

# Mahaana Islamic Index Exchange Traded Fund (MIETF)

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Research Entity Number: BRP 009

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## Executive Summary

### Mahaana Islamic Index Exchange Traded Fund (MIETF)

- We are initiating coverage on Mahaana Islamic Index ETF, a broader index ETF listed on the PSX.
- **About the Mahaana Islamic Index ETF:** MIETF is the first broader index tracker Exchange Traded Fund and the second Islamic ETF listed on PSX . MIETF was listed on PSX on 11-Mar-2024 and comprises of 30 shariah compliant stocks from 13 different sectors.
- **Investment Policy:** The Fund’s investment strategy is to include top 30 stocks from KMI All index. The selection criteria is based on 3 step screening where top 30 companies based on a free float market cap are shortlisted from KMIALL whose average daily value traded is more than PKR 10mn in the last 12 months.
- **Outlook:** MIETF is a cost-effective and easy way to get an exposure in the broader index, allowing investor to diversify their risk across multiple stocks & sectors.

## About MIIETF

### Mahaana Islamic Index Exchange Traded Fund

- Mahaana is Pakistan’s first digital-only Asset Management Company licensed by the Securities and Exchange Commission of Pakistan (SECP) and a member of Mutual Funds Association of Pakistan (MUFAP). Founded by partners from Tundra Fonder (Sweden), Mahaana introduced digital wealth management models in Pakistan, securing SECP approval.
- The Mahaana Islamic Index ETF (MII ETF) operates as an open-ended investment scheme that is actively traded on the Pakistan Stock Exchange. Its primary objective is to replicate the performance of a designated benchmark index, which undergoes regular rebalancing and reconstitution according to the guidelines outlined in its Offering Document.
- The overarching goal of the MII ETF is to provide investors with the opportunity for long-term capital appreciation and consistent dividend yields. It is the second Islamic ETF listed on PSX and only ETF that is an index tracker.

