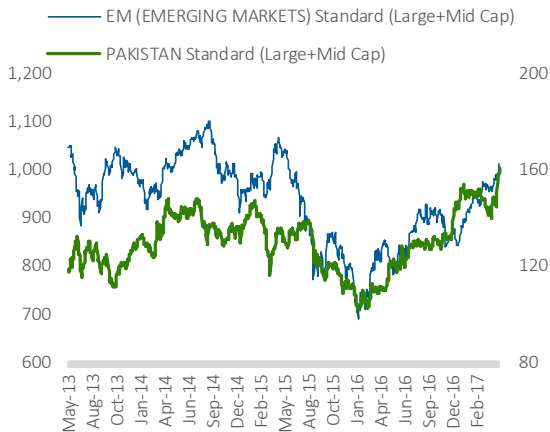


Day Break

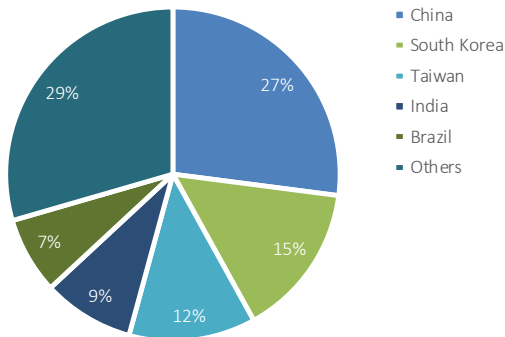
Tuesday, 16 May 2017

Strategy

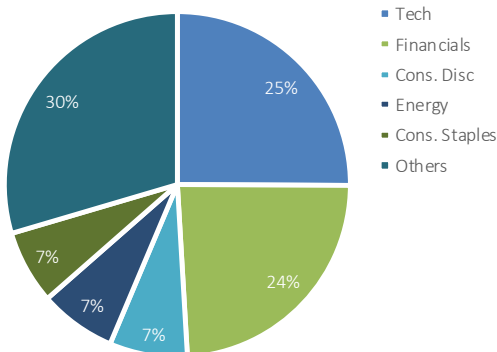
EM and Pakistan Index



MSCI EM Index - Country-wise weightage (%)



MSCI EM Index - Sector-wise weightage (%)



Source: Bloomberg, KSE 100 & IGI Research

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Market Strategy

Pakistan Formally made part of MSCI Emerging Market Index

- As per MSCI semi-annual index review, Pakistan is now graded entry into MSCI Emerging Market (EM) index effective from 1st Jun-17
- 6 companies will become a part of MSCI EM Index, having total market capitalization USD 6.7bn which represent 0.15% of total MSCI EM index market capitalization
- Other than the 6 large-mid cap companies, there has also been some addition and deletion of nearly 8 companies in MSCI Small cap index
- However, back in Jun-16 MSCI announcement of possible reclassification of Pakistan into Emerging Market status, KSE 100 has returned nearly +38.7% whereby market forward P/E has moved up from 8.0x to current 10.1x (up by +26%).
- Following nearly USD 542mn foreign outflows since Jun-16, re-classification of Pakistan under EM index could gather foreign inflows of nearly USD 250-300mn, with HBL leading the chart

As per Morgan Stanley Composite Index (MSCI) latest Semi-Annual Index Review (SAIR) held on 15th May-17 has announced Pakistan's entry into MSCI Emerging Market (EM) index effective from 1st Jun-17, from MSCI Frontier Market (FM).

Companies included in EM Index

As per MSCI notice, currently 6 companies will become a part of MSCI EM Index, with one large-cap stock Oil & Gas Development Company (OGDC), and other 5 mid-cap Habib Bank Limited (HBL), United Bank Limited (UBL), Lucky Cement (LUCK), MCB Bank Limited (MCB) and Engro Corporation (ENGRO). The combined free float based market capitalization of these 6 stocks comes at USD 6.7bn which represent 0.15% of total MSCI EM index capitalization (MSCI EM index market capitalization as at 28 April, 2017 stood at USD 4,476bn).

Exhibit:

Pakistan MSCI Emerging Market Index Constitutes

Sym	Category	Free Float based Market Cap (USDmn)	Free Float based Market Cap (% share)	Sector
HBL	Mid Cap	1,737	0.04%	Banks / Financials
UBL	Mid Cap	1,160	0.03%	Banks / Financials
LUCK	Mid Cap	1,089	0.02%	Materials
OGDC	Large Cap	951	0.02%	Energy
MCB	Mid Cap	808	0.02%	Banks / Financials
ENGRO	Mid Cap	970	0.02%	Materials
Total		6,714	0.15%	

Source: MSCI, IGI Research, MSCI EM Total market as at 28th April, 2017 USD 4,476bn

Other than the 6 large-mid cap companies, there has also been some addition and deletion of nearly 8 companies namely, POL, EFERT, KAPCO, NBP, PAEL, THALL, FFBL, and PKGS which are now added to MSCI Emerging market small index.

