) / Profit	(111)	(389)	NM

Source: JS Research

Nishat Mills: 'Buy' maintained

We only cover Nishat Mills Limited (NML) amongst the textile sector due to limited trading volumes of other stocks. NML is currently trading at PE of 7.4x for FY10E against market's PE of 8.5x. Addition of Nishat Power into its equity portfolio and the favorable Textile Policy we believe are the major triggers for NML. Hence, we maintain our 'Buy' stance on NML at current levels.

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