

Date: 29<sup>st</sup> Mar, 2018

## FTSE Country Classification Review – March 2018

- FTSE Russell promotes Saudi Arabia to Emerging with a potential weight of 2.7%.
- Saudi weightage could rise to approximately 4.6% following the proposed IPO of 5% of Saudi Aramco
- The transition of Kuwait to Secondary Emerging market status will be implemented in two tranches

### SAUDI ARABIA

FTSE Russell announced that Saudi Arabia would be assigned Secondary Emerging market status within the FTSE Country Classification scheme commencing in conjunction with the FTSE Global Equity Index Series (GEIS) semiannual review in March 2019. Potential weight of the country would be 2.7%, which could rise to 4.6% after the proposed IPO of Saudi Aramco.

#### Probability of MSCI Upgrade increase

The inclusion in the FTSE index would result in inflow of approximately USD 5bn in Tadawul. The upgrade by FTSE increases the probability of MSCI upgrade as well. If in June 2018, MSCI upgrades the country, Tadawul would witness additional flows of USD 40-50bn, as the size of funds tracking MSCI is way more than FTSE.

#### What Changed at Tadawul:

Saudi Arabia was added to the watch list in September 2015 following the introduction of a Qualified Foreign Investor (QFI) scheme. During 2017-2018, the Capital Market Authority of Saudi Arabia and the Saudi Arabia Stock Exchange (Tadawul) introduced a number of improvements to the market infrastructure aimed at opening up the domestic market to international investors. These included, but were not limited to the simplification of the QFI registration process and enhancements to the Independent Custody Model (ICM), which included the introduction of a T+2 settlement cycle with a Delivery versus Payment model in April 2017.

#### Saudi Aramco Potential Impact:

FTSE Russell has modelled the potential impact of a Saudi Aramco IPO on FTSE GEIS at the request of global institutional investors. Based on a proposed initial 5% listing of Saudi Aramco on Tadawul, the projected weighting of Saudi Arabia within the FTSE Emerging Index would increase to 4.6%. The final weightings will be confirmed in the event of a listing of the company. Depending on the timing of the IPO, FTSE Russell will implement a phased introduction of the stock consistent with Saudi Arabia's country inclusion timetable.

There are three potential scenarios regarding the timing of the Aramco IPO:

- If the IPO of Aramco takes place prior to the commencement of Saudi Arabia's implementation into FTSE GEIS (March 2019), Aramco would be included as part of the Saudi Arabia implementation.
- If the IPO of Aramco takes place during the transition process, i.e. between March and December 2019, the proportion of Saudi Aramco to be included at IPO would be equal to the percentage of Saudi Arabia that had been transitioned as of the IPO date. The remainder would be added in conjunction with the remaining transition of Saudi Arabia.
- If the IPO of Aramco takes place after the transition of Saudi Arabia has been completed (after December 2019), Aramco would be treated as a standard IPO.

**Implementation Timeline:**

Saudi Arabia is projected to have an index weight within FTSE GEIS of 0.25% and 2.7% within the FTSE Emerging Index. Due to this projected size in the Emerging index, FTSE Russell proposes to implement the inclusion of Saudi Arabia in several tranches to ensure mechanisms are operating as expected, thereby minimizing price pressure on new constituents and to spread outflows from those markets being sold down.

