

# Marmore First Take

## Kuwait's FTSE EM inclusion

The next jump will be even bigger

October, 2017

# Highlights

- In the annual country classification review of FTSE for 2017, it was decided that Kuwait would be included under secondary emerging markets category from 2018 increasing the tally of GCC countries to 3 under secondary emerging markets. Saudi Arabia continues to remain in the watch list for a secondary market inclusion as it looks likely that the inclusion could be finalized during its status review in March 2018.
- Proactive measures taken by Boursa Kuwait in improving its trade settlement cycle, management of failed trades, improvement of custodial services and boosting market liquidity have started yielding results.
- UAE was promoted to FTSE's emerging index in 2010, but continued to remain as a frontier market with MSCI till 2013, due to settlement issues and restrictions on foreign ownership. Similarly Kuwait is currently classified as Emerging market in FTSE but does not even make the watch list for an upgrade to EM in the MSCI index.
- The case was opposite for Qatar as it was included in MSCI EM index during 2013 while being promoted to secondary emerging market in the FTSE index as late as 2016 indicating that the inclusion in one index does not guarantee the inclusion in other
- Kuwait met all 9 criteria's to be classified as secondary market in the FTSE index which come under 3 broad categories namely Market and Regulatory environment, Custody and Settlement, and Dealing landscape. Market and Regulatory environment included criteria pertaining to active market monitoring and facilitating investment or repatriation of capital and income. Custody and settlement included factors such as settlement of failed trades, improvement in custodian services and change in settlement cycle. Finally under dealing landscape, factors like liquidity, brokerage services, transaction costs and transparency were taken into consideration.
- The inclusion of Kuwait into the index is expected to bring an estimated inflow of between USD 450 – 700mn as Kuwait is expected to have a weightage of 0.5% in FTSE EM + China A all cap index. Passive funds benchmarked to the MSCI EM Index amounts to USD 1.5 trillion while MSCI FM, where Kuwait is listed amounts to only USD 0.015 trillion showing that an upgrade in MSCI index would result in the flow of heavy investments.
- Although the inclusion of Kuwait in the FTSE secondary emerging market index is a welcome development, they must follow the route of UAE and Qatar to get listed in MSCI EM index as well. Areas like market liquidity, influx foreign investments, analyst coverage of stocks, IPOs need to be improved in order to become a true emerging capital market.

# Appendix

**Table 1: FTSE Market Classification after 2017 review**

Developed	Advanced Emerging	Secondary Emerging	Frontier
Australia	Brazil	Chile	Argentina
Austria	Czech Republic	China	<b>Bahrain</b>
Luxemburg	Greece	Colombia	Bangladesh
Canada	Hungary	Egypt	Botswana
Denmark	Malaysia	India	Bulgaria
Finland	Mexico	Indonesia	Côte d'Ivoire
France	South Africa	<b>Kuwait</b>	Croatia
Germany	Taiwan	Pakistan	Cyprus
Hong Kong	Thailand	Peru	Estonia
Ireland	Turkey	Philippines	Ghana
Israel		<b>Qatar</b>	Jordan
Italy		Russia	Kazakhstan
Japan		<b>UAE</b>	Kenya
Netherlands			Latvia
New Zealand			Lithuania
Norway			Macedonia
Portugal			Malta
Singapore			Mauritius
South Korea			Morocco
Spain			Nigeria
Sweden			<b>Oman</b>
Switzerland			Palestine
UK			Romania
USA			Serbia
			Slovakia
			Slovenia
			Sri Lanka
			Tunisia
			Vietnam

