

March 25, 2010

Pakistan Market

Textile sector: Positives all around

MORNING BRIEFING



KSE100 Index: Closing 10146.27 ↑ (+182.92)

The textile sector is gradually cashing in on the incentives from the Textile Policy (announced in August 2009), with the announcement of the mark-up rate facility/support, a major milestone. Moreover, continuing efforts of the government (GoP) to gain preferential access to the EU and US and with cotton prices on the way down, we believe the textile sector is all set for a bull run. Therefore, we reiterate our 'Buy' call on NML and an 'Accumulate' stance on NCL.

Mark up rate facility: NCL a prime beneficiary

After much delay, the GoP has finally announced details about the first round of payments due from 2.5% mark-up rate facility on outstanding loans under its Export Finance Scheme (EFS), and 5% mark-up support on the long term floating rate loans from Banks/DFIs. These concessions were part of the Textile policy announced in Aug 2009. Accordingly, the GoP would release payments for the first period (Sep 2009 -Feb 2010) by April 23, 2010. Further, amounts owed for the next period (Mar-Aug 2010) shall be announced separately upon receipt of budgetary allocations.

The above mentioned allocation bodes well for the sector, with Nishat Mills Limited (NML) and Nishat Chunian Limited (NCL) likely to result in after tax interest savings of Rs0.18 per share and Rs0.54 per share respectively, for the current period. Therefore, we have revised our FY10 earnings estimates for NML to Rs5.72 per share (Rs5.54/share previously) and NCL to Rs2.01 per share (Rs1.47/share earlier).

If these concessions continue beyond the current period as envisaged in the Textile Policy, we would see a significant upward revision in our earning estimates for the two scrips. The following table exhibits the likely earnings/valuation impact assuming the said facilities will continue, going forward. Our analysis is based on the fact that the average loan outstanding and the terms of the markup rate facility remain constant in the coming years.

EPS & Valuation Sensitivity of mark up rate concessions

(Rs/share)	FY10E	FY11F	Target price
NML-EPS (diluted)			
Old	5.5	8.6	69
New	5.8	9.0	71
NCL-EPS (diluted)			
Old	1.5	2.4	21
New	2.4	3.5	24

Source: JS Research

Cotton prices have peaked out

In addition to the recently announced mark up rate facility, reversal in local and international cotton prices is another positive for the textile sector. With the peak cotton buying season now over, and better crop estimates for the next year (ICAC estimates 10%YoY growth), local cotton prices have already started to fall and are currently hovering around Rs5,500/maund (down 4% from its peak). We expect prices to taper off further, as buying eases and new arrivals start flowing in from Aug 2010.

Outlook: positives all around

The mark-up facility coupled with declining cotton prices and the GoP's renewed focus to acquire wider market access to EU and US is another positive for the sector. Therefore we maintain our 'Buy' call on NML and an 'Accumulate' stance on NCL. Based on FY11 projections, the two stocks are trading at respective PBVs of 0.9x and 0.7x, respectively.

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Also in focus

Agri credit for 8MFY10 rises to Rs144.7bn

Total agri-credit disbursement for 8MFY10 rose to Rs144.7bn as against Rs130.3bn in the corresponding period last year (a rise of 11%). Of the total, disbursement from the five large banks stood at Rs74.7bn as against Rs62.6bn in 8MFY09 (a jump of 19%) while disbursement from the Zarai Taraqati bank rose 9% to Rs41.9bn in the period. To recall, total disbursement in FY09 stood at Rs233bn, whereas the government has set a target of Rs260bn for FY10.

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