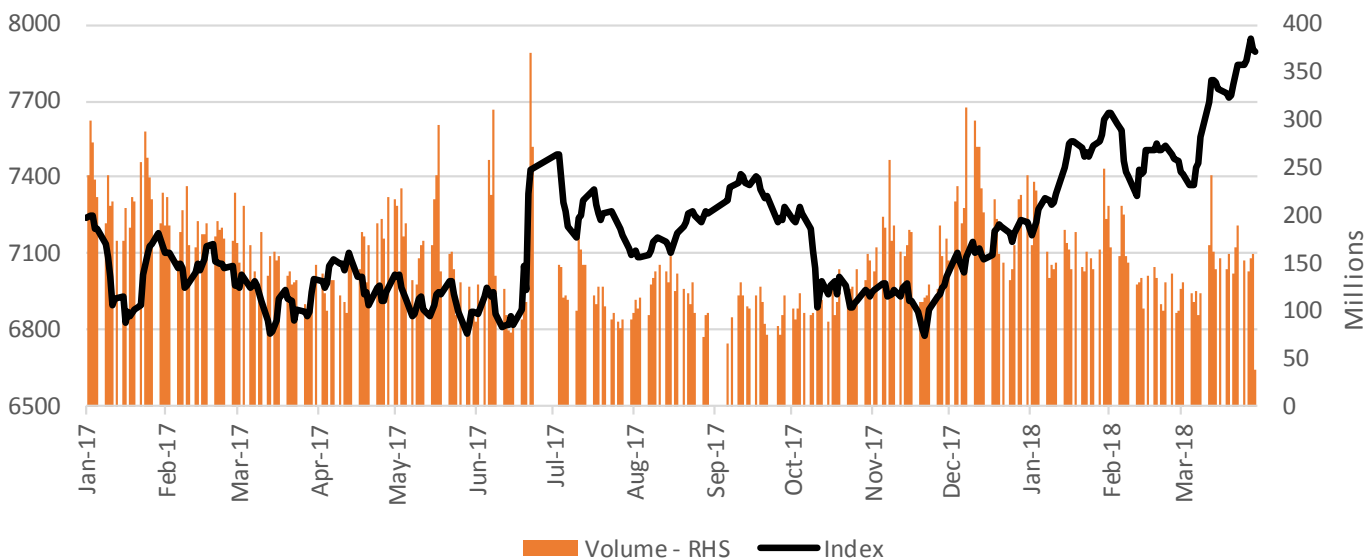
The implementation of Saudi Arabia into FTSE GEIS will commence in conjunction with the March 2019 semi-annual review and being completed by December 2019. The initial 25% tranche will be split over March and April 2019 to ensure a smooth phasing in of Saudi Arabia. The remaining 75% will be implemented in conjunction with the quarterly reviews in June, September and December 2019.

	Tranche One	Tranche Two	Tranche Three	Tranche Four	Tranche Five
Review Schedule	March	April	June	September	December
Effective Date	Open Monday 18 March 2019	Open Monday 22 April 2019	Open Monday 24 June 2019	Open Monday 23 September 2019	Open Monday 23 December 2019
Saudi Arabia Inclusion Factor	10%	15%	25%	25%	25%
Total	10%	25%	50%	75%	100%

Source: FTSE

**Saudi Index Performance**

The probability of Saudi inclusion was very high this time and the index rallied pretty much on this basis. Year to date, the index rallied 9.3% and is the top performing market within the GCC. Hence we do not expect Saudi market to bounce on this immediately as the index has rallied already. But until its inclusion we expect market to perform positively.



Source: Bloomberg

## KUWAIT

FTSE which in September 2017 upgraded Kuwait to second emerging market, announced today that the transition of Kuwait to Secondary Emerging market status within FTSE Global Equity Index Series (GEIS) will be implemented in two 50% tranches.

- The first tranche will be implemented in conjunction with the September 2018 FTSE GEIS semiannual review (i.e. effective from the open on Monday, 24 September 2018).
- The second tranche will be implemented in conjunction with the December 2018 FTSE GEIS quarterly review (i.e. effective from the open on Monday, 24 December 2018).

As Kuwait is being reclassified from Unclassified to Secondary Emerging, all stocks will be considered as non-constituents. The liquidity screen for non-constituents requires the median daily trading volume per month to turnover at least 0.05% of the shares in issue (after the application of any free float weightings) for at least ten of the twelve months prior to a full market review.

### Projected Weight of Kuwait in FTSE GEIS and FTSE Emerging All Cap

	Number of Securities	Projected weight in Global All Cap	Projected weight in Emerging All Cap
Kuwait	10	0.04%	0.40%