Exhibit

Companies in Pakistan MSCI Index**MSCI EM Large and Mid cap index**

Symbol	Company	Category	Free Float based Market Cap (USDmn)	Wt. %
HBL	Mid	Banks	1,737	25.9%
UBL	Mid	Banks	1,160	17.3%
LUCK	Mid	Cements	1,089	16.2%
ENGRO	Mid	Fertilizer	970	14.4%
OGDC	Large	E&Ps	951	14.2%
MCB	Mid	Banks	808	12.0%

MSCI EM Small cap index

HUBC	Small	Power	970	11.2%
FFC	Small	Fertilizer	672	7.7%
DGKC	Small	Cements	558	6.4%
PSO	Small	OMC	546	6.3%
POL*	Small	E&Ps	516	5.9%
SEARL	Small	Pharma	366	4.2%
SNGP	Small	OMC	343	4.0%
EFERT*	Small	Fertilizer	337	3.9%
KAPCO*	Small	Power	337	3.9%
FCCL	Small	Cements	336	3.9%
NBP*	Small	Banks	332	3.8%
MTL	Small	Auto-Assemblers	308	3.5%
BAFL	Small	Banks	304	3.5%
NML	Small	Textil	292	3.4%
MLCF	Small	Cements	278	3.2%
PAEL*	Small	Electric	272	3.1%
PKGS*	Small	Paper & Board	262	3.0%
INDU	Small	Auto-Assemblers	253	2.9%
HCAR	Small	Auto-Assemblers	243	2.8%
ISL	Small	Engineering	231	2.7%
NRL	Small	Refinery	207	2.4%
THALL*	Small	Auto-Part	185	2.1%
PSMC	Small	Auto-Assemblers	181	2.1%
FFBL*	Small	Fertilizer	158	1.8%
SHEL	Small	OMC	128	1.5%
FEROZ	Small	Pharma	61	0.7%
IGIL	Small	Insurance	12	0.1%

Source: MSCI, IGI Research, As of 28th April, 2017

* Addition of 8 companies in Pakistan MSCI EM Index

Pakistan Sector Wise Distribution

Sector	No of Stocks	Free Float based Market Cap (USDmn)	Wt. %
Commercial Banks	5	4,341	28.2%
Cements	4	2,261	14.7%
Fertilizer	4	2,137	13.9%
Oil & Gas Exploratio	2	1,467	9.5%
Power Generation &	2	1,307	8.5%
Oil & Gas Marketing	3	1,018	6.6%
Automobile Assemb	4	984	6.4%
Pharmaceuticals	2	428	2.8%
Textile Composite	1	292	1.9%
Cable & Electrical Gc	1	272	1.8%
Paper & Board	1	262	1.7%
Engineering	1	231	1.5%
Refinery	1	207	1.3%
Automobile Parts &	1	185	1.2%
Insurance	1	12	0.1%

Since announcement of Pakistan re-classification in Jun-16, KSE 100 forward P/E has moved up nearly +26% to now 10.1x and still trading at a 21% discount to MSCI Emerging Market Index

To recall Pakistan was part of EM Index from 1994 to 2008, however closure of Karachi stock Exchange in 2008 led to exclusion of Pakistan from EM Index to a standalone Country Index. Pakistan was then included and classified under Frontier Market Index in May-09. However, back in Jun-16 MSCI announcement of possible reclassification of Pakistan into Emerging Market status, KSE 100 has returned nearly +38.7% whereby forward P/E has moved up from 8.0x to current 10.1x (up by +26%). As of latest, Pakistan is trading at ~21% discount to MSCI Emerging Market Index forward P/E of 12.2x.

Market to attract nearly of USD 250-300mn after witnessing a foreign selling of nearly USD 540mn since Jun-16 MSCI announcement

In terms of flows, since Jun-16 Pakistan equity market has experienced nearly USD 542mn foreign outflows however, with Pakistan upgraded to emerging market status we suggest foreign inflows to gather pace. As per MSCI, total asset size of MSCI Emerging Market Index total Asset size of USD ~1,500bn having a 15-20% passive fund size, it is estimated that roughly USD 250-300mn worth of foreign inflow could be expected, HBL to receive highest inflow of USD 65mn.

Exhibit:

Pakistan MSCI Emerging Market Index Constitutes

Sym	Category	Free Float based Market Cap (% share)	Expected inflows
HBL	Mid Cap	0.04%	65
UBL	Mid Cap	0.03%	43
LUCK	Mid Cap	0.02%	41
OGDC	Large Cap	0.02%	35
MCB	Mid Cap	0.02%	30
ENGRO	Mid Cap	0.02%	36
Total		0.15%	250

Source: MSCI, IGI Research

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