Source: Mahaana ETF Offering Document

## About MIIETF

### Mahaana Islamic Index Exchange Traded Fund

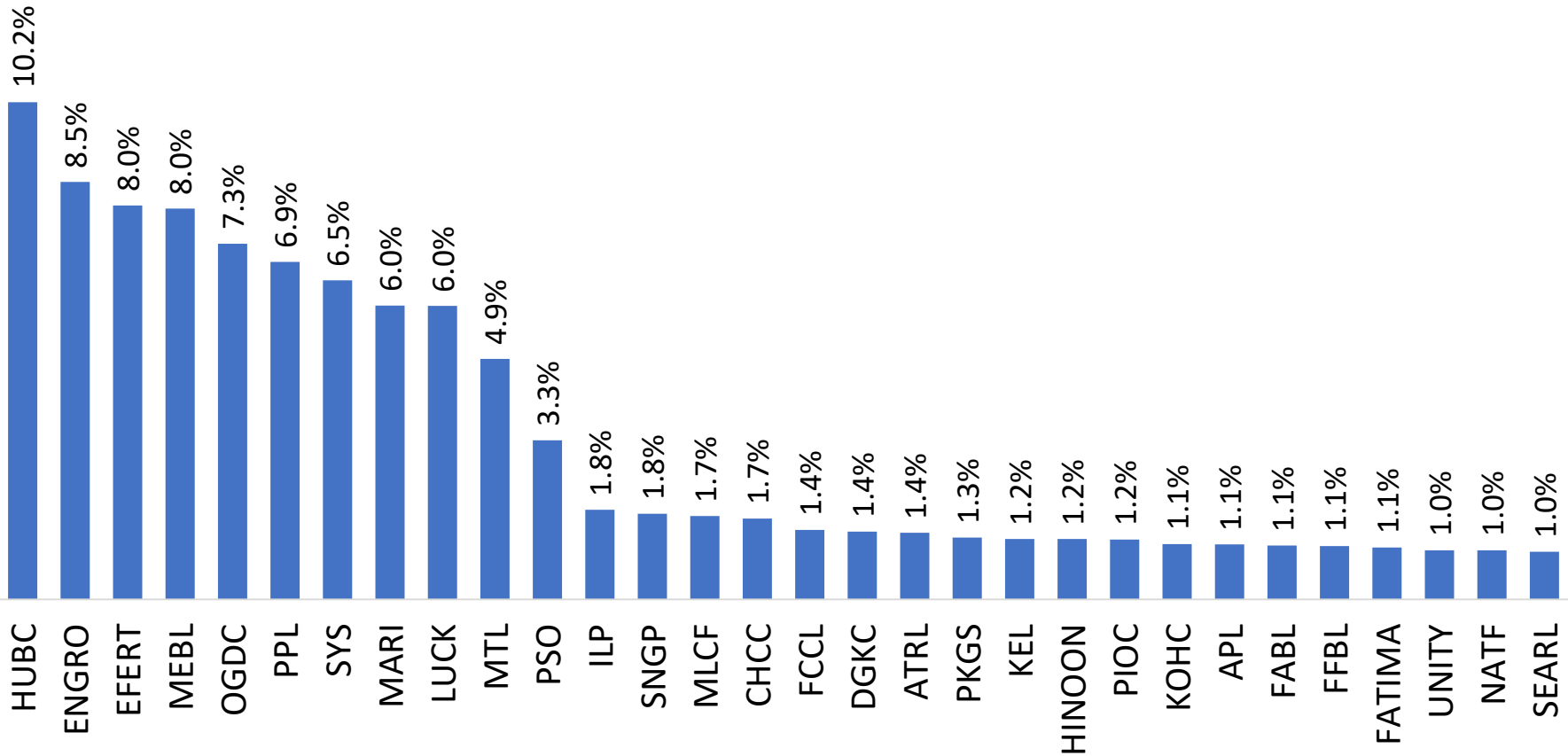
- The selection criteria is based on three filters. During the first screening process, companies falling in KMIALL index are selected. In the second phase, companies are further shortlisted whose average daily value turnover exceeds PKR 10mn in the last 12 months. In the final phase, top 30 stocks are selection based on companies shortlisted in first 2 steps. These selected constituents cover majority of the companies of KMI30 Index.
- The reason for using KMIALL for selection criteria rather than KMI30 is to exclude companies whose daily average value turnover is below the investment policy.
- The Asset Management Company (AMC) must maintain a minimum of 85% of the ETF's assets invested in the component securities of the Benchmark Index it tracks, with the remaining assets potentially consisting of cash or cash equivalents.
- The weight assignment to individual scrips would be done based on the free float market capitalization of the KMI 30 index divided by the free float market capitalization of an individual scrip.

