



MSCI EM inclusion – SAR22.4bn inflow expected in 2nd tranche

MSCI announced the results of the August 2019 Quarterly Index Review (QIR) for the MSCI Equity Indexes, which resulted in no changes in the constituents of the MSCI Saudi Index of 31 stocks. Saudi will have a weight of 2.83% in the MSCI Emerging Markets index. Saudi's addition to the MSCI Emerging Markets index is expected to result in a total inflow of cSAR44.8bn (cUS\$11.9bn) from passive funds, of which the second tranche represents 50% (i.e. SAR22.4bn) of total inflows. The changes for the second and final tranche of the inclusion of the Saudi market into the MSCI index series will be made as of the close of 27th August 2019 (with an effective date of 28th August 2019).

- Following the implementation of the second tranche of inclusion, Saudi will be the ninth largest constituent of MSCI Emerging Markets index. For the second tranche all changes to be made as of the close of 27 August 2019, (with an effective date of 28 August 2019). The Saudi market is projected to have a weight of 2.83% in the MSCI Emerging All Cap. This is expected to result in a total inflow of cSAR44.8bn (cUS\$11.9bn) mainly from passive funds, of which the second tranche represents 50% (i.e. SAR22.4bn) of total inflows.
- The MSCI Saudi index consists of 31 stocks (see Exhibit 3) and which are expected to be added at their full Foreign Inclusion Factor (FIF) - adjusted market capitalization
- Similar to the first phase, we expect the majority of the trades to be executed on the closing price of 27th August during the auction period, and on the effective date, also during the closing auction period. This is due to passive funds' desire to minimise tracking errors.
- Although not implemented in the August 2019 QIR, we believe removal of ownership limits for foreign strategic investors is a positive development, with material flow implications for certain constituents of the MSCI Saudi index.
- In June 2019, the Capital Market Authority (CMA) removed the limit for strategic foreign ownership in Saudi companies. However, the ownership limit for Qualified Foreign Investors (QFIs) remains subject to the existing ownership limit of 49%.
- We believe removing foreign strategic shareholders from FOL calculations would have some index implications for MSCI Saudi. The said change would increase the available room for foreign investors by making the Limited Investability Factor (LIF) no longer applicable for certain companies that are currently subject to it.

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- The beneficiaries of the change are expected to be Bupa Arabia (Bupa) and Saudi British Bank (SABB), with foreigners currently owning 48.8% and 42.5% of the total issued capital, respectively. In terms of strategic investors, Bupa Investment Overseas owns 39.2% stake in Bupa Arabia, while HSBC Holding owns 29.1% in SABB. As a result the Foreign Inclusion factor (FIF) for Bupa and SABB is 0.23x and 0.18x, respectively.
- We believe after the change the LIF of 0.5x for these shares will no longer be applicable. This would effectively increase Bupa and SABB weights to c1.0% and c4.6% from c0.5% and c2.4% in the MSCI Saudi index. This may result in additional inflow of SAR204mn (US\$54mn) and SAR964mn (US\$257mn) for these stocks.
- Trading momentum has continued to keep Tadawul valuations elevated. Tadawul is trading at a 2019f PE of 16.6x, higher than the last 10 years average of 17.2x and a 32% premium to MSCI EM. However, the recent market correction has brought back TASI to our fair trading range of 7,800-8,800 points.

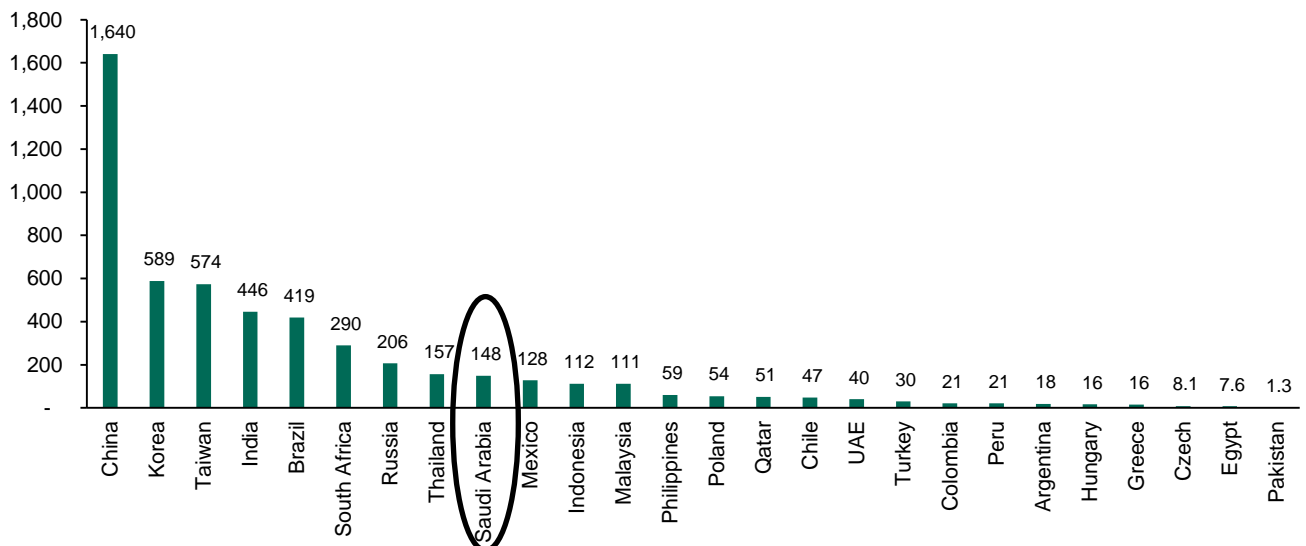
Exhibit 1: MSCI Index Implementation Dates

