

## MSCI Review Amid Political/Economic Noise

Limited inflows expected from the upcoming MSCI review; attractive valuations make a strong case to BUY

Wednesday, May 11, 2022

The MSCI is due to announce results of its semi-annual review on May 12, 2022. As per the data released by the MSCI at the end of last month (Apr'22), Pakistan continues to be based primarily in the MSCI Frontier Markets Index with 3 constituents (LUCK, HBL & MCB) that cumulate to a total weight of around 1.2%. At the same time, there are 3 sub categories that contain listed Pakistani equities including the MSCI Pakistan Investable Market Index (17 constituents), MSCI All Pakistan Select 25/50 Index (28 constituents) and the MSCI All Pakistan Index (34 constituents). In terms of weightage, we do not see major changes in the allocations and expect the MSCI Pakistan index to hold ground at close to 1.2%. It is also worth highlighting that as part of this review, Pakistan will also become a part of the MSCI FM 100 Index and the MSCI FM 15% Country Capped index.

As for valuations, Pakistan continues to be an attractive bet for foreigners as per the statistics provided by the MSCI (see Table 1 below) given the larger All Pakistan Index trades at a forward P/E, P/B of only 4.05/0.82x respectively while offering a healthy dividend yield of 9.3%. That said, we reiterate that in the current mix of things where economic concerns particularly on the external side remain elevated and political noise continues to be high, investors should opt for relatively safer and mature industries that offer double-digit dividend yields, have lower leverage, are less exposed to economic downturns and covered against PKR devaluation/imports. Resultantly, our top sector picks are Banks, E&P's, Fertilizers and Textiles.

Table 1: Attractive forward multiples

	Fundamentals			
	Div. Yield	P/E	Fwd. P/E	P/B
MSCI Pakistan Index	6.4%	5.66	4.13	0.85
MSCI Pakistan IMI	10.0%	4.87	4.30	1.03
MSCI All Pakistan Select 25/50 Index	9.3%	4.59	4.17	0.86
MSCI All Pakistan Index	9.3%	4.45	4.05	0.82

Source: MSCI, BMA Research

**Which two new indexes is Pakistan being added to?** As part of the upcoming semi-annual review, Pakistan is set to become a part of the MSCI FM 100 Index and the MSCI FM 15% Country Capped Index. The FM 100 Index is said to be a prototype and easily replicable version of the MSCI FM IMI (the parent index). As the name suggests, it contains roughly 100 companies that are the largest and most liquid constituents of the parent index. As per the last reported figures by MSCI, it had 116 constituents from 28 countries with Vietnam having the biggest weight at 29.5%. As for Pakistan, it is expected that up to 13 stocks can be added to the index which include LUCK, ENGRO, HUBC, HBL, MCB, TRG, UBL, FFC, PSO, PPL, MARI, EFERT & MTL with the total weight ranging between 4-5%.

Similarly, the MSCI FM 15% Country Capped Index comprises of the constituents of the Frontier Markets Index however, as the name suggests exposure to any specific country is capped at 15%. As per latest figures reported by the MSCI, the index comprises of 86 constituents from 20 countries with Vietnam having the biggest weight at 14.5%. With regards to inclusion of listed Pakistan equities, it is expected that LUCK, HBL, MCB & OGDC can be added to the index with a cumulative weight of 2-3%.

**BMA Capital Management Ltd.** 801 Unitower, I.I.Chundrigar Road, Karachi, 74000, Pakistan For further queries. Last page of this report contains important disclosures and disclaimers. For queries, please contact: bmaresearch@bmacapital.com or call UAN: 111-262-111

### Probable Inclusions in the MSCI FM 100 Index

Symbol	Company Name
EFERT	Engro Fertilizers Ltd.
ENGRO	Engro Corporation Ltd.
FFC	Fauji Fertilizer Company Ltd.
HBL	Habib Bank Ltd.
HUBC	Hub Power Company Ltd.
LUCK	Lucky Cement Ltd.
MARI	Mari Petroleum Company Ltd.
MCB	MCB Bank Ltd.
MTL	Millat Tractors Ltd.
PPL	Pakistan Petroleum Ltd.
PSO	Pakistan State Oil Company Ltd.
TRG	TRG Pakistan Ltd.
UBL	United Bank Ltd.

Source: MSCI, BMA Research

### Probable Inclusions in the MSCI FM 15% Country Capped Index

Symbol	Company Name
HBL	Habib Bank Ltd.
LUCK	Lucky Cement Ltd.
MCB	MCB Bank Ltd.
OGDC	Oil & Gas Development Co. Ltd.

Source: MSCI, BMA Research

### Abdul Rehman Siddiqui

Deputy Head of Research

Tel: 111-262-111 ext. 2056

E-mail: abdul.rehman@bmacapital.com

**BMA Capital Management Ltd.**

**What flows can be expected?** As far as the total inflows are concerned, we do not expect major investments coming in. Putting it into numbers, we expect total inflows to range between USD 20-25Mn. Our estimates are premised upon consistent lack of flows in the Emerging and Frontier market indexes globally and secondly the move towards monetary tightening particularly in the West which will eventually lead to a slowdown in global demand and possibly even an economic recession.

