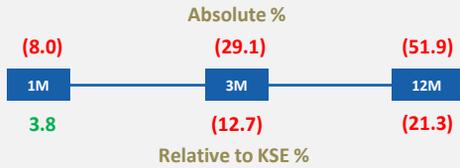


### Sector Performance



### Textile Spinning Sector vs. KSE100



- Primary margins have improved to USD0.94/kg in the running quarter, an increase of 125%CYTD, owing to an increase in yarn prices and decrease in cotton prices.
- As per the forecast for 2019/20, world cotton consumption is expected to be lower, primarily in China, translating into higher ending stocks.
- To highlight, spinning companies such as ZAHID, KOSM, GADT and CTM would gain due to their exposure in spinning segment of 78%, 100%, 92% and 79%, respectively.
- Following the slump in the cotton prices a steep decline in local yarn price would squeeze the primary yarn margins for spinners in the short run and hence remains a major risk to the textile spinning segment.
- We highlight spinning sector (companies namely ZAHID, KOSM, GADT and CTM) to gain investor's interest on the back of attractive yarn margins and may exhibit a short term rally.

**Primary yarn margins on the up:** Primary margins have improved to USD0.94/kg in the running quarter, an increase of 125%CYTD, owing to an increase in yarn prices and decrease in cotton prices. International cotton price is exhibiting a downward trend where 'Cotlook A' has corrected by 13%CYTD to close at US\$70.0/lb. Taking cue, local cotton price also witnessed a fall of 12%CYTD to clock in at PKR7,750/maund. However, local yarn price strengthened by 17%CYTD that led to an astronomical increase in primary yarn margins. Therefore, if the cotton price persists its downward trend, the spinners stand to gain as this would result in better primary yarn margins.

**Outlook on international cotton prices:** As per the latest report by USDA, with 25% tariff on U.S. goods in the backdrop of US-China trade war, China's cotton imports have been substituted by Brazil, Australia and other countries. As per the forecast for 2019/20, world cotton consumption is expected to be lower primarily in China translating into higher ending stocks. Consequently, the global stock level is expected to increase to 17.5mn bales where China's ending stocks are expected to witness a jump of 7.2mn bales owing to global economic slowdown. Hence, this would keep the cotton prices under pressure.

**Textile spinning sector to gain:** To highlight, spinning companies such as ZAHID, KOSM, GADT and CTM would gain due to their exposure in spinning segment of 78%, 100%, 92% and 79%, respectively. Our back of the envelop calculation suggests that assuming the cotton and yarn price of PKR8,400/maund and PKR1,838/10lb, respectively, for 1QFY20, ZAHID, KOSM, GADT and CTM would post an incremental EPS for the quarter of PKR1.5, PKR0.6, PKR28.8 and PKR1.0, respectively, as shown below:

PKRmn	Sales	GP	Incremental GP	Incremental EPS
ZAHID	3,868	1,019	283	1.46
KOSM	1,308	238	128	0.59
GADT	9,196	2,022	813	28.77
CTM	6,688	1,465	508	1.01

**Key risk:** Following the slump in the cotton prices a steep decline in local yarn price would squeeze the primary yarn margins for spinners in the short run and hence remains a major risk to the textile spinning segment. However, cotton procurement season, commencing from mid August, would be a saving grace for the industry since spinners are running low on inventory at this time of the year. Therefore, low priced cotton would be available for spinners enabling them to reap maximum benefit of the widened spinning margins.

**Investment perspective:** We highlight spinning sector (companies namely ZAHID, KOSM, GADT and CTM) to gain investor's interest on the back of attractive yarn margins and may exhibit a short term rally post announcement of their financial results. However, the rally may be short lived as the basis of recommendation is the spot spinning margin which may vary over medium term.

## Disclaimer

This research report is for information purposes only and does not constitute nor is it intended as an offer or solicitation for the purchase or sale of securities or other financial instruments. Neither the information contained in this research report nor any future information made available with the subject matter contained herein will form the basis of any contract. Information and opinions contained herein have been compiled or arrived at by BIPL Securities Limited from publicly available information and sources that BIPL Securities Limited believed to be reliable. Whilst every care has been taken in preparing this research report, no research analyst, director, officer, employee, agent or adviser of any member of BIPL Securities Limited gives or makes any representation, warranty or undertaking, whether express or implied, and accepts no responsibility or liability as to the reliability, accuracy or completeness of the information set out in this research report. Any responsibility or liability for any information contained herein is expressly disclaimed. All information contained herein is subject to change at any time without notice. No member of BIPL Securities Limited has an obligation to update, modify or amend this research report or to otherwise notify a reader thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate, or if research on the subject company is withdrawn. Furthermore, past performance is not indicative of future results.

