

MSCI Semi Annual Index Review May'21

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MSCI Review

MSCI Semi Annual Index Review (SAIR) May'21 (Status Quo)

- Pakistan's equity market has recorded a decrease of 2.2% or 1,002pts (USD based return of +0.67%) since the last MSCI semiannual review back in Feb'21.
- At present, Pakistan has a weight of 0.016% in MSCI EM.

What to expect in May'21 SAIR

- As per MSCI Global Index Methodology Apr'21, the criteria for Emerging Markets includes full market capitalization at USD 1,830mn while free float market capitalization of USD 915mn along with ATVR of 15% is required.
- Assuming cut-off date of April 28, 2021 for the semi annual review, only OGDC fulfills the total market capitalization criteria, while HBL and MCB are short by USD 650mn and USD 562mn, respectively. Whereas on the basis of free float market cap, none of the constituents meet the required criteria of USD 915mn.
- However, given applicability of buffer rule (2/3 of benchmark criteria), on total market capitalization, OGDC and MCB are eligible while HBL is still short by USD 40mn. Moreover, for free float market cap, all three stocks aren't eligible even after applying buffer rule.
- After applying buffer rule along with index continuity rule, we expect no additions and deletions of stocks from the MSCI Main Index.
- LUCK cannot be added in this SAIR, as its market cap and free float market cap is still short by USD 35mn and 197mn respectively.

Exhibit: MSCI EM (Main Index) Pakistan Weight

Company	Market Cap* (USD mn)	MSCI Weight	Weight in Index
MCB	444	0.005%	34.1%
HBL	472	0.006%	36.2%
OGDC	387	0.005%	29.7%
Total	1,303	0.016%	100.00%

Source (s): MSCI, AHL Research, *Free Float

Exhibit: MSCI EM (Small Cap Index) Pakistan Weight

Company	Market Cap* (USD mn)	MSCI Weight	Company	Market Cap* (USD mn)	MSCI Weight
LUCK	718	0.069%	POL	262	0.025%
ENGRO	565	0.054%	EFERT	235	0.022%
UBL	404	0.039%	MTL	194	0.019%
HUBC	389	0.037%	SEARL	168	0.016%
PPL	360	0.034%	BAFL	156	0.015%
FFC	348	0.033%	NBP	118	0.011%
PSO	307	0.029%	INDU	111	0.011%
MARI	276	0.026%	PKGS	94	0.009%

Source (s): MSCI, AHL Research, *Free Float

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Arif Habib Limited (AHL) uses three rating categories, depending upon return form current market price, with Target period as Dec'21 for Target Price. In addition, return excludes all type of taxes. For more details kindly refer the following table;

Rating	Description
BUY	Upside* of subject security(ies) is more than +10% from last closing of market price(s)
HOLD	Upside* of subject security(ies) is between -10% and +10% from last closing of market price(s)
SELL	Upside* of subject security(ies) is less than -10% from last closing of market price(s)

Equity Valuation Methodology

AHL Research uses the following valuation technique(s) to arrive at the period end target prices;

- Discounted Cash Flow (DCF)
- Dividend Discounted Model (DDM)
- Sum of the Parts (SoTP)
- Justified Price to Book (JPTB)
- Reserved Base Valuation (RBV)

Risks

The following risks may potentially impact our valuations of subject security (ies);

- Market risk
- Interest Rate Risk
- Exchange Rate (Currency) Risk

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- Arif Habib Limited (AHL) has shareholding in OGDC, BOP, FATIMA, and PSO