

## Foundation Alert

### Consultation on MSCI proposal to reclassify Pakistan from Emerging Markets to Frontier Markets index

#### Event

- MSCI, the leading global provider of research-based indexes and analytics, announced that it proposes to reclassify the MSCI Pakistan Index from Emerging Markets (EM) to Frontier Markets (FM) in one go at the November 2021 Semi-Annual Index Review.
- MSCI will consult with market participants on this reclassification proposal until August 31, 2021 and announce its decision by September 7, 2021.

#### Impact

- The number of companies in the Pakistan equity universe that meet the relevant Size and Liquidity criterion of the MSCI Market Classification Framework has declined steadily since 2017.
- MSCI proposes to apply minimum size requirement for smaller FM and minimum liquidity requirement for average liquidity market (ATVR at 15%).
- Due to declining market capitalizations, this number has consistently been below the minimum of 3 index constituents required for EM.
- Index continuity rules have been applied since the November 2018 review to artificially maintain 3 constituents in the MSCI Pakistan Index.
- Since the November 2019 review, there have been no companies in the MSCI Pakistan equity universe that meet the EM Size and Liquidity criterion under the MSCI Market Classification Framework.
- As the Pakistani market no longer meets EM standards for size, MSCI proposes to reclassify the MSCI Pakistan Index to FM.
- The simulated MSCI Pakistan FM index has total 23 companies (4 mid cap and 19 small cap) compared to the current 16 companies in MSCI Pakistan EM (3 mid cap and 13 small cap).
- The simulated MSCI Pakistan FM (Mid Cap) index has potential weight of 2.3% in the MSCI FM index and includes LUCK, MCB, HBL and OGDC.
- To recall, MSCI Pakistan index currently has weight of 0.02% in MSCI EM index and 3 constituents including LUCK, HBL and MCB.
- The simulated MSCI Pakistan FM (Small Cap) index includes PPL, MARI, ENGRO, UBL, FFC, POL, PSO, HUBC, INDU, EFERT, TRG, BAHL, ABOT, NBP, SYS, MTL, SEARL, BAFL and PKGS.
- Companies which are added to the simulated MSCI Pakistan FM indexes as compared to the MSCI Pakistan EM indexes are OGDC, INDU, BAHL, ABOT, NBP, SYS and PKGS.

#### Outlook

- We await decision of MSCI consultation process on reclassification of Pakistan from EM to FM index by Sept 7, 2021.

**Fig 1: Simulated constituents of MSCI Pakistan FM (Mid Cap Index)**

Company	Index Weight	Free Float Market Cap (USD mn)
LUCK	35.6%	1,811
MCB	23.1%	1,340
HBL	22.2%	1,128
OGDC	19.1%	2,767

Source: MSCI, PSX, Foundation Research, June 2021

**Fig 2: Simulated constituents of MSCI Pakistan FM (Small Cap Index)**

Company	Free Float Market Cap (USD mn)
PPL	1,514
MARI	1,411
ENGRO	1,099
UBL	953
FFC	872
POL	696
PSO	669
HUBC	660
INDU	577
EFERT	570
TRG	548
BAHL	462
ABOT	456
NBP	447
SYS	418
MTL	395
SEARL	376
BAFL	348
PKGS	269

Source: MSCI, PSX, Foundation Research, June 2021

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**Important disclosures:**

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If	
Expected return >+10%	Outperform.
Expected return from -10% to +10%	Neutral.
Expected return <-10%	Underperform.