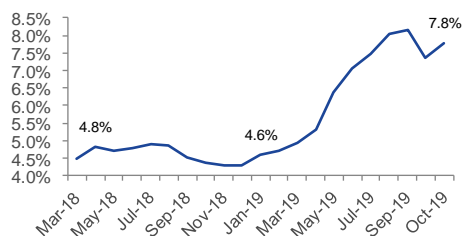


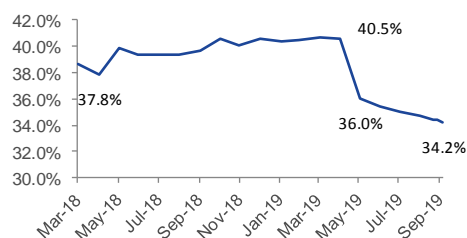


QFI + Swap + strategic foreign ownership trend



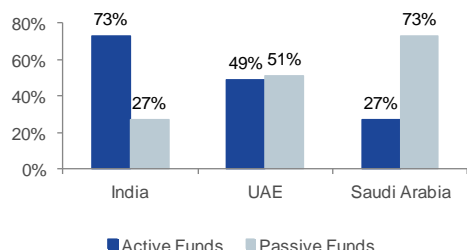
Source: Tadawul, Al Rajhi Capital

GREs Ownership Trend



Source: Tadawul, Al Rajhi Capital

Share of Active funds in Emerging Markets



Source: Bloomberg, Al Rajhi Capital

Mazen Al-Sudairi
Tel +966 11 836 5468
alsudairim@alrajhi-capital.com

Pritish Devassy, CFA
Tel +966 11 836 5464
devassyp@alrajhi-capital.com

Saudi Arabia

Fund flows & Equity strategy

More active flows expected: With the inclusion of Saudi Arabia into MSCI and FTSE EM indices, the Saudi equity market has seen inflows of ~US\$19.7bn on a net basis. These inflows are likely to have been predominantly passive inflows as seen from the purchases on inclusion days during the auction period. We estimate this to be ~US\$12bn (~60% of the total inflows of inclusion days) as shown in Figure 6. We also see the same pattern in the holdings of QFIs where passive funds hold ~73% of total QFI invested funds as per data from Bloomberg. As shown in Figure 4, Blackrock and Vanguard compose the largest share of passive funds.

Figure 1 Active/Passive Holdings in Emerging Markets

	Active Holding (US\$ mn)	Passive Holding (US\$ mn)	Share of Active Holdings	Share of Passive Holdings	Weight in MSCI EM Index
India	48,091	18,144	73%	27%	8.86%
UAE	2,856	3,017	49%	51%	0.70%
Saudi Arabia	2,541	6,787	27%	73%	2.83%

Source: Bloomberg, MSCI, Al Rajhi Capital

Relatively low weight of actives in Saudi shows further potential:

Figure 1 shows that the share of active funds in Saudi Arabia is ~27%, relatively low as compared to other markets such as UAE (where QFI funds are split almost equally between actives and passives) or India (where active QFIs hold ~73% of the total QFIs funds). On the contrary, market expectations before the inclusions were broadly 25% of passive and 75% of active inflows. This may indicate that there could be potential for additional active inflows into the Kingdom over time. Even after the last inclusion for the year (FTSE Tranche 4 - 19th Sept) net foreign buying has continued to be high at ~SAR1.8bn in the last two weeks probably indicating actives buying during corrections.

Stocks & sector exposure of active funds

The top sectors where the active funds are holding majority of the stakes are financials (including banking and insurance) and consumer discretionary. Out of the total holdings held by active QFIs ~79% is in banking stocks. AlRajhi bank remains the favourite among the investors as ~45% (US\$489mn) of the total active foreign holding (US\$1.08bn) is invested in it. Samba bank (US\$109mn), NCB (US\$81mn), Bupa (US\$72mn) and Tawuniya (US\$56mn) are the other top stocks where the active QFI's are holding significant stakes. In consumer discretionary sector, Seera holdings was one of the top stocks where foreign investors put in US\$55mn followed by Extra where US\$38mn was held by them. (Refer to figure 2 and 3 below for details on sector and stock specific allocation. The data is based on only those funds reported by Bloomberg and hence could be used for representational purposes)

