

Foundation Alert

MSCI Nov'22 Semi-Annual Index Review: MCB reclassified to MSCI FM Small Cap Index

Event

- MSCI, the leading global provider of research-based indexes and analytics, announced the results of the Nov 2022 Semi Annual Index Review for the MSCI Equity Indexes. All changes will be implemented as of the close of Nov 30, 2022.

Impact

- In MSCI Frontier Market Index there will be five additions and seven deletions whereas in the MSCI Frontier Market Small Cap Index there will be eight additions and thirteen deletions.
- The three largest additions to the MSCI FM Index measured by full company market capitalization will be Managem (Morocco), Sohar International Bank (Oman) and Bank Dhofar (Oman).
- In light of currently observed market accessibility issues, MSCI will not implement changes as part of this Index Review for any securities classified in Kenya, Nigeria, or Sri Lanka for the MSCI Kenya, MSCI Nigeria, and MSCI Sri Lanka Indexes or impacted composite indexes.
- To note, MCB has been deleted from the MSCI FM Index and added to the MSCI FM Small Cap index.
- Foreign companies hold 63.4mn shares (5.4%) of MCB apart from 65mn shares (5.5%) held by Bugis Investments Mauritius Pte Ltd which operates as an investment management firm.
- The MSCI Pakistan Index weight is expected to be 0.7% in the MSCI FM index that includes LUCK and OGDC.
- The MSCI Pakistan Investable Market Index has 20 Pakistani companies (2 large cap and 18 small cap).
- The MSCI FM Small Cap Index includes the following Pakistani companies: BAFL, ENGRO, EFERT, EPCL, FFC, HBL, HUBC, INDU, MARI, MCB, MTL, PPL, POL, PSO, SEARL, SYS, TRG and UBL.

Outlook

- We believe, reclassification of MCB to small cap index may trigger some of foreigners to trim their position. However, rebalancing of MSCI Indices would be a neutral event for KSE-100 given reduced holding of foreign institutions.

Table 1: MSCI FM (Main Index) Pakistan Expected weight

Company	Free Float Market Cap (USD mn)	MSCI Weight
LUCK	286	0.4%
OGDC	212	0.3%
Total	498	0.7%

Source: MSCI, PSX, Foundation Research, November 2022

Table 2: MSCI FM (Small Cap) Pakistan Constituents

Company	Free Float Market Cap (USD mn)	MSCI Weight
ENGRO	345	1.0%
HUBC	353	1.1%
SYS	285	0.9%
UBL	263	0.8%
FFC	235	0.7%
MCB	224	0.7%
MTL	216	0.7%
MARI	202	0.6%
EFERT	197	0.6%
HLB	199	0.6%
PPL	145	0.4%
POL	189	0.6%
PSO	148	0.4%
TRG	251	0.8%
BAFL	109	0.3%
INDU	66	0.2%
EPCL	45	0.1%
SEARL	54	0.2%
Total	3,526	10.7%

Source: MSCI, PSX, Foundation Research, November 2022

*Weight might be different from actual MSCI weightages due to differences in prices and Free Float

Analyst

Muhamamd Awais Ashraf, CFA
+92 21 3561 2290-94

m.awais@fs.com.pk
Ext 338

Important disclosures:

Disclaimer: This report has been prepared by FSL. The information and opinions contained herein have been compiled or arrived at based upon information obtained from sources believed to be reliable and in good faith. Such information has not been independently verified and no guaranty, representation or warranty, express or implied is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. This document is for information purposes only. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete and this document is not, and should not be construed as, an offer, or solicitation of an offer, to buy or sell any securities or other financial instruments. FSL may, to the extent permissible by applicable law or regulation, use the above material, conclusions, research or analysis before such material is disseminated to its customers. Not all customers will receive the material at the same time. FSL, their respective directors, officers, representatives, employees, related persons may have a long or short position in any of the securities or other financial instruments mentioned or issuers described herein at any time and may make a purchase and/or sale, or offer to make a purchase and/or sale of any such securities or other financial instruments from time to time in the open market or otherwise, either as principal or agent. FSL may make markets in securities or other financial instruments described in this publication, in securities of issuers described herein or in securities underlying or related to such securities. FSL may have recently underwritten the securities of an issuer mentioned herein. This document may not be reproduced, distributed or published for any purposes.

Research Dissemination Policy: Foundation Securities (Pvt.) Ltd. endeavors to make all reasonable efforts to disseminate research 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.

Target price risk disclosures: Any inability to compete successfully in their markets may harm the business. This could be a result of many factors which may include geographic mix and introduction of improved products or service offerings by competitors. The results of operations may be materially affected by global economic conditions generally, including conditions in financial markets. The company is exposed to market risks, such as changes in interest rates, foreign exchange rates and input prices. From time to time, the company will enter into transactions, including transactions in derivative instruments, to manage certain of these exposures.

Analyst certification: The views expressed in this research accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst principally responsible for the preparation of this research receives compensation based on overall revenues of Foundation Securities and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

Recommendations definitions

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