Source: Mahaana ETF Offering Document

Listing date and its constituents

Mahaana Islamic Index ETF launch date: 11-Mar-24

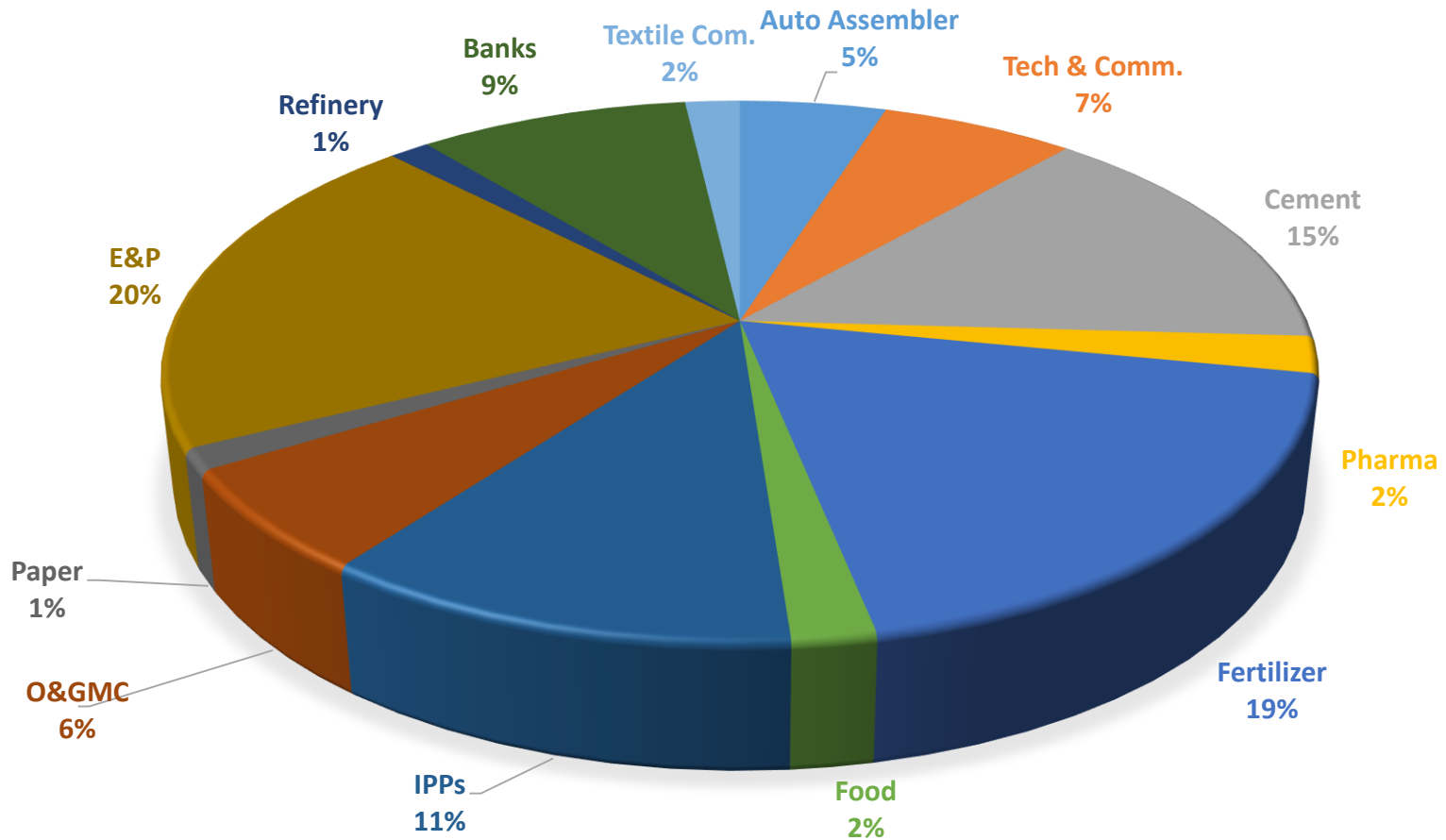
Weightage of Constituents in MIIETF



Source: Mahaana ETF Offering Document

## Listing date and its constituents

### Weightage of Sectors in MIIETF



Source: Mahaana ETF Offering Document

## PE DY ROE of constituents of MIIETF

### Exhibit: Key Multiples of MIIETF Constituents

Constituents	Weight	P/E*	DY*	ROE*	Constituents	Weight	P/E*	DY*	ROE*
HUBC	10.2%	2.4	14%	48%	DGKC	1.4%	-	0%	-5%
ENGRO	8.5%	5.6	14%	26%	ATRL	1.4%	1.3	4%	24%
EFERT	8.0%	7.7	14%	57%	PKGS	1.3%	17.7	5%	5%
MEBL	8.0%	4.5	9%	55%	KEL	1.2%	-	0%	n/m
OGDC	7.3%	2.1	7%	21%	HINOON	1.2%	11.4	6%	29%
PPL	6.9%	2.5	5%	19%	PIOC	1.2%	8.3	4%	8%
SYS	6.5%	13.2	3%	33%	KOHC	1.1%	6.8	0%	18%
MARI	6.0%	4.8	6%	35%	APL	1.1%	3.2	7%	29%
LUCK	6.0%	11.6	2%	15%	FABL	1.1%	2.6	12%	22%
MTL	4.9%	14.5	4%	80%	FFBL	1.1%	8.2	4%	16%
PSO	3.3%	4.8	4%	8%	FATIMA	1.1%	3.7	11%	20%
ILP	1.8%	4.7	10%	49%	UNITY	1.0%	98.9	0%	1%
SNGP	1.8%	4.3	2%	22%	NATF	1.0%	19.6	2%	27%
MLCF	1.7%	9.5	0%	9%	SEARL	1.0%	-	0%	n/m
CHCC	1.7%	6.3	4%	20%					
FCCL	1.4%	5.4	0%	11%					
					<b>MIIETF Blended</b>	<b>100.0%</b>	<b>7.2</b>	<b>7.3%</b>	<b>32.4%</b>

