

MSCI upgrades Kuwait to Emerging Market

Dec - 2019

Higher weight of 0.69% to drive potential passive inflows of around USD 3.1 Bn...

In a much anticipated move, the largest global index compiler in terms of passive funds tracked, MSCI, announced that it will add Kuwait to its emerging market index starting from May 2020, as part of its Semi Annual Index Review. The addition will happen in a single tranche, according to the statement. The announcement comes after Kuwait implemented the remaining requirements for the upgrade that included market accessibility requirements and same NIN cross trade capabilities.

According to the MSCI announcement, Kuwait will have a weight of 0.69% in the Emerging Market index, a slightly higher weight as compared to consensus estimates. According to our calculations and based on the recent inclusion of Aramco in the EM index and the related estimated flows, Kuwait could attract passive inflows of around USD 3.1 billion and a much larger pool of active inflows. Further details on the implementation of the upgrade would be announced at the start of next year. After the upgrade, Kuwait would now be a part of the Emerging Market universe defined by three largest global index compilers including MSCI, S&P Dow Jones and FTSE. This would help attract capital from foreign investors in the country's capital markets and enable it to reach global standards.

The upgrade came as a result of consistent reforms implemented by the CMA in Kuwait in 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.

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. After the upgrade, Kuwait would be excluded from the Frontier Market index in which it had the highest weight of more than 30%. Nevertheless, due to the relative size of the two indices, the net impact of inflows in Kuwait would be positive due to a greater number of funds benchmarked to the Emerging Market universe as compared to the stocks in the Frontier Market.

According to the revised simulated list of securities released in November-19 by MSCI, seven stocks would form a part of the Standard Emerging Market stocks. These include NBK, KFH, Zain, Boubyan Bank, Agility, Gulf Bank and Mabane. According to our calculations, these stocks could attract total passive flows of around USD 3.1 Bn. In addition, the small-cap segment of the index would include 10 companies, according to the list, whereas an additional two stocks would be finalized after the January-20 announcement.

Trading Activity - Proforma MSCI EM Index Constituents from Boursa Kuwait

Company Name	Val Traded 2019 KWD Mn	Vol Traded 2019 (Mn)	ADVT - 2019 KWD Mn	ADVT 10-Year KWD Mn	Estimated Additional Flows (KWD Mn)	Estimated Additional Flows (USD Mn)	Flows/ADVT (Days)
National Bank of Kuwait	1,068.5	1,127.5	4.4	2.2	467	1,544	105.2
Kuwait Finance House	1,214.9	1,750.4	5.0	2.2	211	698	41.8
Mobile Telecommunications Co.	503.8	956.4	2.1	2.0	97	321	46.4
Boubyan Bank	132.6	231.3	0.6	0.4	39	129	71.1
Agility Public Warehousing Co.	257.9	332.1	1.1	1.0	58	191	53.9
Gulf Bank	693.5	2,377.9	2.9	0.8	34	112	11.8
Mabane Co.	110.4	155.5	0.5	0.4	31	104	68.6
Total	3,981.5	6,931.0			937	3,100	

GCC Equity Markets	YTD Chg%	YTD Val Traded	P/E (x) TTM	P/B (x) TTM	Div. Yield
Kuwait - Premier Market Index	29.6%	25.2	16.1	1.4	3.6%
Kuwait - Main Market Index	2.2%				
Kuwait - All Share Index	21.3%				
Saudi Arabia	5.5%	223.3	17.7	2.1	4.1%
Dubai	10.2%	13.3	6.8	0.9	4.3%
Abu Dhabi	3.7%	12.9	12.9	1.4	4.9%
Qatar	0.4%	18.1	14.0	1.4	4.1%
Bahrain	18.4%	0.8	10.9	0.9	4.4%
Oman	-8.8%	1.0	8.1	0.7	7.3%
Total GCC		294.7	16.3	1.9	4.1%

Source : Bloomberg, Reuters, KAMCO Research

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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	1.059	33.3%	6,908.9	17.3	2.1	3.1%	4.4
Kuwait Finance House	Banks	0.795	43.1%	5,546.3	22.3	2.8	2.3%	5.0
Zain	Telecom Service	0.580	29.2%	2,509.7	11.8	2.0	5.2%	2.1
Boubyan Bank	Banks	0.608	31.1%	1,753.5	28.7	3.1	1.1%	0.6
Agility	Industrials	0.792	13.6%	1,396.2	16.3	1.3	1.6%	1.1
Gulf Bank	Banks	0.295	17.1%	899.2	17.6	1.4	3.2%	2.9
Mabane Co.	Real Estate	0.853	49.2%	889.3	16.0	1.9	1.3%	0.5
Total				19,903.2				16.5

Source : Bloomberg, Reuters, KAMCO Research

Kuwait Premier Market sees one of the highest returns globally in 2019...

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 Premier Market index has 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 30% as of 18-Dec-19. 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.

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. 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 18-Dec-19 stood at KWD 7.6 Bn while volume stood at 37.6 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.

Investor focus would widen to fundamentally sound stocks in the Main Market...

The excitement surrounding the upgrade has resulted in an increasing focus on the Premier Market stocks in Kuwait. This is evident from the difference in returns of the Premier Market Index and the Main Market Index. The YTD-19 returns for the Premier Market index stood at 30% as of 18-Dec-19 while the Main Market reported a return of 2.2%. The difference was also seen in the trading activity of constituents of the Premier Market index as compared to the Main Market stocks. Premier Market stocks accounted for 81% or KWD 6.2 Bn of trades since the start of the year, an ever increasing percentage over the last three years. We believe that post the upgrade, investor focus would widen to fundamentally sound stocks in the Main Market. The upgrade would also help get the overall stock market attention from international investors as corporate profitability and dividend trends in the listed company space has remained solid over the last few years. In addition, with government initiatives and reform announcements on a number of fronts, the overall impact would be positive for local and regional investors.

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