

Date: 21st June, 2018

MSCI Country Classification Review – June 2018

- MSCI will include the MSCI Saudi Arabia Index in the MSCI Emerging Markets Index, representing on a pro forma basis a weight of approximately 2.6% of the index with 32 securities, following a two-step inclusion process.
- MSCI announced that it will include the MSCI Kuwait Index in its 2019 Annual Market Classification Review for a potential reclassification from Frontier Markets to Emerging Markets status.

SAUDI ARABIA

Implementation Timeline:

MSCI will include the MSCI Saudi Arabia Index in the MSCI Emerging Markets Index, representing on a pro forma basis a weight of approximately 2.6% of the index with 32 securities, following a two-step inclusion process. The first inclusion step will coincide with the May 2019 Semi-Annual Index Review. The second step will take place as part of the August 2019 Quarterly Index Review.

What made MSCI upgrade Saudi Arabia

Over the past three years, the CMA and Tadawul have implemented several enhancements that further opened the domestic equity market to international institutional investors. Following the introduction of a regulation for qualified foreign financial institutions by the CMA in 2015, the means of access to the equity market evolved from indirect holdings using derivative instruments, such as P-notes and/or SWAPs, to direct holdings. This regulation has since been enhanced twice by the CMA, reflecting feedback from international institutional investors. Tadawul implemented a complete overhaul of its operating model, including the introduction of T+2 settlement and delivery versus payment, in April 2017. This important change was aimed at more closely aligning Tadawul's operating model with international best practices and further easing access to the Saudi Arabian equity markets for international institutional investors. The exchange continued its enhancement efforts with the introduction of a new closing price mechanism on May 27, 2018, moving from a value weighted average pricing to a closing auction.

International investors were impressed by the speed of change in the accessibility of the Saudi Arabian equity market and the level of commitment that the Capital Market Authority (CMA) and the Saudi Stock Exchange (Tadawul) have demonstrated. Their expectation now is that the current privatization effort in Saudi Arabia will continue to grow the investable opportunity set available to them and hence, all other things being equal, contribute to an increased weight of Saudi Arabia in the Emerging Markets Index in the future.

What would result because of Inclusion for Saudi Arabia

The MSCI Emerging Markets Index is designed to represent the performance of large- and mid-cap securities in 24 Emerging Markets and with inclusion of Saudi Arabia and Argentina, the markets will rise to 26 in 2019. As of March 2018 it had more than 830 constituents and covered approximately 85% of the free float-adjusted market capitalization in each country.

With over USD1.9 trillion in assets benchmarked globally to the Emerging Markets Index suite as of March 2018 and with weight of Saudi Arabia being at 2.6%, it will potentially bring in liquidity of USD 50bn on top of inflows coming in from FTSE which earlier this year classified Saudi Arabia to emerging markets as well.

This is the list of constituents of the MSCI Saudi Arabia IMI as of June 19, 2018. The MSCI Saudi Arabia Indexes are maintained as Standalone Market Indexes using the Emerging Markets size and liquidity requirements.