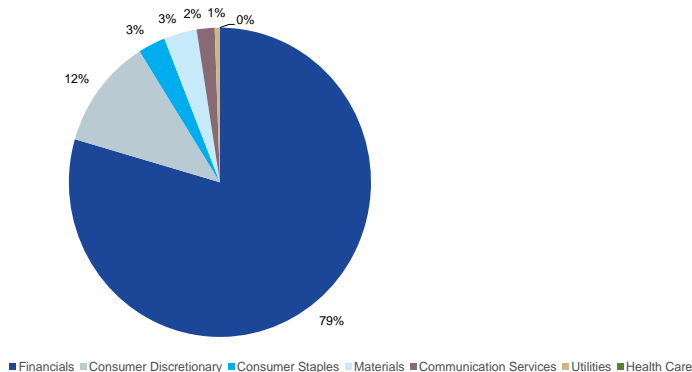


Figure 2 Stock wise Investment of Top Active QFI Funds

Stock Name	Curr MV (USD mn)	% Allocation
Al Rajhi Bank	489.11	45.36%
Samba Financial Group	109.09	10.12%
National Commercial Bank	81.34	7.54%
Bupa Arabia for Cooperative Insurance Co	71.70	6.65%
Co for Cooperative Insurance/The	55.61	5.16%
Seera Group Holding	54.95	5.10%
United Electronics Co	38.30	3.55%
Fawaz Abdulaziz Al Hokair & Co	31.71	2.94%
Savola Group/The	31.44	2.92%
Bank Al-Jazira	29.87	2.77%
Saudi Basic Industries Corp	28.67	2.66%
Saudi Telecom Co	20.70	1.92%
Riyad Bank	12.29	1.14%
Saudi Arabian Mining Co	6.26	0.58%
Saudi Electricity Co	5.94	0.55%
Alinma Bank	5.52	0.51%
Saudi Arabian Fertilizer Co	3.09	0.29%
Banque Saudi Fransi	2.71	0.25%
Almarai Co JSC	0.05	0.00%
Mouwasat Medical Services Co	0.04	0.00%
	1,078.39	100.00%

Source: Bloomberg, Al Rajhi Capital. As of September 2019

Figure 3 Sector Allocation



Source: Bloomberg, Al Rajhi Capital. As of September 2019.

Corrections may attract more active managers: The TASI has fallen by ~6% in the last two weeks from 8061 on September 30th 2019 to 7600 levels currently. Post the last tranche of inclusion, we had expected a correction for the market to 7500 levels which seems to be the trend. This implies a trailing P/E of 19.45x. Any significant corrections in the market may bring more active participation by QFIs to the market and create strong support levels. As such, the regulator has been actively trying to improve foreign active participation by a host of measures such as introduction of derivatives and short-selling. As per a recent interview with CEO of Tadawul to local media, there are 1300 participants registered and the number of qualified foreign investors (QFIs) with number of foreign investors rising to 8% from 2% a couple of years ago and more specifically active investors increasing to 4-4.5 % in the last year. As market gets more confident of Aramco's inclusion, there may be selling in other stocks. As some good stocks may be available for bargain prices, we could see further foreign active investors entering the market. Not just actives, given that the global passive funds are gaining market share over active funds, there might be continual additional market flows.



Adjustment of P/E for banking stocks: Given that the banking stocks are likely to report earnings post Zakat going forward, the usual P/E data reported by Bloomberg could look artificially elevated. Assuming an average tax rate of 13% for the Saudi banks, the P/E could move to 20x from 19x, other all things remaining same. This explains why P/E looks still high even after the TASI correction. Without this adjustment prior last 3 year P/E for Saudi Arabia is at 18x. In terms of forward P/E Saudi multiples currently are 15.84x for 2019e and 14.33x and 2020e (based on Bloomberg estimates).