Source: Mahaana ETF Offering Document, Bloomberg, Company Financials, PSX, CapitalStake, IGI Research (Prices as at 28-Mar-2024)

\*Trailing 12 Months data has been used for all companies.



## What are Exchange Traded Funds (ETFs)

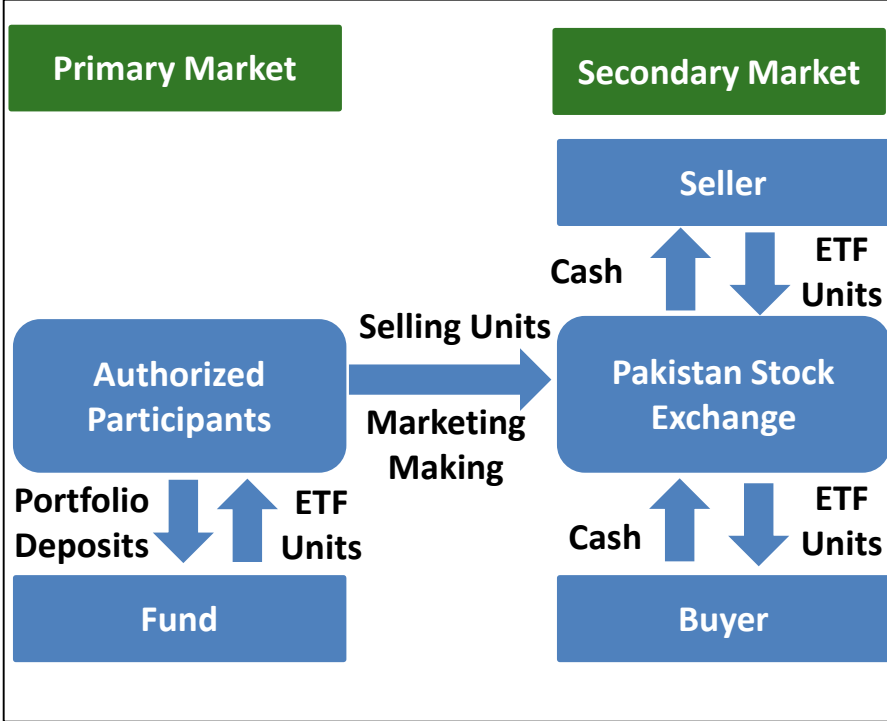
- An Exchange Traded Fund (ETF) is a type of pooled investment that is traded on Exchanges, generally tracking a specific index.
- ETFs are different from mutual funds in a way that its price fluctuates all day during market hours as the ETF is bought and sold like any other stock, whereas a mutual fund's NAV is calculated at the day end.
- ETF prices can trade at a premium or at a loss to the net asset value (NAV) of the fund.
- An ETF can contain all types of investments including stocks, commodities or bonds and can be designed to track anything from the price of an individual commodity to a large and diverse collection of securities.

