

Strategy

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MSCI Classifies Pakistan Under Frontier Market Index

- MSCI yesterday in its Quarterly Index Review (QIR) has made changes in constitutes of its global indices.
- Three companies are expected to make the cut, including HBL, LUCK, and MCB, which will have a cumulative weight of roughly ~1.3% in total index.
- Moreover, MSCI back in Sep-21 also sought consultation to reclassify Pakistan in the list of eligible markets for MSCI Frontier Market 100 index and MSCI Frontier Markets 15% Country Capped Index. As per participant's consultation, MSCI has now included Pakistan under these two indices.
- In our view, classification of Pakistan under Frontier Market Index was very much expected, hence we don't see it as a major market moving event

MSCI classifies Pakistan under Frontier Market Index

Morgan Stanley Capital International (MSCI) yesterday in its Quarterly Index Review (QIR) has made changes in constitutes of its global indices. There has been one addition to the MSCI Frontier Markets Index that will be LOLC Holdings (Sri Lanka), whereas there has been no additions to and no deletions from the MSCI Frontier Markets Small Cap Index ([link](#) to the document).

To recall, MSCI early in Sep-21 sought consultation on Market Reclassification Proposal, whereby it downgraded Pakistan from Emerging Market Index to Frontier Market Index, coinciding with November 2021 Semi-Annual Index Review (SAIR).

LUCK, HBL & MCB makes the cut

The latest available press release has not yet given weights of Pakistan in the MSCI Frontier Market Index. But based on last review, three companies are expected to make the cut, including HBL, LUCK, and MCB, which will have a cumulative weight of roughly ~1.3% in total index.

Exhibit: MSCI Frontier Market Index - Pakistan constituents and respective weightage (expected)					
in US\$ mn					
Symbol	Company Name	Current Price	O/Shares	FF/Shares	Wt.
HBL	Habib Bank Limited.	124	1,041	521	0.5%
LUCK	Lucky Cement Limited.	688	1,272	445	0.4%
MCB	MCB Bank Limited.	164	1,111	389	0.4%
Total			3,423	1,354	1.3%

Source: MSCI, IGI Research,

*weight based on Jan-22 MSCI market Capitalisation of US\$ 104.6bn

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Pakistan classified in MSCI Frontier Market 100 & 15% Country Capped Index

Moreover, MSCI back in Sep-21 also sought consultation to reclassify Pakistan in the list of eligible markets for MSCI Frontier Market 100 index and MSCI Frontier Markets 15% Country Capped Index. As per participant's consultation, MSCI has now included Pakistan under these two indices. However, MSCI has not yet mentioned expected size of Pakistan in these indices, but back in Sep-21 stimulated market size of Pakistan was estimated at ~5.8%.

Outlook: Limited inflows expected

In our view, classification of Pakistan under Frontier Market Index was very much expected; hence we don't see it as a major market moving event. Downgrading of Pakistan from MSCI Emerging Market had much larger impact on the foreign outflows back in Sep-21 till Nov-21, despite Pakistan constitutes having a minuscule weight in Emerging Market. On a broader view, we have seen some foreign inflows piling up since Dec-21 starting, Pakistan market has revived a net cumulative inflow of US\$ 19.7mn till date. Although, Pakistan market trades at a significant discount, with respect MSCI Frontier Market Index market multiples whereby Pakistan has a current P/E of 6.0x versus 13.9x, dividend yield of ~7% versus 2.7%, we remain less enthusiast on foreign inflows.

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