More stock based inclusions may follow: Even though official inclusion by MSCI and FTSE (except last tranche) is complete for 2019, more stock specific inclusions could follow due to quarterly reviews done by MSCI (semi-annual by FTSE). For example Leejam, ANB that were not included for the first tranches of FTSE saw trading volumes spike on inclusion days in later inclusions, much more than were for its peers of similar size (Figure 6 and 7). There could also be additional buying owing to inclusion or newer funds following local market benchmarks (e.g. FTSE All cap Saudi index). The next and final tranche for FTSE inclusion is in March 2020. Once Saudi Aramco is listed on Tadawul, it is expected to be included in FTSE and MSCI EM Indices. Saudi Arabia's weights in the indices will also increase to 4.6% in FTSE (2.7% currently) and 4.6% in MSCI (2.83% currently) – sources: FTSE and MSCI.

Figure 4 Major QFIs in Saudi Arabia

No. QFIs	Value Held by QFIS (SAR mn)		
	Active Funds	Passive Funds	Share of QFIs
1 BlackRock Inc	5	14,774	47.9%
2 Vanguard Group Inc/The	0	9,749	31.6%
3 Credit Suisse Group AG	286	60	1.1%
4 Northern Trust Corp	408	65	1.5%
5 State Street Corp	126	163	0.9%
6 Charles Schwab Corp/The	0	199	0.6%
7 FMR LLC	41	177	0.7%
8 Credit Agricole Group	133	147	0.9%
9 Teachers Insurance & Annuity Assoc	181	28	0.7%
10 GLOBAL INVESTMENT HOUSE	170	0	0.5%
11 Norges Bank	2,396	0	7.8%
12 Wellcome Trust Ltd/The	481	0	1.6%
13 JPMorgan Chase & Co	372	0	1.2%
14 MDO Management Co SA	135	0	0.4%
15 Robeco Institutional Asset Managem	82	0	0.3%
16 Robeco Luxembourg SA	277	0	0.9%
17 Causeway Capital Management LLC	43	0	0.1%
18 Eaton Vance Corp	119	0	0.4%
19 Deutsche Bank AG	0	10	0.0%
20 FlexShares Trust	102	0	0.3%
21 Harding Loevner LP	58	0	0.2%
22 Zuercher Kantonalbank	35	0	0.1%
23 Goldman Sachs Group Inc/The	6	0	0.0%
24 Ashmore Group PLC	35	0	0.1%
Total	5,493	25,372	

Source: Bloomberg, Al Rajhi Capital. As of September 2019. The ETFs and Index funds are assumed to be passive funds, while others are assumed to be active funds. For compliance reasons few fund names are excluded. The list above is indicative and not exhaustive due to limited disclosures by funds worldwide.



Figure 5 Top 10 companies with major QFIs

No	Company	Top QFI	Value Held by QFIS (SAR mn)	
			Active Funds	Passive Funds
1	Saudi Basic Ind Corp	BlackRock Inc	0	2,027
		Vanguard Group Inc/The	0	1,546
		Credit Suisse Group AG	101	0
2	Al Rajhi Banking & Inv	BlackRock Inc	2	2,020
		Vanguard Group Inc/The	0	1,376
		Norges Bank	546	0
		Wellcome Trust Ltd/The	481	0
		JPMorgan Chase & Co	372	0
		Northern Trust Corp	100	18
		Teachers Insurance & Annuity Assoc	95	16
3	National Comm Bank	BlackRock Inc	0	1,480
		Vanguard Group Inc/The	0	1,181
		Norges Bank	241	0
4	Saudi Telecom Co	BlackRock Inc	2	1,325
		Vanguard Group Inc/The	0	1,116
		Robeco Luxembourg SA	115	0
5	Samba Financial Group	BlackRock Inc	0	741
		Vanguard Group Inc/The	0	513
		Norges Bank	395	0
6	Almarai Co	BlackRock Inc	0	362
		Vanguard Group Inc/The	0	265
7	Riyad Bank	BlackRock Inc	1	768
		Vanguard Group Inc/The	0	611
8	Saudi Arabian Mining Co	BlackRock Inc	0	494
		Vanguard Group Inc/The	0	340
9	Alinma Bank	BlackRock Inc	0	578
10	Saudi Arab Fertilizer	BlackRock Inc	0	393
		Vanguard Group Inc/The	0	287
		FlexShares Trust	102	0
Total for Top 10 stocks			2,552	17,459

Source: Bloomberg, Al Rajhi Capital. As of September 2019. The ETFs and Index funds are assumed to be passive funds, while others are assumed to be active funds. For compliance few fund names are excluded.