The investments and strategies discussed herein may not be suitable for all investors or any particular class of investor. Investors should make their own investment decisions using their own independent advisors as they believe necessary and based upon their specific financial situations and investment objectives when investing. Investors should consult their independent advisors if they have any doubts as to the applicability to their business or investment objectives of the information and the strategies discussed herein. This research report is being furnished to certain persons as permitted by applicable law, and accordingly may not be reproduced or circulated to any other person without the prior written consent of a member of BIPL Securities Limited. This research report may not be relied upon by any retail customers or person to whom this research report may not be provided by law. Unauthorized use or disclosure of this research report is strictly prohibited. Members of BIPL Securities and/or their respective principals, directors, officers, and employees and their families may own, have positions or affect transactions in the securities or financial instruments referred herein or in the investments of any issuers discussed herein, may engage in securities transactions in a manner inconsistent with the research contained in this research report and with respect to securities or financial instruments covered by this research report, may sell to or buy from customers on a principal basis and may serve or act as director, placement agent, advisor or lender, or make a Market in, or may have been a manager or a co-manager of the most recent public offering in respect of any investments or issuers of such securities or financial instruments referenced in this research report or may perform any other investment banking or other services for, or solicit investment banking or other business from any company mentioned in this research report. Investing in Pakistan involves a high degree of risk and many persons, physical and legal, may be restricted from dealing in the securities Market of Pakistan. Investors should perform their own due diligence before investing. No part of the compensation of the authors of this research report was, is or will be directly or indirectly related to the specific recommendations or views contained in the research report. By accepting this research report, you agree to be bound by the foregoing limitations.

BIPL Securities Limited and / or any of its affiliates, which operate outside Pakistan, do and seek to do business with the company(s) covered in this research document. Investors should consider this research report as only a single factor in making their investment decision. BIPL Securities Limited prohibits research personnel from disclosing a recommendation, investment rating, or investment thesis for review by an issuer/company prior to the publication of a research report containing such rating, recommendation or investment thesis.

BIPL Securities Limited endeavors to make all reasonable efforts to disseminate its publication to all eligible clients in a timely manner through either physical or electronic distribution such as mail, fax and/or email. Nevertheless, not all clients may receive the material at the same time.

### Disclaimers/Disclosures to US Investors

This investment research is distributed in the United States by BIPL Securities Limited (BIPLS), and in certain instances by Enclave Capital LLC (Enclave), a U.S.-registered broker-dealer, only to major U.S. institutional investors, as defined in Rule 15a-6 promulgated under the U.S. Securities Exchange Act of 1934, as amended, and as interpreted by the staff of the U.S. Securities and Exchange Commission. This investment research is not intended for use by any person or entity that is not a major U.S. institutional investor. If you have received a copy of this research and are not a major U.S. institutional investor, you are instructed not to read, rely on or reproduce the contents hereof, and to destroy this research or return it to BIPLS or to Enclave. The analyst(s) preparing this report are employees of BIPLS who are resident outside the United States and are not associated persons or employees of any U.S. registered broker-dealer. Therefore, the analyst(s) are not subject to Rule 2711 of the Financial Industry Regulatory Authority (FINRA) or to Regulation AC adopted by the U.S. Securities and Exchange Commission (SEC) which among other things, restrict communications with a subject company, public appearances and personal trading in securities by a research analyst. Any major U.S. institutional investor wishing to effect transactions in any securities referred to herein or options thereon should do so by contacting a representative of Enclave. Enclave is a broker-dealer registered with the SEC and a member of FINRA and the Securities Investor Protection Corporation. Its address is 19 West 44th Street, Suite 1700, New York, NY 10036 and its telephone number is 646-454-8600. BIPLS is not affiliated with Enclave or any other U.S. registered broker-dealer.

### Stock Rating

Investors should carefully read the definitions of all rating used within every research reports. In addition, research reports carry an analyst's independent view and investors should ensure careful reading of the entire research reports and not infer its contents from the rating ascribed by the analyst. Ratings should not be used or relied upon as investment advice. An investor's decision to buy, hold or sell a stock should depend on said individual's circumstances and other considerations. BIPL Securities Limited uses a three tier rating system: i) Buy, ii) Hold and iii) Sell with our rating being based on total stock returns. A table presenting BIPLS' rating definitions is given below:

The rating system

Rating	Definition
Buy	Total stock return $\geq$ 15%
Hold	0% $\leq$ Total stock return < 15%
Sell	Total stock return < 0%

\* Total stock return = capital gains + dividend yield

### Valuation Methodology

To arrive at our period end target prices, BIPL Securities uses different valuation methodologies including

- Discounted cash flow (DCF, DDM)
- Relative Valuation (P/E, P/B, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)