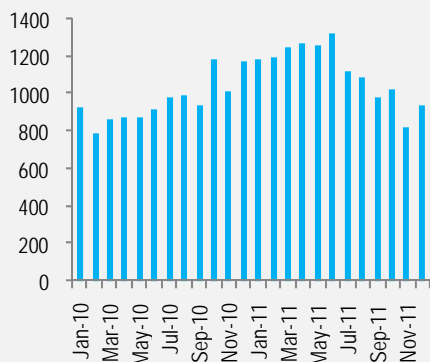


Textile Exports - Jan'10 – Dec'11



Source: Elixir Research, FBS

Textiles: Dec-12 exports drop while margins increase

Textile exports decline 5% YoY: As per data released by FBS, textile exports for 1HFY12 stood at USD5.9bn, down 5% YoY, due to drop in exports of cotton yarn and made up segment exports. Textile exports for Dec-11 declined by 20% YoY, dragged by 19-43% drop in exports of cotton yarn and made-up garments. Exports during Dec-11 recovered by 15% MoM.

Local cotton prices resistant to international decline: Average international cotton prices dropped by 9% MoM in Dec-11 on the concerns over higher global supply of cotton where local prices dropped by 5% MoM. During Jan-12, international and local cotton prices have recovered by 7% and 6% respectively from Dec-11 average, due to expectations of severe drought in Texas which is the major contributor to US cotton supply.

Running margins for spinners improve 42% QoQ: 2QFY12 average yarn primary margin increased by 42% QoQ due to 13% QoQ correction in cotton prices as prices of yarn dropped only 3% QoQ. Our discussion with NCL management suggests that company's procurement cost for 2QFY12 was PKR500/maund, which shall translate into primary margin of PKR69/kg for spinning segment, up 60% QoQ.

Investment perspective: NCL remains our key pick from the sector as it is currently trading at PER of 3.6x and offers an upside of 66% to our Dec-12 PT of PKR31/share.

Textile exports decline 5% YoY

As per recent data released by Federal Bureau of Statistics, textile exports for 1HFY12 stood at USD5.9bn, down 5% YoY, mainly on the back of 20% drop in cotton yarn exports and 7%/6% decline in knitwear/bed wear exports. Dec-11 exports dropped by 20% YoY, on the back of 43% decline in cotton yarn exports. Exports of bed wear and Knitwear fell by 23% and 19% respectively. However, exports for Dec-11 increased by 15% MoM reflecting seasonal uptick in demand.

Textile Exports			
USDmn	1HFY11	1HFY12	YoY
Cotton Cloth	1,094	1,020	-7%
Knitwear	1,096	1,116	2%
Bed Wear	972	914	-6%
Readymade Garments	822	836	2%
Cotton Yarn	945	761	-20%
Towels	351	336	-4%
Art, Silk & Synthetic Textile	328	314	-4%
Made up Articles (Excl. Towels & Bed Wear)	297	287	-3%
Other Textile Materials	394	394	0%
Total	6,299	5,976	-5%

Source: FBS, Elixir Research

Local cotton prices resistant to international decline

Dec-11 average international cotton prices dropped by 9% MoM to 95cents/lb due to expectations of increasing global supply of cotton. However, demand side was also supported by speculation of procurement by China which limited correction of cotton prices. With persistent drop in international prices, local prices dropped by 5% MoM during Dec-11 as market expected procurement from Trading Corporation of Pakistan at support

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price of PKR5600/maund. Discount of local cotton prices to international prices was maintained at 26% with 1% further PKR depreciation. International and local cotton prices have recovered by 7% and 6% respectively during Jan-12, compared to Dec-12 average, on the back of expectations of severe drought in Texas which is the major contributor to US cotton supply.

Month	Cotton "A" Index (USD/lb)	KCA Spot PKR/maund	Discount (%)	Discount (PKR/lb)
Aug-11	1.14	6,140	25%	24
Sep-11	1.17	6,768	20%	20
Oct-11	1.11	6,102	23%	22
Nov-11	1.05	5,474	27%	25
Dec-11	0.95	5,192	26%	22
Current	1.03	5,500	28%	26

Source: KCA, Elixir Research

Running margins for spinners improve 42% QoQ

Average running margins for spinners during 2QFY12 increased by 42% QoQ as cotton prices reduced by 13% QoQ, whereas yarn prices dropped by a mere 3% QoQ. Our discussion with NCL management reflected that procurement cost of NCL for 2QFY12 was PKR5,500/maund which shall lead into 62% QoQ recovery in spinning margins to PKR69/kg. The company's cotton procurement cost for FY12 stands at PKR5,400/maund, which suggests higher spinning margins for NCL as yarn prices have further increased by 6% QoQ.

Spinning		1QFY12	2QFY12	QoQ	Current
Average Yarn Price (22 count)	PKR/kg	256	249	-3%	264
Average Cotton Price - KCA Spot	PKR/kg	172	150	-13%	147
Average Cotton Price - NCL	PKR/kg	175	148	-16%	145
Cotton Required / unit of Yarn	18% wastage	1.22	1.22	-	1.22
Yarn Primary Margin (running)	PKR/kg	47	66	42%	85
Yarn Primary Margin - NCL	PKR/kg	42	69	62%	87

Source: Industry sources, Elixir Research

Economic & Political News

Monetary policy announcement: SBP board meetings rescheduled

The Central Board of Directors of the State Bank of Pakistan has decided to reschedule its meetings on monetary policy from the last week of the alternate month to the first half of the following month during a calendar year. This change in the schedule of board meetings has been made in order to take into consideration the latest data on inflation released by the Federal Bureau of Statistics (FBS). Governor, State Bank of Pakistan, Yaseen Anwar, will unveil the next Monetary Policy Statement for February & March 2012 at a press conference to be held at SBP, Karachi on February 11, 2012 at 4pm.

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