Security Name	Sector	Sub-Industry	Number of Shares	Foreign Inclusion Factor	Foreign Ownership Limit	Limited Investability Factor	Company Full Mkt Cap	FIF Mkt Cap	Size-Segment
SAUDI BASIC IND CORP	Materials	Commodity Chemicals	3,000,000,000	0.25	0.49	1	101,268	25,317	Standard
SAUDI TELECOM CO	Telecommunication Services	Integrated Telecommunication Services	2,000,000,000	0.2	0.49	1	46,714	9,343	Standard
NATIONAL COMM BANK	Financials	Diversified Banks	3,000,000,000	0.4	0.49	1	38,595	15,438	Standard
AL RAJHI BANKING & INV	Financials	Diversified Banks	1,625,000,000	0.49	0.49	1	37,695	18,471	Standard
SAUDI ELECTRICITY CO	Utilities	Electric Utilities	4,166,593,815	0.2	0.49	1	24,530	4,906	Standard
SAUDI ARABIAN MINING CO	Materials	Diversified Metals & Mining	1,168,421,053	0.35	0.49	1	17,820	6,237	Standard
SAMBA FINANCIAL GROUP	Financials	Diversified Banks	2,000,000,000	0.49	0.49	1	16,398	8,035	Standard
ALMARAI CO	Consumer Staples	Packaged Foods & Meats	1,000,000,000	0.25	0.49	1	15,518	3,880	Standard
RIYAD BANK	Financials	Diversified Banks	3,000,000,000	0.4	0.49	1	12,878	5,151	Standard
SAUDI BRITISH BANK	Financials	Diversified Banks	1,500,000,000	0.15	0.49	0.5	12,439	1,866	Standard
YANBU NATL PETROCHEMICAL	Materials	Commodity Chemicals	562,500,000	0.4	0.49	1	10,949	4,379	Standard
BANQUE SAUDI FRANSI	Financials	Diversified Banks	1,205,357,167	0.3	0.49	1	10,815	3,244	Standard
ARAB NATIONAL BANK	Financials	Diversified Banks	1,000,000,000	0.35	0.49	1	8,826	3,089	Standard
ALINMA BANK	Financials	Diversified Banks	1,500,000,000	0.49	0.49	1	8,679	4,253	Standard
SAUDI ARAB FERTILIZER	Materials	Fertilizers & Agricultural Chemicals	416,666,666	0.45	0.49	1	6,699	3,015	Standard
RABIGH REFINING & PETRO	Energy	Oil & Gas Refining & Marketing	876,000,000	0.25	0.49	1	6,598	1,650	Standard
SAUDI KAYAN PETROCHEM	Materials	Commodity Chemicals	1,500,000,000	0.49	0.49	1	5,975	2,928	Standard
SAVOLA	Consumer Staples	Packaged Foods & Meats	533,980,684	0.49	0.49	1	5,617	2,752	Standard
JARIR MARKETING CO	Consumer Discretionary	Specialty Stores	90,000,000	0.49	0.49	1	4,223	2,070	Standard
ETIHAD ETISALAT CO	Telecommunication Services	Wireless Telecommunication Services	770,000,000	0.49	0.49	1	3,979	1,950	Standard
NATL INDUSTRIALIZATION	Materials	Commodity Chemicals	668,914,166	0.49	0.49	1	3,810	1,867	Standard
BANK ALBILAD	Financials	Diversified Banks	600,000,000	0.49	0.49	1	3,792	1,858	Standard
SAUDI INDL INV GROUP	Materials	Commodity Chemicals	450,000,000	0.49	0.49	1	3,336	1,634	Standard
DAR AL ARKAN REAL ESTATE	Real Estate	Real Estate Development	1,080,000,000	0.49	0.49	1	3,312	1,623	Standard
ADVANCED PETROCHEMICALS	Materials	Commodity Chemicals	196,794,000	0.49	0.49	1	2,792	1,368	Standard
EMAAR ECONOMIC CITY	Real Estate	Real Estate Development	850,000,000	0.49	0.49	1	2,715	1,330	Standard
CO FOR COOPERATIVE INS	Financials	Multi-line Insurance	125,000,000	0.49	0.49	1	2,353	1,153	Standard
SAUDI CEMENT	Materials	Construction Materials	153,000,000	0.49	0.49	1	2,032	995	Standard
SAUDI AIRLINES CATERING	Industrials	Diversified Support Services	82,000,000	0.45	0.49	1	2,005	902	Standard
BUPA ARABIA FOR COPR INS	Financials	Life & Health Insurance	80,000,000	0.25	0.49	0.5	1,894	474	Standard
SOUTHERN PROVINCE CEMENT	Materials	Construction Materials	140,000,000	0.45	0.49	1	1,534	690	Standard
AL TAYYAR TRAVEL GROUP	Consumer Discretionary	Hotels, Resorts & Cruise Lines	209,650,000	0.49	0.49	1	1,467	719	Standard

Note: All market caps are in USD millions. Data as of the close of June 19, 2018.

KUWAIT

MSCI announced that it will include the MSCI Kuwait Index in its 2019 Annual Market Classification Review for a potential reclassification from Frontier Markets to Emerging Markets status.