**Focus on dividend yield plays:** In the light of the current economic turmoil and political upheaval, we recommend playing it safe until broader concerns ease off. As highlighted earlier, we maintain our preference for high-yielding, low beta plays while maintaining a cautious stance on high beta stocks and cyclicals. That said, in the table below, we highlight the top dividend yield plays in our universe which we believe offer the ideal equity exposure amidst the ongoing current political and economic noise.

**Table 2: Top Dividend Yielding Stocks**

Symbol	Year end	Price as at 10-May-22	D/Y FY/CY22E	D/Y FY/CY23E	FY/CY21A	FY/CY22E	FY/CY23E
HUBC	Jun	66.82	18.0%	18.0%	12.0	12.0	12.0
EPCL	Dec	76.60	18.3%	15.7%	16.3	14.0	12.0
EFERT	Dec	91.99	17.4%	16.3%	16.5	16.0	15.0
MCB	Dec	141.78	15.5%	16.9%	19.0	22.0	24.0
UBL	Dec	134.09	14.9%	16.4%	18.0	20.0	22.0
BAFL	Dec	35.10	12.8%	14.2%	4.0	4.5	5.0
BAHL	Dec	66.25	12.1%	15.1%	7.0	8.0	10.0
POL	Jun	379.52	13.2%	13.2%	50.0	50.0	50.0
FFC	Dec	118.20	11.8%	12.7%	14.5	14.0	15.0
INDU	Jun	1,304.26	9.6%	8.4%	103.5	125.0	110.0
ENGRO	Dec	272.31	9.2%	11.0%	25.0	25.0	30.0

Source: PSX, BMA Research

## Disclaimer

This research report is for information purposes only and does not constitute nor is it intended as an offer or solicitation for the purchase or sale of securities or other financial instruments. Neither the information contained in this research report nor any future information made available with the subject matter contained herein will form the basis of any contract. Information and opinions contained herein have been compiled or arrived at by BMA Capital Management Ltd. from publicly available information and sources that BMA Capital Management Ltd. believed to be reliable. Whilst every care has been taken in preparing this research report, no research analyst, director, officer, employee, agent or adviser of any member of BMA Capital Management Ltd. gives or makes any representation, warranty or undertaking, whether express or implied, and accepts no responsibility or liability as to the reliability, accuracy or completeness of the information set out in this research report. Any responsibility or liability for any information contained herein is expressly disclaimed. All information contained herein is subject to change at any time without notice. No member of BMA Capital Management Ltd. has an obligation to update, modify or amend this research report or to otherwise notify a reader thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate, or if research on the subject company is withdrawn. Furthermore, past performance is not indicative of future results.

The investments and strategies discussed herein may not be suitable for all investors or any particular class of investor. Investors should make their own investment decisions using their own independent advisors as they believe necessary and based upon their specific financial situations and investment objectives when investing. Investors should consult their independent advisors if they have any doubts as to the applicability to their business or investment objectives of the information and the strategies discussed herein. This research report is being furnished to certain persons as permitted by applicable law, and accordingly may not be reproduced or circulated to any other person without the prior written consent of a member of BMA Capital Management Ltd.. This research report may not be relied upon by any retail customers or person to whom this research report may not be provided by law. Unauthorized use or disclosure of this research report is strictly prohibited. Members of BMA Capital Management and/or their respective principals, directors, officers and employees may own, have positions or effect transactions in the securities or financial instruments referred herein or in the investments of any issuers discussed herein, may engage in securities transactions in a manner inconsistent with the research contained in this research report and with respect to securities or financial instruments covered by this research report, may sell to or buy from customers on a principal basis and may serve or act as director, placement agent, advisor or lender, or make a market in, or may have been a manager or a co-manager of the most recent public offering in respect of any investments or issuers of such securities or financial instruments referenced in this research report or may perform any other investment banking or other services for, or solicit investment banking or other business from any company mentioned in this research report. Investing in Pakistan involves a high degree of risk and many persons, physical and legal, may be restricted from dealing in the securities market of Pakistan. Investors should perform their own due diligence before investing. No part of the compensation of the authors of this research report was, is or will be directly or indirectly related to the specific recommendations or views contained in the research report. By accepting this research report, you agree to be bound by the foregoing limitations.

BMA Capital Management Ltd. and / or any of its affiliates, which operate outside Pakistan, do and seek to do business with the company(s) covered in this research document. Investors should consider this research report as only a single factor in making their investment decision. BMA Research Policy prohibits research personnel from disclosing a recommendation, investment rating, or investment thesis for review by an issuer/company prior to the publication of a research report containing such rating, recommendation or investment thesis.

## Stock Rating

Investors should carefully read the definitions of all rating used within every research reports. In addition, research reports carry an analyst's independent view and investors should ensure careful reading of the entire research reports and not infer its contents from the rating ascribed by the analyst. Ratings should not be used or relied upon as investment advice. An investor's decision to buy, hold or sell a stock should depend on said individual's circumstances and other considerations. BMA Capital Ltd. uses a three tier rating system: i) Buy, ii) Neutral and iii) Underperform (new rating system effective Jan 1'18) with our rating being based on total stock returns versus BMA's index target return for the year. A table presenting BMA's rating definitions is given below:

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.)