

## Pakistan Market

# MAY'21: MSCI SEMI-ANNUAL INDEX REVIEW

### MSCI rebalancing to attract minimal inflows to Pakistan

The MSCI on Wednesday announced the results of its May'21 Semi-Annual Index review (SAIR) for equity indexes, which to our surprise included the addition of Lucky Cement (LUCK) to the MSCI Pakistan Standard Index, and deletion of Oil and Gas Development Company (OGDC). While under the MSCI Global Small Cap Indexes, TRG Pakistan (TRG) has been added whereas Packages Ltd. (PKGS), Lucky Cement (LUCK), Indus Motors (INDU) and National Bank of Pakistan (NBP) have been removed. We would like to highlight that the Pakistan's weight in the MSCI EM index has improved to 0.021% while Pakistan's weight in the small cap index has been revised to 0.440%. The aforesaid events could also attract the net inflows to the tune of USD 5-10Mn, effective from May 28<sup>th</sup> 2021, in our view.

**LUCK added to the MSCI Pakistan Index:** To our surprise, LUCK was added to the MSCI Pakistan Index against Oil and Gas Development Company (OGDC), which was eased out as it fell short of the free-float market capitalization criteria. Moreover, Pakistan's weight in the MSCI EM index has improved to 0.021% from 0.016% previously. As a result of the above-mentioned events, we expect LUCK to attract inflows of around USD 25Mn, whereas we expect OGDC to witness an outflow of nearly USD 12Mn.

**TRG secures a position in the MSCI EM Small Cap Index:** In the MSCI Global Small Cap Index, TRG Pakistan (TRG) has been added whereas Packages Ltd. (PKGS), Lucky Cement (LUCK), Indus Motors (INDU) and National Bank of Pakistan (NBP) have been removed. The removal of these scrips will bring down the total number of scrips in MSCI Pakistan Small Cap Index to 13 from 16 previously.

**Overweight stance on LUCK and TRG:** Trading at an EV/ton of 67x, LUCK remains our top pick in BMA cement universe with Dec'21 TP of PKR 1,200/sh (potential upside of 37%). Similarly, the recent gains by TRG has put the company in the limelight where the announcement of sale of stake in E-Telequote would roughly generate PKR 22bn (PKR 40/sh).

Table 1: Stocks included in the MSCI EM Index

Stocks	M. Cap (USD Mn)	FF. M.Cap* (USD Mn)	MSCI Weight
<b>EM Standard Index</b>			
LUCK	1,953	684	0.008%
MCB	1,295	453	0.006%
HBL	1,231	615	0.008%
<b>Total</b>	<b>4,478</b>	<b>1,752</b>	<b>0.021%</b>
<b>Small Cap Index</b>			
ENGRO	1,164	640	0.062%
TRG	626	532	0.051%
HUBC	665	498	0.048%
FFC	913	502	0.048%
UBL	995	398	0.038%
PPL	1,454	327	0.032%
PSO	682	307	0.030%
POL	672	308	0.030%
EFERT	599	270	0.026%
MARI	1,334	267	0.026%
MTL	391	196	0.019%
SEARL	367	165	0.016%
BAFL	369	147	0.014%

\*FF - Free Float

Source: MSCI, Bloomberg, BMA Research

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KSE 100 vs. MSCI EM vs. MSCI Pak



Source: Bloomberg, PSX, BMA Research

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Buy	>15% expected total return
Hold	10%-15% expected total return
Underperform	<10% expected total return
*Total stock return = capital gain + dividend yield	

### Old rating system

Overweight	Total sector return > expected market return
Marketweight	Expected market return
Underweight	Total stock return < expected market return

## Valuation Methodology

To arrive at our period end target prices, BMA Capital uses different valuation methodologies including

- Discounted cash flow (DCF, DDM)
- Relative Valuation (P/E, P/B, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)