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The Value added sector again demands RD on yarn export

Value added sector has again demanded imposition of Regulatory Duty (RD) on yarn export to ensure availability of key raw material to the textile sector. The government has earlier imposed 15% RD on cotton yarn export in May which was later withdrawn in July with the expectation of a bumper cotton crop this year but devastating floods according to some estimates have destroyed approx. 15-20% cotton crop which may have created doubts among value added sector about its availability.

We believe that government needs to support the value added sector to realize the full export of the textile sector and additional value addition is the only way to enhance exports. Pakistan average realization per metre at USD 1/meter is lowest among the south Asian peers. We believe that government should take timely steps to ensure availability of yarn to the value added sector otherwise it may lose its competitiveness against the regional peers. Higher cotton yarn prices this season will make it challenging for the value added sector to maintain its margins. We currently recommend a BUY on NML with a TP of PKR 54.53 as the stock has overly built in the adversities in its price.

Gas supply reduced to SSGC & SNGP due to shut down of Zamzama field

Zamzama gas field has been shut down temporarily due to flood in the area due to which gas offtake has been reduced by 130 mmcf to 104 mmcf. While SNGP is also getting lesser gas of 104 mmcf lower by 86 mmcf. BHP Petroleum (Pakistan) Pty Ltd has a 38.50% interest in the Zamzama field and is operator, with partners Government Holdings (Private) Ltd – 25.00%; PKP Exploration Ltd 18.75%; and ENI Pakistan (M) Ltd having 17.75% stake. This is a temporary closure and would be resumed once flood water retreat from the area. The decline in gas supply is hampering electricity production of KESC and is expected to aggravate the power shortage in the area.

Market Outlook

'Sell on Strength' stance maintained for the day.