	Closing Price Date	Effective Date	Saudi Arabia Inclusion Factor
Tranche 1	28 May 2019	29 March 2019	50%
Tranche 2	27 August 2019	28 August 2019	50%

Source: MSCI, NCBC Research

Exhibit 2: Saudi set to become the 9th largest country in MSCI EM by Free Float Market Cap

US\$ bn

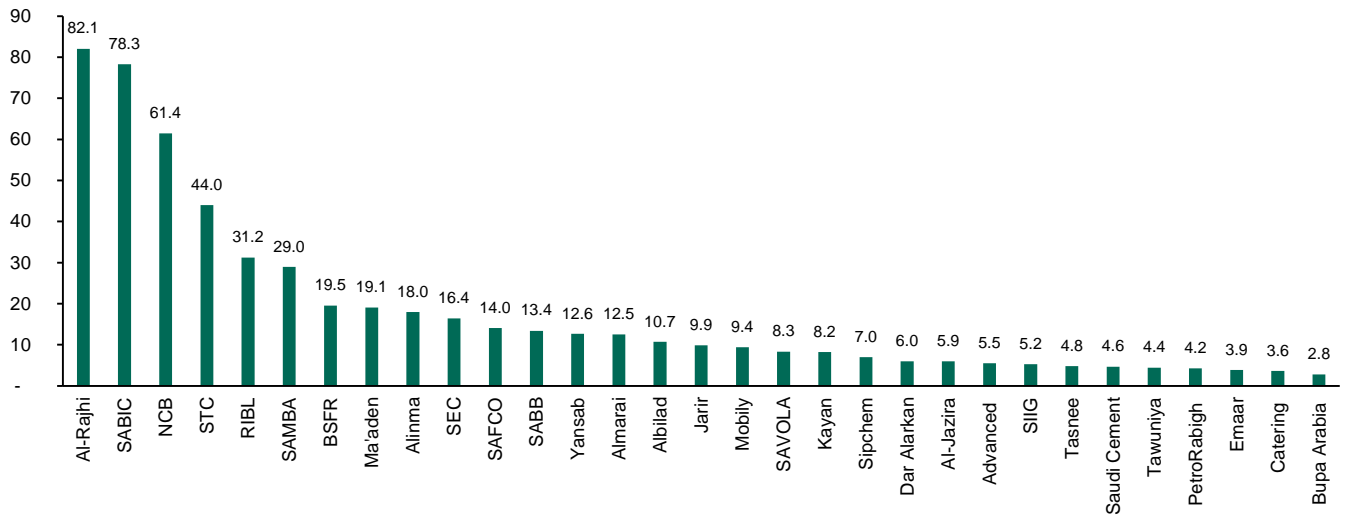


Source: MSCI, NCBC Research
 Saudi FIF Adj. market cap after its full inclusion post 2nd step