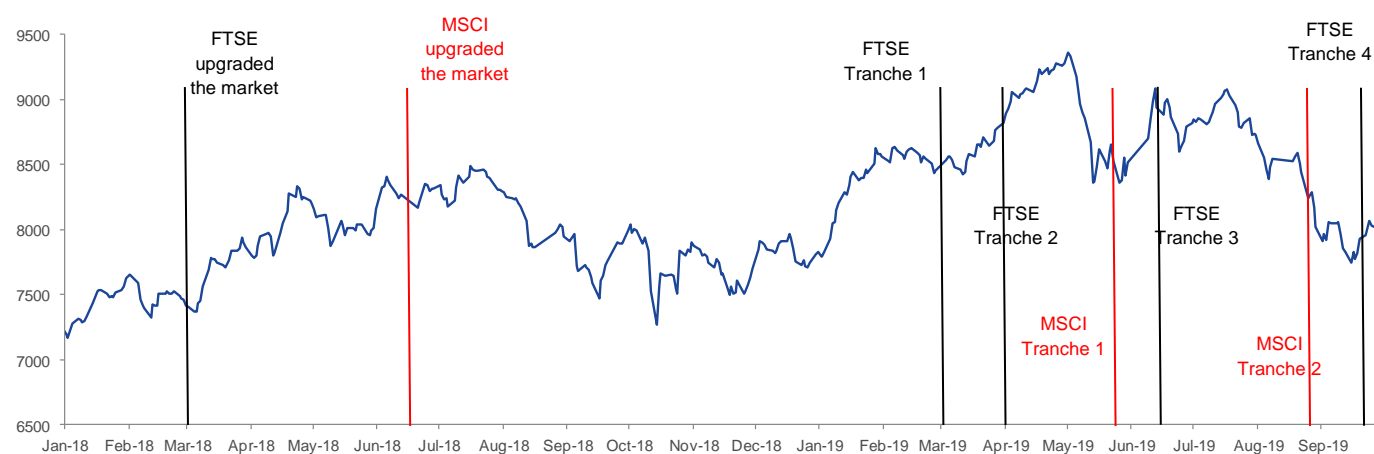


Figure 6 Foreign Inflows on the day of Inclusions

	Total Inflows (USD mn)
FTSE Tranche 1	380
FTSE Tranche 2	707
FTSE Tranche 3	1,360
FTSE Tranche 4	1,320
MSCI Phase 1	5,500
MSCI Phase 2	5,300