## Advantages of Exchange Traded Funds (ETFs)

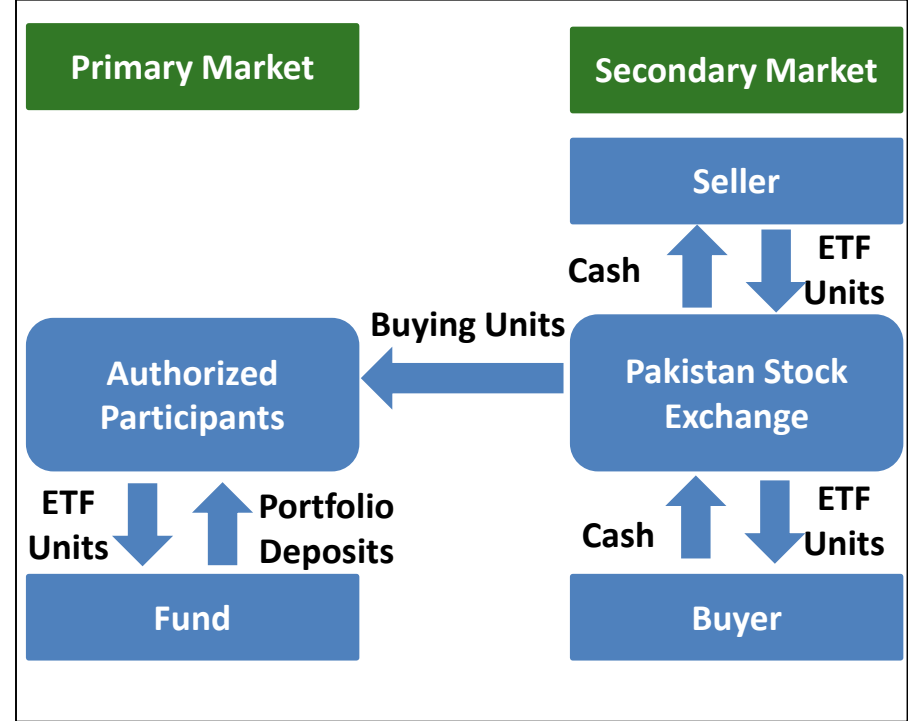
- Access to many stocks across various industries.
- ETFs also provide lower average costs as it would be expensive for an investor to buy all the stocks held in an ETF portfolio individually. With an ETF, Investors only have to execute one transaction to buy and sell, which reduces overall cost of the investor.
- Diversification reduces concentration risk that is present when purchasing individual scrips since ETF contains a portfolio of multiple shares listed on Stock Exchange.
- Constituents under ETFs are rebalanced on specified intervals or when benchmark index is reconstituted whereas incase of Mutual Funds shift in portfolio is not publically notified.
- ETFs have lower administrative requirements compared to managed funds. When purchasing units in a managed fund, investors need to fill out an application form, and when selling units, a redemption form is required. In contrast, with ETFs, investors can simply buy and sell them on the Exchange without the need for such forms.

How ETFs Operate

ETF Buying



ETF Redemption



**Investment Process:**

If Buyer wants to purchase and units are not available in secondary market then buyer will go to authorized participants to purchase required quantity.

**Redemption Process:**

If Seller wants to sell and units are not available in secondary market then seller will go to authorized participants to sell required quantity.

Source: Mahaana ETF Offering Document, IGI Research

## ETFs listed on PSX

There are nine (09) Exchange Traded Funds listed on the Pakistan Stock Exchange:

- ETF's were first introduced in 2020.
- NITGETF and UBLPETF were the first ETFs to be listed on PSX on 24-Mar-2020.
- There are 2 Islamic ETFs listed on PSX (MZNPETF and MIIETF).
- MIIETF is only ETF at the moment which is an index tracker.

SYMBOL	NAME	LAUNCH DATE
MIETF	Mahaana Islamic Index ETF	11-Mar-2024
JGBETF	JS Global Banking Sector(ETF)	11-Sep-2023
HBLTETF	HBL Total Treasury (ETF)	12-Sep-2022
ACIETF	Alfalah Consumer Index (ETF)	17-Jan-2022
JSMFETF	JS Momentum Factor Exchange Traded Fund	07-Jan-2022
MZNPETF	Meezan Pakistan ETF	06-Oct-2020
NBPGETF	NBP Pakistan Growth ETF	06-Oct-2020
NITGETF	NIT Pakistan Gateway ETF	24-Mar-2020
UBLPETF	UBL Pakistan Enterprise ETF	24-Mar-2020