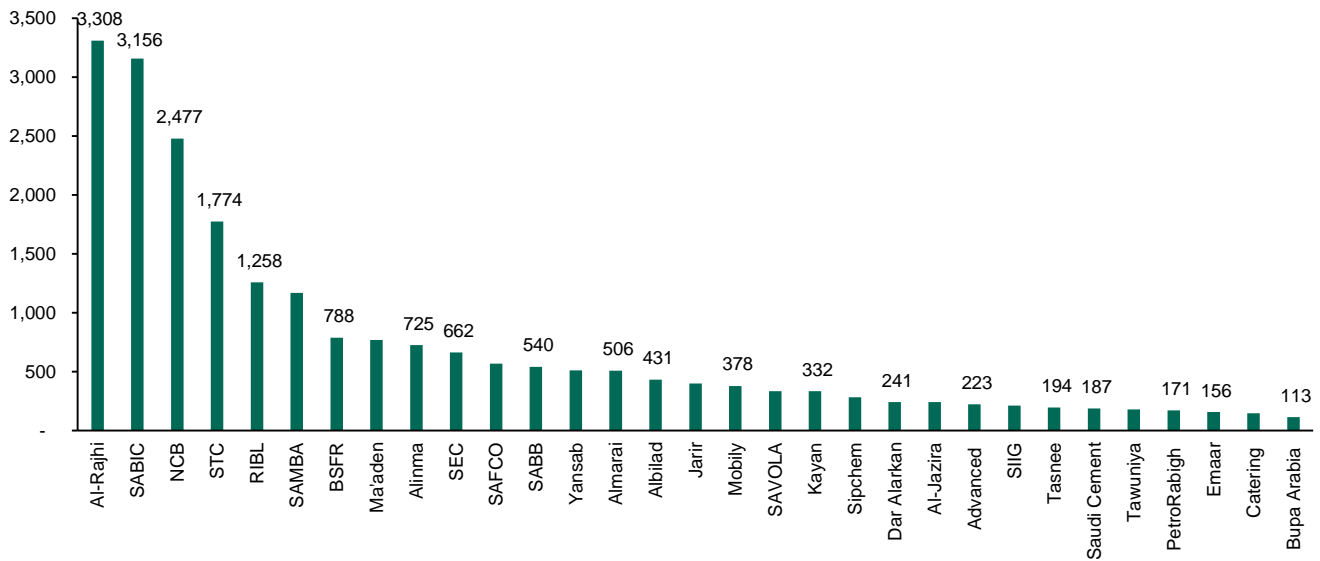
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Exhibit 3: Constituent of MSCI Saudi Main index – Company Market Cap

SAR bn



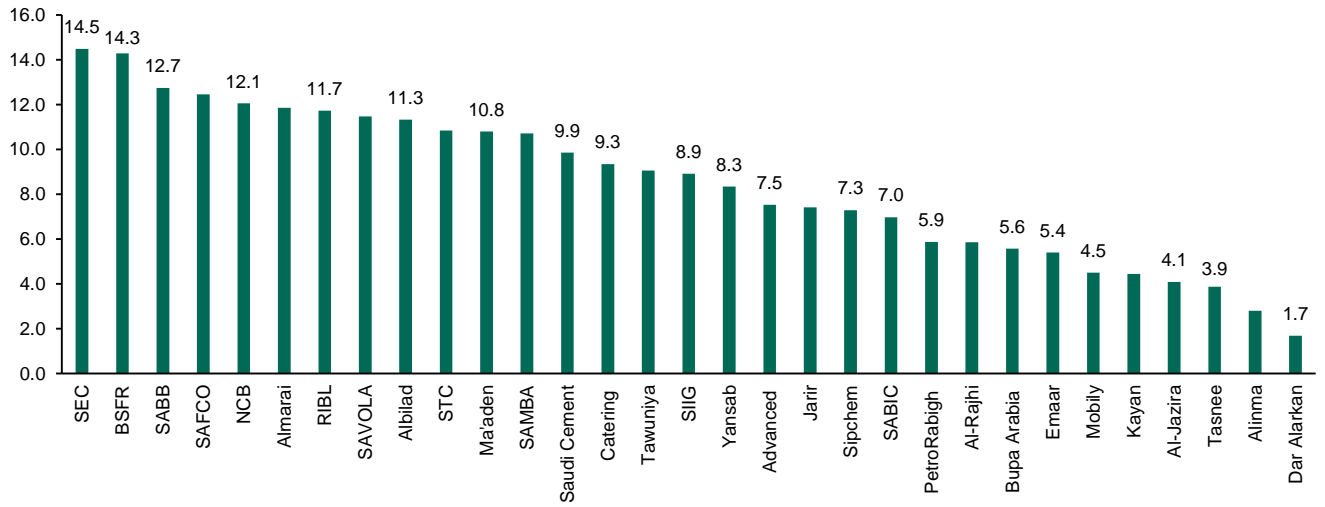
Source: MSCI, NCBC Research
 Saudi FIF Adj. market cap after its full inclusion post 2nd tranche.

