



SAUDI AND FTSE INDICES

- Saudi is on the watch list for inclusion in the FTSE Emerging Markets index, which has a free float market cap of US\$5,165bn.
- The potential upgrade to FTSE EM index, which will be decided by then end of March 2018, also means that Saudi will be part of the FTSE Global All Cap index with a free float market cap of US\$52,424bn, as well as several other FTSE indices.
- Inclusion in these two benchmark indices is expected to result in inflows into TASI, at current prices, of US\$3bn overtime.

Positive initiatives expected to clear the path to FTSE upgrade

- In September 2015, Saudi was placed on the watch list for inclusion in the FTSE Emerging Markets index, which covers 992 stocks across 23 countries. It has a free float market cap of US\$5,165bn and has US\$115bn of assets benchmarked to it. Saudi is expected to have a weight of 1.97% in this index.
- An upgrade also means that Saudi would be part of the FTSE Global All Cap index, free float market cap of US\$52,424bn and US\$361bn of assets benchmarked to it. Saudi is expected to have a weight of 0.21% in this index.
- Since being short listed for FTSE Emerging Markets inclusion, several major developments and initiatives have been undertaken, all of which are viewed as positive steps towards inclusion, namely:
 - Changing the settlement period to T+2 from T+0.
 - Reducing the qualifications requirements for QFIs.
 - Amending foreign ownership limits.
 - Move to IFRS accounting standards.
- FTSE Russell stated that the recent market reforms in Saudi are widely acknowledged as being positive. As a result, it is anticipated that Saudi will meet the requirements for inclusion as a Secondary Emerging market from early 2018 and its status will be reviewed in March 2018.
- Inclusion in these two benchmark indices alone is expected to result in inflows of US\$3bn overtime. A FTSE Emerging Markets upgrade would be expected to result in flows from passive investors, at the earliest, in September 2018, of US\$2.3bn. An alternative scenario is a gradual upgrade. It should be noted that investors benchmarked to the FTSE Emerging Markets index are mainly passive. Therefore, those investors would not enter the market until the implementation of the upgrade.
- At a country level, the FTSE Saudi Arabia Index is expected to have 45 Saudi stocks, (excluding 34 Saudi small caps that are part of the FTSE Saudi Arabia All Cap Index). The top 10 stocks have a market cap of SR1,022bn and represent 59% of the Tadawul market cap. We note that this is a preliminary list and FTSE might add or delete stocks at the review.
- We anticipate a majority of incoming will flow to large cap stock, with the top 10 stocks listed in exhibit 2.
- A FTSE upgrade would be an appetiser to the main course which is the MSCI upgrade, the results for which will be announced in June 2018.

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Exhibit 1: FTSE Saudi Arabia – ICB Supersector Breakdown

ICB Supersector	Number of Constituents	% of Total
Chemicals	10	22%
Banks	7	16%
Construction & Materials	5	11%
Health Care	5	11%
Telecommunication	3	7%
Industrial Goods & Services	2	4%
Food & Beverage	2	4%
Retail	2	4%
Travel & Leisure	2	4%
Insurance	2	4%
Real Estate	2	4%
Oil & Gas	1	2%
Basic Resources	1	2%
Utilities	1	2%
Total	45	100%

Source: Bloomberg, FTSE Russell, NCBC Research

Exhibit 2: FTSE Saudi Arabia Top 10 Constituents

Constituent	ICB Sector	Market Cap, SRbn	% of Total Markt Cap
SABIC	Chemicals	319.9	18%
Alrajhi	Banks	122.0	7%
NCB	Banks	117.7	7%
STC	Fixed Line Communication	154.4	9%
Samba	Banks	49.3	3%
Maaden	Mining	57.1	3%
Almarai	Food Producers	50.5	3%
Riyad Bank	Banks	38.4	2%
Saudi Electricity Co	Electricity	83.8	5%
Alinma Bank	Banks	29.4	2%
Total		1,022.5	59%

Source: Bloomberg, FTSE Russell, NCBC Research

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