Source: PSX, IGI Research

## ETFs listed on PSX

### ETF constituents and their selection criteria

Ticker	Fund Name	No. of scrips	Sectors	Selection Criteria
MIIETF	Mahaana Islamic Index ETF	30	Cements, Oil & Gas, Technology, Banks, Textile, Fertilizer Automobile, power generation and distribution and pharmaceuticals	Top 30 stocks based on average daily turnover and free float market capitalization are select
JSGBETF	JS Global Banking Sector ETF	8	Banking	Stocks under BKTi
ACIETF	Alfalah Consumer Index ETF	20	Cement, Engineering, Textile, Automobiles, food and personal care products, Oil & Gas and pharmaceuticals	Top companies in predefined sectors with the highest free float market capitalization during index rebalancing or addition/deletion dates, like June 30th and December 31st of each year.
JSMFETF	JS Momentum Factor Exchange Traded Fund	10	-	An algorithmic stock selection process is used to choose ten stocks based on market capitalization and traded value filters, resulting in a combined Momentum Score (MS) for index inclusion.

Source: PSX, IGI Research

## ETFs listed on PSX

### ETF constituents and their selection criteria

Ticker	Fund Name	No. of scrips	Sectors	Selection Criteria
MZNPETF	Meezan Pakistan ETF	12	Cements, Oil and Gas, Fertilizers, pharmaceutical	Shariah compliance, trading days, average traded value and free float market capitalization are used to select 12 best stocks.
NBPGETF	NBP Pakistan Growth ETF	15	Cements, Oil & Gas, Fertilizers, Commercial Banks,, Power Generation & Distribution	Top 15 companies from KSE-100 index based on free float market capitalization, average daily turnover, and liquidity are selected.
NITGETF	NIT Pakistan Gateway ETF	12	Cements, Banks, Fertilizers, Oil & Gas, and Power Generation & Distribution.	Equity securities for the NITPGI are selected based on free-float market capitalization, starting with the largest stocks from the KSE-100 index until they collectively reach or exceed 50% of the KSE-100 index's total weight. The number of stocks in NITPGI can vary based on this criterion during each rebalancing.
UBLPETF	UBL Pakistan Enterprise ETF	9	Oil and Gas sector excluded.	Top 9 companies from KSE-100 are selected based on free float market capitalization and traded value and after excluding oil and gas sector.