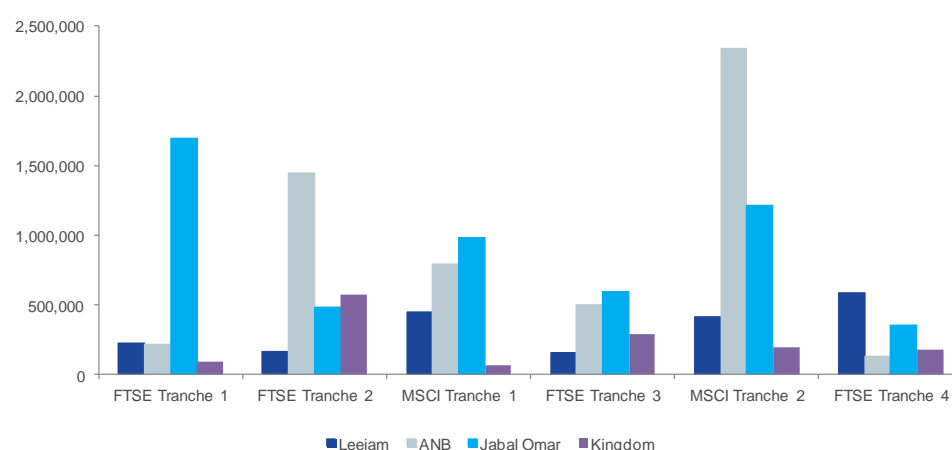
Source: Company data, Al Rajhi Capital

Figure 3 TASI performance since market upgrade



Source: Bloomberg, Al Rajhi Capital

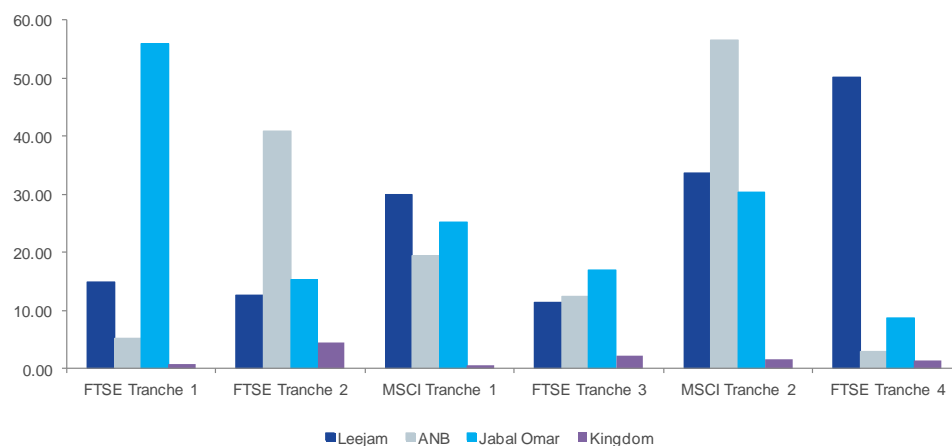
Figure 7 Volumes on MSCI and FTSE tranches



Source: Tadawul, Al Rajhi Capital



Figure 8 Traded Values (SAR mn) during MSCI and FTSE tranches



Source: Tadawul, Al Rajhi Capital

Figure 9 FTSE EM Index Country Weights

Countries	Market Cap (US\$ mn)	Weight
Brazil	428,978	8.84%
Chile	53,080	1.09%
China	1,723,714	35.52%
Columbia	24,002	0.49%
Czech Rep.	8,017	0.17%
Egypt	9,934	0.20%
Greece	17,110	0.35%
Hungary	16,340	0.34%
India	532,610	10.98%
Indonesia	106,757	2.20%
Kuwait	42,619	0.88%
Malaysia	132,013	2.72%
Mexico	145,004	2.99%
Pakistan	1,904	0.04%
Peru	3,216	0.07%
Philippines	64,324	1.33%
Qatar	61,459	1.27%
Russia	216,258	4.46%
Saudi Arabia	116,322	2.40%
South Africa	277,057	5.71%
Taiwan	610,927	12.59%
Thailand	176,708	3.64%
Turkey	35,588	0.73%
UAE	48,845	1.01%
Total	4,852,786	100.00%

Source: FTSE, Al Rajhi Capital



Figure 10 Pro forma Standard Index for MSCI post Kuwait Inclusion

	Index Cap (US\$mn)	Weight
EM	5,393,840	100.0%
EM Asia	3,817,292	70.8%
China	1,712,770	31.8%
Korea	680,418	12.6%
Taiwan	557,153	10.3%
India	446,219	8.3%
Thailand	123,232	2.3%
Indonesia	118,705	2.2%
Malaysia	118,626	2.2%
Philippines	58,285	1.1%
Pakistan	1,884	0.0%
EM EMEA	917,999	17.0%
South Africa	322,039	6.0%
Russia	194,393	3.6%
Saudi Arabia	145,008	2.7%
Poland	62,393	1.2%
Qatar	54,711	1.0%
UAE	36,292	0.7%
Turkey	33,396	0.6%
Kuwait	27,525	0.5%
Hungary	16,509	0.3%
Greece	11,022	0.2%
Czech Republic	8,449	0.2%
Egypt	6,262	0.1%
EM Latin America	658,550	12.2%
Brazil	396,520	7.4%
Mexico	144,387	2.7%
Chile	57,278	1.1%
Colombia	21,622	0.4%
Peru	21,189	0.4%
Argentina	17,554	0.3%

Source: MSCI, Al Rajhi Capital



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Contact us

Mazen AlSudairi
Head of Research
Tel : +966 11 836 5468
Email: alsudairim@alrajhi-capital.com

Al Rajhi Capital
Research Department
Head Office, King Fahad Road
P.O. Box 5561, Riyadh 11432
Kingdom of Saudi Arabia
Email: research@alrajhi-capital.com

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