

Boursa Kuwait - MSCI EM Inclusion - Update

November - 2020

Passive flows expected to be slightly lower at USD 2.9 Bn...

The anticipated addition of Kuwait to the MSCI Emerging Market index at the end of November-2020 is expected to positively affect the flow of foreign capital in Boursa Kuwait. We believe that passive flows are expected to reach USD 2.9 Bn, slightly lower than our previous estimate of USD 3.1 Bn. The revision mainly reflects the broad decline in the Kuwaiti indices as well as decline in share price of five out of the seven stocks to be included in the MSCI Emerging Market index. The estimate of flows are also consistent with the consensus estimated flows in Indian equities after the increase in weights announced recently.

Nevertheless, despite the revision in expected flows, a gradual reclassification of Kuwait from MSCI's Frontier Market index should offset this decline over time. According to consultation papers from MSCI published in October-2020, a decision would be made on 9-November-2020 on whether Kuwaiti stocks would be reclassified gradually from the MSCI Frontier Market Index in five stages. According to the document, the reclassification is proposed to be done in five successive index reviews starting from November-2020 Semi-Annual Index Review until the November-2021 Review. Currently, Kuwait accounts for the biggest share of the MSCI Frontier Markets 100 index with a weight of 26.29%. This would be lowered to 21.14% on 30-November-2020 which will be Phase 1 of the reclassification process and the date on which Kuwait would be upgraded to Emerging Market status.

In terms of actual flows, we believe that the bulk of the funds have already been placed in the upgraded stocks by foreign investors. According to data from Boursa Kuwait, the exchange has seen net foreign flows of KWD 600 Mn (USD 1.97 Bn) during 2019. This trend continued in 2020 during the first two months, however, the spread of Coronavirus in the region and globally reversed the flow as investors were seeking safe haven markets and assets. This resulted in a general flight of capital from emerging markets to advanced markets. As a result, a net outflow of KWD 173.1 Mn (USD 569.5 Mn) was seen during March-2020 until May-2020. The month of March-2020 witnessed the first net outflow of foreign capital from Kuwaiti market in 17 months and at KWD 111.92 Mn it was also the biggest monthly outflow of foreign capital on record, according to monthly data since December-2009. Total YTD-2020 net foreign flows stood at a negative KWD 13.94 Mn during the first nine months of the year.

Boursa Kuwait is currently trading at early 2019 levels, a period before the confirmation of the MSCI upgrade. This could result in a significant upside for the overall market. Data also shows that regional markets that were upgraded to EM (Saudi Arabia, Qatar and UAE) were near their yearly peaks a month before the upgrade, while Kuwait is currently down 13%. That said, Covid-19 continues to be a key risk to our expectations that is also expected to affect oil prices, the biggest driver of GCC economies. The pandemic has resulted in a larger-than-expected impact on corporate profitability and as a result, near-term growth depends on the decline in the spread of covid-19 and the resulting pace of recovery from the economic slowdown.

Trading Activity - Proforma MSCI EM Index Constituents from Boursa Kuwait

| Company Name | Val Traded YTD-2020 KWD Mn | Vol Traded YTD-2020 (Mn) | ADVT - YTD-2020 KWD Mn | ADVT 10-Year KWD Mn | Est. Passive Flows (KWD Mn) | Est. Passive Flows (USD Mn) | Flows/ADVT (Days) |
|-------------------------|----------------------------|--------------------------|------------------------|---------------------|-----------------------------|-----------------------------|-------------------|
| National Bank of Kuwait | 1,168.9 | 1,373.3 | 6.0 | 2.3 | 424 | 1,387 | 71.1 |
| Kuwait Finance House | 1,529.3 | 2,320.2 | 7.8 | 2.4 | 207 | 677 | 26.5 |
| Zain | 515.3 | 940.9 | 2.6 | 2.0 | 96 | 315 | 36.7 |
| Agility | 391.7 | 596.2 | 2.0 | 1.0 | 59 | 194 | 29.7 |
| Boubyan Bank | 136.7 | 245.5 | 0.7 | 0.4 | 46 | 151 | 66.4 |
| Mabane Co. | 172.5 | 259.1 | 0.9 | 0.4 | 27 | 88 | 30.4 |
| Gulf Bank | 354.0 | 1,568.3 | 1.8 | 0.7 | 25 | 82 | 13.8 |
| Total | 4,268.4 | 7,303.5 | | | 885 | 2,894 | |

| GCC Equity Markets | Index Closing | YTD Chg% | YTD Val Traded (USD Bn) | P/E (x) TTM | P/B (x) TTM | Div. Yield |
|-------------------------------|---------------|----------|-------------------------|-------------|-------------|-------------|
| Kuwait - Premier Market Index | 6,034.4 | -13.5% | 26.0 | 34.3 | 1.3 | 3.6% |
| Kuwait - Main Market Index | 4,339.4 | -11.6% | | | | |
| Kuwait - All Share Index | 5,465.9 | -13.0% | | | | |
| Saudi Arabia | 8,088.7 | -3.6% | 427.4 | 29.6 | 1.9 | 2.4% |
| Dubai | 2,153.5 | -22.1% | 14.7 | 8.9 | 0.8 | 4.5% |
| Abu Dhabi | 4,689.8 | -7.6% | 14.0 | 17.9 | 1.3 | 5.2% |
| Qatar | 9,727.0 | -6.7% | 23.4 | 16.5 | 1.4 | 4.1% |
| Bahrain | 1,441.1 | -10.5% | 0.5 | 14.0 | 0.9 | 4.7% |
| Oman | 3,536.0 | -11.2% | 0.9 | 10.7 | 0.7 | 7.0% |
| Total GCC | | | 506.9 | 25.4 | 1.7 | 2.9% |