Exhibit 4: MSCI Emerging Markets Second Phase – Passive Inflows SAR mn

Source: Bloomberg, MSCI, NCBC Research

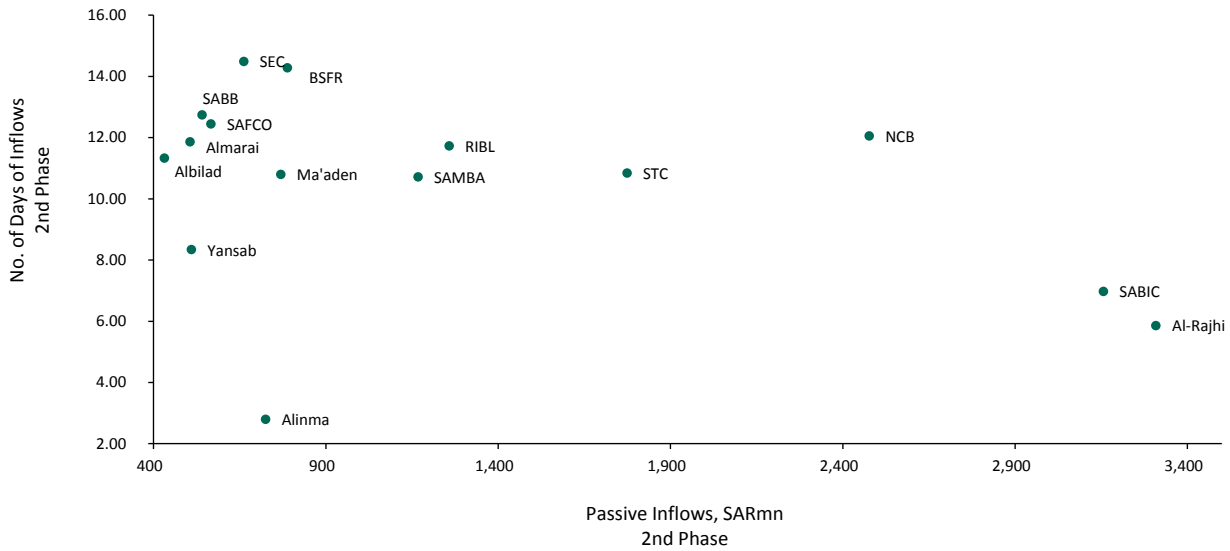
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Exhibit 5: MSCI Emerging Markets Second Phase – Number of Days of Passive Inflows



Source: Bloomberg, MSCI, NCBC Research

Exhibit 6: Selected Companies – Second Phase Passive Inflows, SAR mn and Number of Days



Source: Bloomberg, MSCI, NCBC Research

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Exhibit 7: MSCI Saudi Arabia Index Constituents

Company	Industry	Average Daily Value Traded, 3mth, SAR mn	Second Phase Passive Inflows, SAR mn	Second Phase Passive Inflows Equivalent No of days of inflows	Total Passive Inflows, SAR mn	Total Passive Inflows Equivalent No of days of inflows
1 Al-Rajhi	Banks	565	3,308	6	6,617	12
2 Alinma	Banks	259	725	3	1,449	6
3 Almarai	Consumer Staples	43	506	12	1,012	24
4 BSFR	Banks	55	788	14	1,576	29
5 NCB	Banks	205	2,477	12	4,953	24
6 RIBL	Financials	107	1,258	12	2,515	23
7 SAMBA	Banks	109	1,167	11	2,335	21
8 SAFCO	Materials	45	566	12	1,133	25
9 Ma'aden	Materials	71	769	11	1,538	22
10 SABIC	Materials	453	3,156	7	6,313	14
11 SABB	Banks	42	540	13	1,081	25
12 SEC	Utilities	46	662	14	1,323	29
13 STC	Communication Services	164	1,774	11	3,547	22
14 Yansab	Materials	61	510	8	1,019	17
15 Advanced	Materials	30	223	8	446	15
16 Al-Jazira	Banks	59	240	4	479	8
17 Albilad	Banks	38	431	11	862	23
18 Bupa Arabia	Insurance	20	113	6	226	11
19 Tawuniya	Insurance	20	177	9	354	18
20 Dar Al-Arkan	Real Estate	142	241	2	481	3
21 Emaar EC	Real Estate	29	156	5	312	11
22 Mobily	Communication Services	84	378	4	756	9
23 Jarir	Consumer Discretionary	54	398	7	796	15
24 Tasnee	Materials	50	194	4	388	8
25 PetroRabigh	Energy	29	171	6	343	12
26 Sipchem	Materials	39	282	7	565	15
27 Catering	Consumer Discretionary	16	147	9	293	19
28 Saudi Cement	Materials	19	187	10	375	20
29 SIIG	Materials	24	211	9	422	18
30 Kayan	Materials	75	332	4	665	9
31 SAVOLA	Consumer Staples	29	334	11	669	23
Total			22,422		44,844	

Source: Bloomberg, MSCI, NCBC Research

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