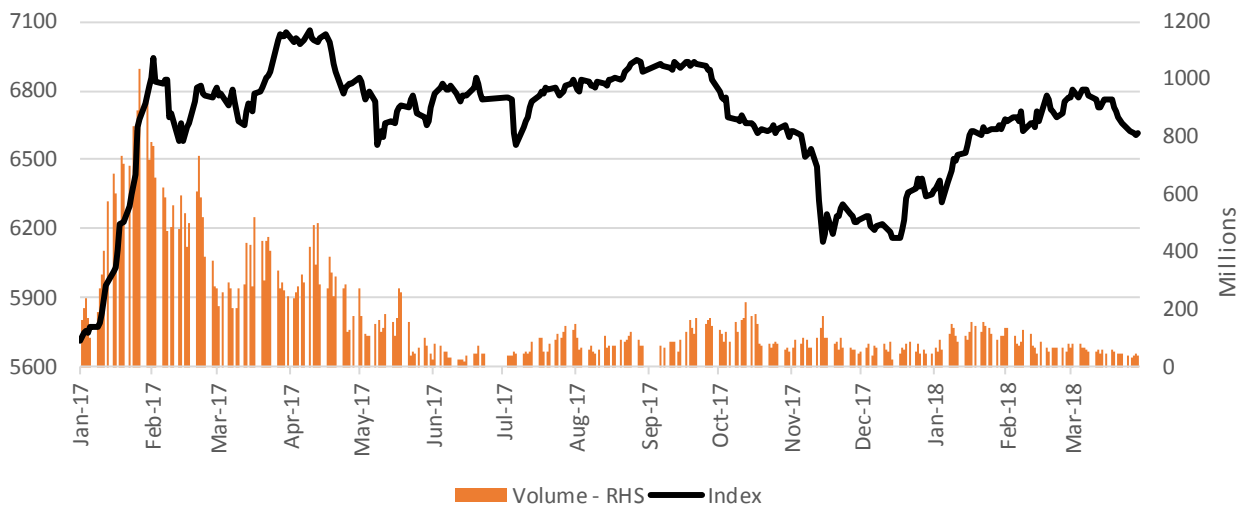
Source: FTSE

### GEIS Constituent Index Membership Status

For the September 2018 semi-annual review Kuwaiti stocks in the universe will be treated as non-constituents in the MEA review and will be subject to inclusion based on the cut-off / basis points entry / exit levels calculated for the MEA review. In recognition of the potential liquidity demands, all Kuwaiti additions to MEA in September 2018 will be added at 50% weight and the remaining 50% added in December 2018.

### Kuwait Market Performance

Kuwait currently is up 3.05% YTD and stands as the third best performing market within the GCC after Saudi Arabia and Abu Dhabi. The market was the best performing market in 2017 and perched by 11.5%.



Source: Bloomberg

## APPENDIX

### 1. Top 15 Stocks – Sorted as per potential weights in Saudi Arabia:

Company Name	Bloomberg Ticker	Price YTD %	PE (x)	PBv (x)
Saudi Basic Industries Corp	SABIC AB Equity	13.2	18.81	2.12
Al Rajhi Banki	RJHI AB Equity	15.1	13.25	2.17
National Commercial Bank SJSC	NCB AB Equity	16.8	13.45	2.29
Saudi Telecom Co	STC AB Equity	20.6	16.30	2.66
Samba Financial Group	SAMBA AB Equity	13.4	10.65	1.20
Almarai Co Ltd	ALMARAI AB Equity	2.7	28.23	3.81
Maaden	MAADEN AB Equity	5.0	82.38	2.44
Riyad Bank	RIBL AB Equity	11.0	10.52	1.08
Saudi Electricity Co	SECO AB Equity	(1.0)	12.60	1.20
Yanbu National Petrochemicals Co	YANSAB AB Equity	24.1	17.24	2.45
Alinma Bank	ALINMA AB Equity	7.4	15.29	1.50
Saudi Fertilizer Company	SAFCO AB Equity	10.3	34.03	4.36
SAVOLA	SAVOLA AB Equity	7.9	22.54	2.58
Jarir Marketing	JARIR AB Equity	19.7	18.22	9.72
Emaar Economic City	EMAAR AB Equity	0.8	52.56	1.47

Source: FTSE, U CAPITAL RESEARCH & BLOOMBERG

### 2. Kuwait's Indicative List:


Company Name	Bloomberg Ticker	Price YTD %	PE (x)	PBv (x)
National Bank of Kuwait	NBK KK Equity	8.6	14.79	1.54
Kuwait Finance House	KFIN KK Equity	3.6	18.37	1.84
Mobile Telecommunications Co.	ZAIN KK Equity	10.1	12.12	1.42
Agility Public Warehousing	AGLTY KK Equity	8.0	16.28	1.12
Boubyan Bank	BOUBYAN KK Equity	10.1	24.21	2.91
Human Soft	HUMANSFT KK Equity	7.0	17.28	8.60
Warba Bank	WARBABAN KK Equity	0.4	53.52	2.33
Kuwait International Bank	KIB KK Equity	1.3	12.19	0.92
National Industries Group	NIND KK Equity	(2.0)	NA	0.53
Alimtia Investment Group	ALIMTIAZ KK Equity	(12.0)	4.69	0.72

