

MSCI upgrades Kuwait to Emerging Market

June - 2019

Upgrade to result in passive investments of more than USD 2.0 Bn...

In a much anticipated and a significant development, world's biggest index compiler MSCI upgraded Kuwait to Emerging Market status from Frontier Market subject to some infrastructure developments that the latter has to implement by November-2019. The MSCI announcement said that Kuwait has to implement the omnibus account structures and that same national investor number cross trades should be made available for international institutional investors before the end of November 2019 for the country to be upgraded in its May-2020 semi-annual index review. Moreover, unlike Saudi Arabia, Kuwait's upgrade would be implemented in a single tranche at the time of the review.

The upgrade came as a result of consistent reforms implemented by the CMA in Kuwait in a record time of less than three years targeting each aspect of the process and delivering on the reforms in a timely manner. These reforms included market segmentation, settlement times, foreign ownership limits and increasing the breadth of the products traded on the exchange. It also gives a big boost to investor confidence in the Kuwaiti financial markets that will now be included in the league of much larger emerging market countries like China, India and Russia.

According to MSCI, Kuwait would carry an index weight of approximately 0.5% in the MSCI Emerging Markets Index which has around USD 1.8 trillion passive assets tracking the index. The upgrade would make Kuwait a part of a much larger universe, which according to Bloomberg is around USD 14 Trillion for the MSCI Emerging Market Indices as against a much smaller MSCI Frontier Markets index assets of around USD 324 Billion. According to our calculations and consensus estimates, the upgrade would result in additional flow of around USD 2.2 Bn in Kuwaiti markets. On the other hand, after the exit of Kuwait, Vietnam would be the biggest member in the MSCI Frontier Market index.

According to the MSCI announcement, the upgrade would include nine stocks listed on Boursa Kuwait based on the simulated constituent list of proforma MSCI Kuwait Index as of April-19 and the thresholds set by MSCI for the Emerging Market index. All of these nine stocks are constituents of the Kuwait Premier Market Index with an aggregate market capitalization of KWD 19.7 Bn accounting for 58.6% of the total Boursa Kuwait market capitalization as of 25-June-19. Trading in these stocks has been significant over the past few months that would justify investors expectations of a likely upgrade in the MSCI announcement.

Investor expectations were clearly reflected in the recent trading activity on Boursa Kuwait. Kuwait has consistently outperformed regional peers since the start of the year. Kuwaiti benchmarks have seen the biggest returns in the GCC and one of the biggest globally this year. The Boursa Kuwait Premier Market Index recorded a YTD-19 return of 21.1% as of 25-June-19 and the aggregate All Share Index recorded a growth of 14.8%. This comes despite the recent pressure from regional geopolitical issues as well as softer oil prices. Liquidity on the exchange has also witnessed a big boost this year with value traded at one of the highest levels since the 2008 financial crisis.

Proforma MSCI EM Index Constituents from Boursa Kuwait

Company Name	Sector	Last Price (KWD)	YTD Chg%	M-Cap (KWD Mn)	P/E (x) TTM	P/B (x) TTM	Div. Yield	ADVT - 2019 (KWD Mn)
National Bank of Kuwait	Banks	0.977	21.5%	6,373.9	16.6	2.1	3.4%	4.9
Kuwait Finance House	Banks	0.703	26.7%	4,904.5	20.9	2.7	2.6%	4.5
Mobile Telecommunications Co.	Telecom Service	0.539	18.0%	2,332.3	11.5	2.0	5.6%	2.0
Boubyan Bank	Banks	0.581	14.8%	1,675.7	28.8	4.1	1.1%	0.7
Agility Public Warehousing Co.	Industrials	0.766	9.7%	1,350.4	16.4	1.3	1.6%	1.1
Gulf Bank	Banks	0.308	21.4%	938.8	16.3	1.5	3.1%	3.9
Burgan Bank	Banks	0.349	32.2%	916.1	11.3	1.3	3.3%	0.9
Mabane Co.	Real Estate	0.723	24.2%	753.8	13.9	1.7	1.6%	0.5
Boubyan Petrochemical Co.	Basic Materials	0.899	-8.0%	480.8	45.6	1.7	5.4%	0.2
Total				19,726.3				18.7