Kuwait successfully implemented Phase 1 and Phase 2 of its Market Development Program on May 21, 2017 and April 1, 2018, respectively. Notable accomplishments for Phase 1, includes, the unification of a T+3 settlement cycle both for locals and non-residents, a custodian rejection facility, reduction in tick sizes, a new auction mechanism and an improved corporate actions timetable. On March 9, 2018, the Kuwait Clearing Company further reduced its documentation requirements for registration of non-residents and started accepting forms in English.

As part of Phase 2, in its continuing effort to enhance its clearing and settlement system, Kuwait further implemented a cash close-out capability, buy-in board mechanism and the ability for a custodian to participate in the settlement process. The Boursa Kuwait further laid out plans for its Phase 3 and 4, targeted for implementation in the 2nd half of 2018 and 1st half of 2019, respectively. Key areas among the planned changes would be a shift from Model 1 settlement to Model 2, with the Central Bank of Kuwait playing a key role for the payment settlement, creation of omnibus accounts, and introduction of a clearing membership model.

Simulated Constituents for MSCI Kuwait IMI

Based on simulated result, 13 out of the 17 current constituents of the MSCI Kuwait IMI would be eligible using the Emerging Markets requirements.

	Full Mcap*	FIF Mcap*	FIF**	Size-Segment
NATIONAL BANK OF KUWAIT	15,132	7,415	0.49	Standard
KUWAIT FINANCE HOUSE	10,903	5,343	0.49	Standard
MOBILE TELECOM CO	5,954	2,977	0.50	Standard
BOUBYAN BANK	3,780	1,134	0.30	Standard
AGILITY	3,700	2,340	0.55	Standard
MABANEE CO SAKC	2,107	1,106	0.50	Standard
HUMAN SOFT HOLDING	1,608	885	0.55	Small Cap
WARBA BANK	810	397	0.49	Small Cap
KUWAIT INTERNATIONAL BK	764	374	0.49	Small Cap
MEZZAN HOLDING	747	299	0.40	Small Cap
NATIONAL IND GRP HOLDING	707	495	0.70	Small Cap
ALIMTIAZ INVESTMENT CO	483	314	0.65	Small Cap
NATIONAL INVESTMENT CO	293	102	0.35	Small Cap

Data as of April 23, 2018

The simulation reflects the application of the Semi Annual Index Review methodology, using the Emerging Markets requirements

* USD million

** Foreign Inclusion Factor

APPENDIX

MSCI Press Release

RESULTS OF MSCI 2018 MARKET CLASSIFICATION REVIEW – [Link](#)

MSCI GLOBAL MARKET ACCESSIBILITY REVIEW – [Link](#)

CONSULTATION ON A MARKET RECLASSIFICATION PROPOSAL FOR THE MSCI KUWAIT INDEX – [Link](#)

ASSESSMENT RESULTS of GCC

EMERGING MARKETS

FRONTIER MARKETS

	Qatar	Saudi Arabia	United Arab Emirates	Bahrain	Kuwait	Oman
Openness to foreign ownership						
Investor qualification requirement	++	+	++	++	++	++
Foreign ownership limit (FOL) level	-/?	-/?	-/?	-/?	-/?	-/?
Foreign room level	+	-/?	-/?	++	++	++
Equal rights to foreign investors	+	-/?	+	+	+	+
Ease of capital inflows / outflows						
Capital flow restriction level	++	++	++	++	++	++
Foreign exchange market liberalization level	++	++	++	++	++	++
Efficiency of the operational framework						
Market entry						
Investor registration & account set up	+	+	+	+	+	+
Market organization						
Market regulations	++	++	++	++	++	++
Information flow	++	+	++	-/?	-/?	-/?
Market infrastructure						
Clearing and Settlement	+	+	+	+	+	+
Custody	+	+	+	+	+	-/?
Registry / Depository	++	++	+	+	+	++
Trading	++	++	++	++	++	++
Transferability	-/?	-/?	+	-/?	-/?	-/?
Stock lending	+	-/?	-/?	-/?	-/?	-/?
Short selling	-/?	-/?	-/?	-/?	-/?	-/?
Competitive landscape	++	+	++	++	++	++
Stability of institutional framework	+	+	+	+	+	+

++: no issues; +: no major issues, improvements possible; -/? : improvements needed / extent to be assessed

Source: MSCI

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