Source: FTSE & BLOOMBERG

### 3. FTSE Quality of Markets Criteria:

#### FTSE QUALITY OF MARKETS CRITERIA (MIDDLE EAST) as at March 2018

CRITERIA	COUNTRY NAMES											
	DEV	ADV EMG	SEC EMG	Kuwait*	Qatar	Saudi Arabia*	UAE	FRONT	Bahrain	Jordan	Oman	Palestine
World Bank GNI Per Capita Rating, 2015				High Investment	High Investment	High Investment	High Investment		High Speculative	Upper Middle Speculative	High Speculative	N/A
Credit Worthiness				High Investment	High Investment	High Investment	High Investment		High Speculative	Upper Middle Speculative	High Speculative	N/A
<b>Market and Regulatory Environment</b>												
Formal stock market regulatory authorities actively monitor market (e.g., SEC, FSA, SFC)	X	X	X	Pass	Pass	Pass	Pass	X	Pass	Pass	Pass	Pass
Fair and non-prejudicial treatment of minority shareholders	X	X		Pass	Not Met	Not Met	Not Met		Not Met	Not Met	Restricted	Restricted
No or selective incidence of foreign ownership restrictions	X	X		Pass	Restricted	Restricted	Restricted		Pass	Not Met	Restricted	Pass
No objection to or significant restrictions or penalties applied to the investment of capital or the repatriation of capital and income	X	X	X	Pass	Pass	Pass	Pass	X	Pass	Pass	Pass	Pass
Free and well-developed equity market	X	X		Restricted	Pass	Not Met	Pass		Not Met	Not Met	Not Met	Not Met
Free and well-developed foreign exchange market	X	X		Restricted	Not Met	Not Met	Not Met		Not Met	Not Met	Not Met	Restricted
No or simple registration process for foreign investors	X	X		Restricted	Restricted	Pass	Restricted		Restricted	Pass	Restricted	Pass
<b>Custody and Settlement</b>												
Settlement - Rare incidence of failed trades	X	X	X	Pass	Pass	Pass	Pass	X	Pass	Pass	Pass	Pass
Custody-Sufficient competition to ensure high quality custodian services	X	X	X	Pass	Pass	Pass	Pass		Pass	Pass	Pass	Not Met
Clearing & Settlement - T+2 / T+3	X	X	X	T+3	T+3	T+2	T+2	X	T+2	T+2	T+3	T+2
Settlement - Free delivery available	X			Not Met	Not Met	Not Met	Not Met		Not Met	Restricted	Not Met	Restricted
Custody - Omnibus and segregated account facilities available to international investors	X	X		Not Met	Not Met	Not Met	Not Met		Not Met	Not Met	Not Met	Not Met
<b>Dealing Landscape</b>												
Brokerage - Sufficient competition to ensure high quality broker services	X	X	X	Pass	Pass	Pass	Pass		Pass	Pass	Pass	Restricted
Liquidity - Sufficient broad market liquidity to support sizeable global investment	X	X	X	Pass	Pass	Pass	Pass		Not Met	Restricted	Restricted	Not Met
Transaction costs - implicit and explicit costs to be reasonable and competitive	X	X	X	Pass	Pass	Pass	Pass		Pass	Pass	Pass	Restricted
Stock Lending is permitted	X			Restricted	Not Met	Restricted	Restricted		Not Met	Not Met	Not Met	Not Met
Short sales permitted	X			Restricted	Not Met	Restricted	Restricted		Not Met	Not Met	Not Met	Not Met
Off-exchange transactions permitted	X			Not Met	Not Met	Not Met	Not Met		Not Met	Not Met	Restricted	Not Met
Efficient trading mechanism	X			Pass	Pass	Pass	Pass		Pass	Pass	Pass	Pass
Transparency - market depth information / visibility and timely trade reporting process	X	X	X	Pass	Pass	Pass	Pass	X	Pass	Pass	Pass	Pass
<b>Derivatives</b>												
Developed Derivatives Market	X			Restricted	Not Met	Not Met	Not Met		Not Met	Not Met	Not Met	Not Met

 Shading indicates a change from September 2017

\*Kuwait to be promoted to Secondary Emerging market status commencing September 2018

\*Saudi Arabia to be promoted to Secondary Emerging market status commencing March 2019

Source: FTSE

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