GCC Equity Markets	Index Closing	YTD Chg%	M-Cap (USD Bn)	YTD Val Traded (USD Bn)	P/E (x) TTM	P/B (x) TTM	Div. Yield
Kuwait - Premier Market Index	6,381.2	21.1%	98.2	12.4	15.8	1.4	3.6%
Kuwait - Main Market Index	4,749.3	0.2%					
Kuwait - All Share Index	5,829.4	14.8%					
Saudi Arabia	8,649.9	10.5%	539.6	114.3	17.3	2.0	3.5%
Dubai	2,623.5	3.7%	92.9	6.4	7.2	0.9	4.8%
Abu Dhabi	4,989.4	1.5%	137.7	6.4	12.7	1.4	5.0%
Qatar	10,450.6	1.5%	158.4	10.5	14.5	1.2	4.6%
Bahrain	1,462.1	9.3%	22.2	0.7	10.5	0.9	5.0%
Oman	3,890.9	-10.0%	17.0	0.3	8.7	0.7	6.7%
Total GCC			1,065.8	151.1	14.3	1.5	4.0%

Source : Bloomberg, Reuters, KAMCO Research

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Trading activity sees a steep increase in 2019...

Trading activity on the Boursa Kuwait had seen significant growth in 2018 and the trends so far in 2019 is showing an even higher growth when annualized for the full year. Total value traded on the exchange stood at KWD 4.1 Bn in 2018 and volume of shares traded stood at 21.7 Bn. Total Value traded until 25-June-19 stood at KWD 3.74 Bn while volume stood at 18.2 Bn shares. Trading activity for the nine stocks expected to be included in the MSCI Emerging Markets index has exceeded the levels seen over the past 10 years when annualized for the current year. According to trading data, value traded in the nine stocks averaged at KWD 2.9 Bn over the last ten years (2009-2018) while the aggregate for YTD-19 stood at KWD 2.2 Bn.

Additional passive investments should help sustain frontline equity stock prices...

According to consensus estimates, additional passive inflows in the range of USD 2.0 - 2.4 Bn are expected after the upgrade. Our analysis based on a consensus average of USD 2.2 Bn (KWD 667 Mn) of inflows, shows that most companies on the Boursa Kuwait have high flows/ADVT (average daily value traded) multiples. We believe that this should help sustain frontline equity stock prices listed on the Boursa Kuwait going forward, apart from fundamental reasons.

Trading Activity - Proforma MSCI EM Index Constituents from Boursa Kuwait

Company Name	Index Weight (%)	Val Traded 2019 KWD Mn	Vol Traded 2019 (Mn)	ADVT - 2019 KWD Mn	ADVT 10-Year KWD Mn	Estimated Additional Flows (KWD Mn)	Flows/ADVT
National Bank of Kuwait	33.01%	576.0	626.6	4.9	2.4	221.5	45.4
Kuwait Finance House	27.25%	534.1	810.0	4.5	2.4	186.4	41.2
Mobile Telecommunications Co.	11.84%	236.3	481.2	2.0	3.0	73.0	36.5
Boubyan Bank	7.38%	77.2	134.9	0.7	0.7	34.2	52.3
Agility Public Warehousing Co.	5.14%	131.3	165.6	1.1	1.4	51.8	46.6
Gulf Bank	4.98%	458.1	1,575.2	3.9	0.6	30.6	7.9
Burgan Bank	3.93%	109.0	333.7	0.9	0.6	18.8	20.3
Mabane Co.	3.84%	55.1	84.8	0.5	0.4	23.9	51.2
Boubyan Petrochemical Co.	2.63%	29.4	31.4	0.2	0.4	27.0	108.2
Total		2,206.6	4,243.5			667.3	

Source : Bloomberg, Boursa Kuwait, MSCI, KAMCO Research

Market expected to remain positive in the near term...

Based on the trends seen post previous upgrade announcement in the case of Saudi Arabia, UAE and Qatar, we believe that the market rally YTD has already factored in the upgrade. As a result, the immediate trend in the market would see retail investors book profits based on the upgrade news. Nevertheless, in the longer run we expect the upgrade to augur well for the overall market and see higher buying in large-cap blue chip stocks. We expect the Premier Market stocks to remain investors favorite as the upgrade would highlight fundamentally strong Kuwaiti stocks to international institutional investors. Furthermore, the introduction of new products in the markets like options and derivatives should bring Kuwaiti market valuations in line with global peers as well as give a positive push to the overall financial sector by way of boosting investor interest in other asset classes including Kuwaiti bonds and sukuks.

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