Source: PSX, IGI Research

## ETFs listed on PSX

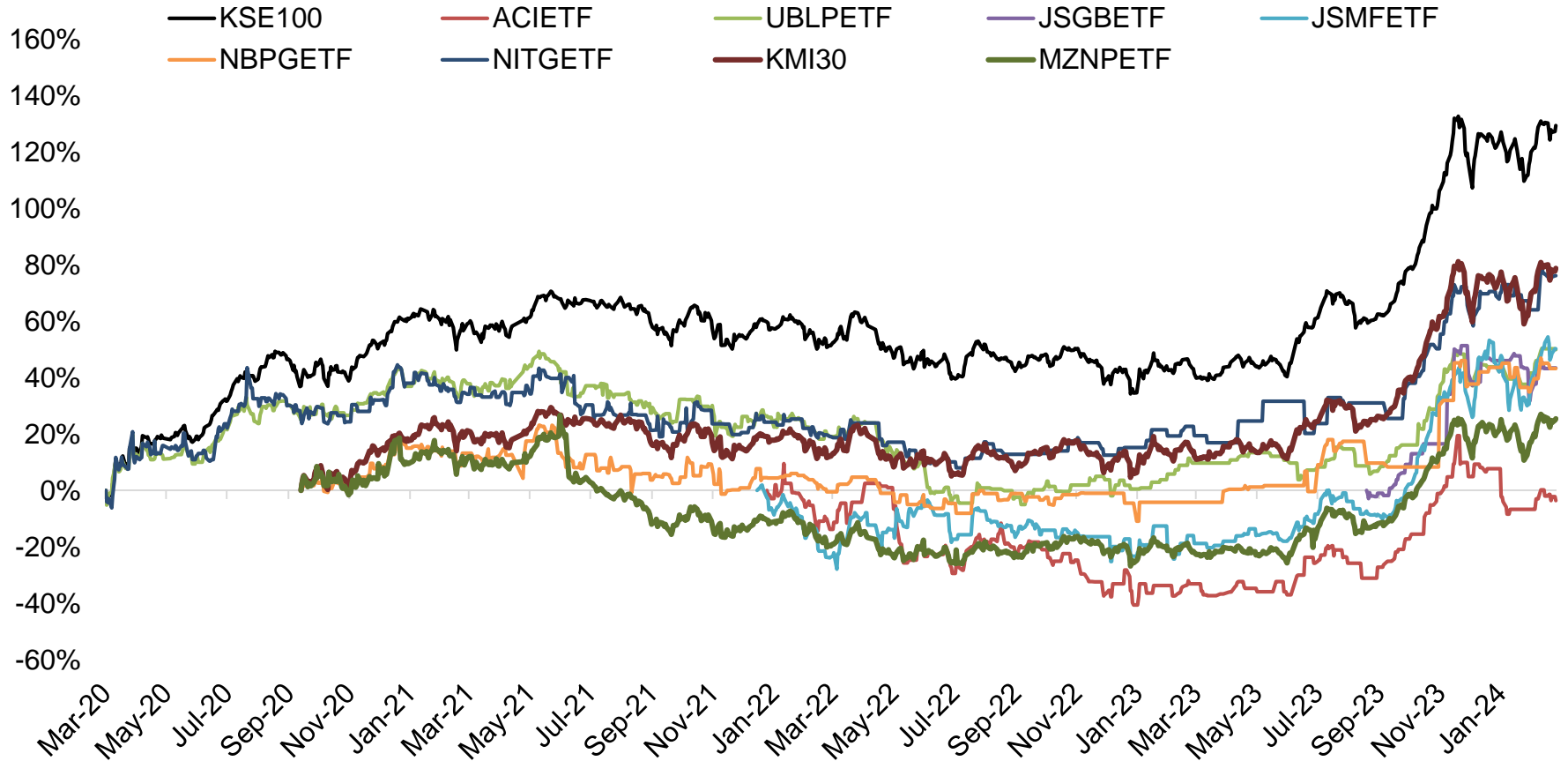
### Rebalancing and Reconstitution

Fund	Fund Name	Rebalancing frequency	Reconstitution frequency
<b>MIIETF</b>	Mahaana Islamic Index ETF	April/October	July/January
<b>ACIETF</b>	Alfalah Consumer Index ETF	March/September	June/December
<b>JSMFETF</b>	JS Momentum Factor Exchange Traded Fund	5 <sup>th</sup> working day of every month	5 <sup>th</sup> working day of every month
<b>MZNPETF</b>	Meezan Pakistan ETF	Semiannually	Semiannually
<b>NBPGETF</b>	NBP Pakistan Growth ETF	Quarterly	Semiannually
<b>NITGETF</b>	NIT Pakistan Gateway ETF	Semiannually	Semiannually
<b>UBLPETF</b>	UBL Pakistan Enterprise ETF	July/January	April/October

Source: PSX, IGI Research

## Historical Performance Comparison of ETFs against KSE-100 and KMI30

### Relative Price Performance



Source: CapitalStake, IGI Research



## Outlook

- ETF provides passive investors opportunity to diversify their risk exposure. ETF provides exposure to the broader market. There is no additional paper work required for stock market investors and it is a cost effective way of investing. ETFs provides investors with the opportunity to diversify their investment through a single window in to different sectors.
- We expect investment flows to improve towards ETF in the future as investor become more aware about ETFs. As ETF market gets further developed it will play a significant role in the development of Capital Markets in Pakistan. ETFs provide a cost effective and efficient way of investing, as more investors are inclined towards ETFs who want to diversify their risk.
- Mahaana provides opportunity to investor class who prefer Shariah Compliant investments. MIIETF provides opportunity to investors to invest in Shariah Compliant Fund which tracks the entire index.

## Important Disclaimer and Disclosures

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