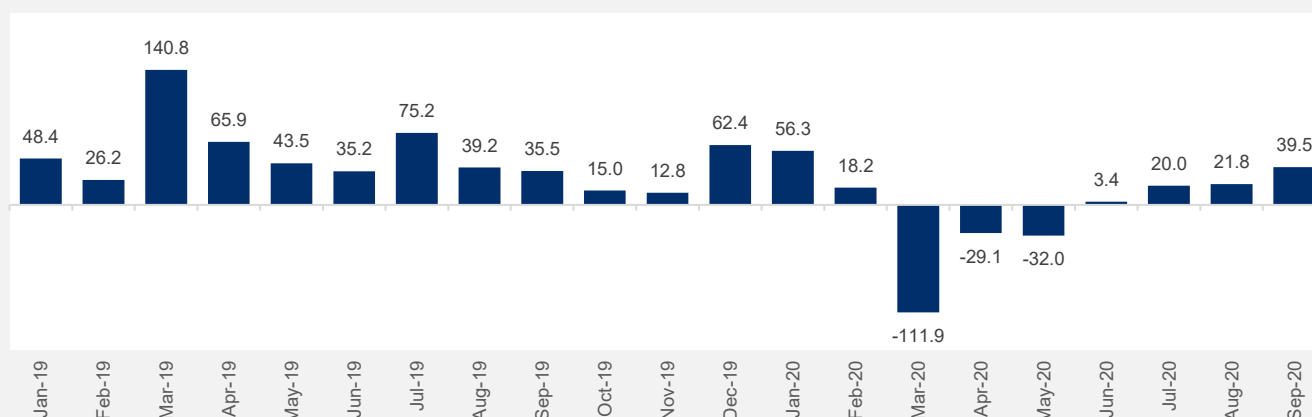
Source : Bloomberg, GCC Stock Exchanges, Kamco Invest Research. YTD data as of 4-November-2020.

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Net Trading by Foreigner's (KWD Mn)


| Net Trading Activity (KWD Mn) | 2015 | 2016 | 2017 | 2018 | 2019 | YTD-Sep-20 |
|-------------------------------|--------|--------|--------|---------|---------|------------|
| Net Trade by Kuwaitis | -38.54 | 19.75 | -87.64 | -237.57 | -565.43 | -51.54 |
| Net Trades by GCC Citizens | 25.96 | 19.45 | 35.56 | -39.90 | -34.57 | 65.48 |
| Net Trades by Foreigners | 12.58 | -42.88 | 52.07 | 277.48 | 600.00 | -13.94 |

Source : Bloomberg, Boursa Kuwait, Kamco Invest Research

Covid-19 affected net foreign flows in the market...

Net foreign flows to Kuwait remained positive consistently for 16 months with cumulative flows of KWD 792.9 Mn in the market until February-2020. However, the onset of Covid-19 pandemic resulted in a reversal during the three months starting from March-2020. The decline came as Kuwaiti indices declined by almost 30% at the peak of the pandemic amid lockdowns. However, the trend once again gradually became positive from June-2020 as markets showed positive growth during Q2-2020 and Q3-2020. For the four months during June-2020 to September-2020 net foreign flows totaled KWD 84.68 Mn and with the upcoming inclusion of Kuwait in the MSCI EM index, flows are expected to remain positive in the near-term as seen from data in other emerging markets that were upgraded in the region.

Key risks are broad-based affecting the overall region...

We believe that the covid-19 pandemic and its impact on the Kuwaiti economy and corporate profitability are the key risks in the near-term. The economic impact over the last two quarters have come on a dual front i.e. the decline in oil prices have resulted in a steep decline in state revenues while the lockdowns affected the overall economic activity in the country. As a result, corporate profitability in Kuwait declined at one of the steepest rates in the region, affecting key sectors like banks, real estate and aviation. This affected valuation multiples in the region, pricing Kuwaiti benchmark at a premium to most other markets in the region. We believe that these factors are broad-based and affected the overall oil economy in the region as well as key markets globally. A recovery is already visible in Kuwait with indices recovering some lost points; however, corporate profitability continues to remain subdued, especially for banks due to higher provisions. We believe that the Kuwaiti market is expected to see short-term gains before the inclusion, followed by a temporary correction as investors book profits. We also believe that improving fundamentals by Q4-2020 should support the market unless the second wave of the coronavirus is bigger and steeper.

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 |
|-------------------------|------------------|------------------|----------|-----------------|-------------|-------------|------------|
| National Bank of Kuwait | Banks | 0.836 | -18.0% | 5,726.8 | 18.9 | 1.9 | 3.9% |
| Kuwait Finance House | Banks | 0.663 | -10.1% | 5,088.0 | 25.4 | 2.7 | 2.7% |
| Zain | Telecom Services | 0.594 | -1.0% | 2,570.3 | 12.6 | 2.1 | 5.6% |
| Agility | Industrials | 0.659 | -7.4% | 1,336.0 | 21.9 | 1.2 | 0.6% |
| Boubyan Bank | Banks | 0.616 | 8.6% | 2,008.3 | 39.4 | 4.1 | 1.3% |
| Mabane Co. | Real Estate | 0.658 | -22.9% | 727.2 | 24.1 | 1.6 | 2.0% |
| Gulf Bank | Banks | 0.222 | -26.7% | 676.7 | 13.2 | 1.1 | 4.7% |
| Total | | | | 18,133.2 | | | |

Source : Bloomberg, Kamco Invest Research. YTD data as of 4-November-2020.

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