Source: FTSE

**Table 2: Comparison of benchmarking methodology**

	FTSE	MSCI
Weighting and float-adjustment methodology	Market-cap-weighted, adjusted for free float.	Market-cap-weighted, adjusted for free float.
Maintenance	Periodic reviews in addition to annual country reviews on a region-by-region basis.	Quarterly and semiannual reviews.
Liquidity requirements	Securities must exceed a minimum turnover threshold determined by the security's median daily trading volume per month.	Securities must meet a specified trading volume determined by annual traded value ratio and frequency of trading requirement.
Security free-float requirements	Free float > 15%. <i>*Exception:</i> Security that has free float between 5%–15% will be included, provided it meets a minimum market-cap threshold.	Free float ≥ 50% of the equity universe minimum size requirement.
Tier 1: Broad-market classification	<i>Securities included:</i> Shares listed on a stock exchange or recognized market that are in the top 98% of each region by full market cap. <i>Securities excluded:</i> Convertible preferred shares or loan stocks and shares not listed as part of an eligible share class.	<i>Securities included:</i> All listed equity securities, or listed securities that exhibit characteristics of equity securities. <i>Securities excluded:</i> Mutual funds, ETFs, equity derivatives, limited partnerships, and most investment trusts.
Tier 2: Economic classification (developed or emerging markets)	1. Wealth (GNI per capita). 2. Total stock market capitalization. 3. Breadth and depth of market. 4. Whether there are any restrictions on foreign investment. 5. Free flow of foreign exchange. 6. Reliable and transparent price discovery. 7. Efficient market infrastructure. 8. Oversight by independent regulator.	1. Sustainability of economic development. 2. Number of companies meeting predetermined market cap and liquidity requirement. 3. Openness to foreign ownership. 4. Ease of inflows/outflows. 5. Efficiency of operational framework. 6. Stability of the institutional framework.
Tier 3: Geographical classification (region or country)	1. Permission for direct equity investment by non-nationals. 2. Availability of timely data. 3. Ability to retrieve dividends and capital gains in timely manner. 4. Demonstration of international interest. 5. Existence of adequate liquidity.	1. Minimum size requirement, must fall in top 99% of investable market cap. 2. Minimum market-cap requirement, varies by market (i.e., developed or emerging). 3. Minimum liquidity requirement. 4. Global foreign inclusion factor requirement. 5. Minimum length of trading requirement.
Tier 4a: Style classification (growth or value)	<b>Value criteria (4)</b> 1. Price to book value per share. 2. Price to sales per share. 3. Dividend yield. 4. Price to cash flow per share. <b>Growth criteria (5)</b> 1. 3-year historic EPS growth rate. 2. 3-year historic sales growth rate. 3. 2-year forward EPS growth rate. 4. 2-year forward sales growth rate. 5. Equity growth rate.	<b>Value criteria (3)</b> 1. Book value per share to price. 2. 12-month forward earnings per share to price. 3. Dividend yield. <b>Growth criteria (5)</b> 1. Long-term forward EPS growth rate. 2. Short-term forward EPS growth rate. 3. Current internal growth. 4. Long-term historical EPS growth trend. 5. Long-term historical sales per share growth trend.
Tier 4b: Style classification (market-cap breakdown for large-, mid-, or small-cap)	Large-cap: >72%.* Mid-cap: Between 72% and 92%. Small-cap: <92%.	Large-cap: Top 70% +/- 5%. Standard index: Top 85% +/- 5%. Mid-cap: Standard index minus large-cap index. Small-cap: 99% + 1% or minus 0.5% minus standard index.

\*FTSE applies buffers for each capitalization band.

Source: Vanguard evaluating global benchmark report

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# Research Library

## Capital Market Research

- Most Valuable Companies in GCC
- GCC High Margin Industries
- GCC Sovereign Debt Issuances
- Berkshire Hathaway (2015)
- Apple: 5 Questions (Bilingual) (2015)
- Kuwait's new Law on Preference Shares (2015)
- Mother of All IPOs: National Bank Commercial Bank (Bilingual) (2015)
- Kuwait Investment Sector (2012)

## Economic Research

- SME Startup Stories in GCC
- Bitcoin to Blockchain
- Financing Options in GCC
- Are GCC Businesses Leveraging Social Media
- The What of VAT
- FINTECH in GCC
- Kuwait Projects: KWD 10bn Awarded
- Kuwait Economic Themes
- Qatar Economic Themes
- Saudi Economic Themes
- UAE Economic Themes
- Emerging Markets (MSCI) – Threat of a Debt Crisis
- GCC Liquidity Fall
- Is China Stalling?
- Crowdfunding in the GCC: A New Source of Funding?
- Geopolitical and Macroeconomic Implications of the Iranian Nuclear Deal for GCC (Bilingual)
- Kuwait – Dealing with Construction Permits
- Negative Interest Rates
- Central Bank Shocks: What next? (Bilingual)
- Fiscal Breakeven Oil Price (Bilingual)
- Kuwait Electricity Tariff Hikes (Bilingual)
- Swiss Franc (Bilingual) (2015)
- Rising Fuel Prices in Kuwait (Bilingual) (2015)
- GCC Research Knowledge Gap (2014)
- Cloud Computing (2014)
- GCC Free Trade Zones (2014)
- Disruptive Technology: Bitcoins(2014)
- The Internet of Things ! Big Data (2014)
- Kuwait SME's (2014)
- FIFA World Cup 2022: Qatar (2013)

## Industry Research

- Private Equity: GCC
- Brokerage: UAE, Saudi
- Asset Management: UAE, Saudi
- Banking: Kuwait, Saudi, UAE, Qatar
- Contracting: Saudi, UAE, Kuwait
- Education: GCC, Saudi, UAE
- Investment Banking: GCC, UAE
- Healthcare: UAE, GCC, Saudi
- Insurance: GCC, Saudi
- Petrochemicals: GCC, Kuwait
- Retail: Kuwait Luxury Retail, UAE Luxury Retail, GCC Luxury Retail, Saudi Retail, GCC Retail, GCC Online Retail
- Wealth Management: UAE Wealth Management, GCC Wealth Management
- Media: UAE Media, UAE Social Media, GCC Social Media, GCC Media
- Other Industries: GCC Institutional Investors SWF, Saudi Remittance Industry, Saudi Mortgage, GCC Family Business, Saudi Hospitality, GCC Islamic Finance, Offsets in the GCC, GCC Hospitality, GCC Islamic Finance, Metals and Mining, When GCC Women Invest

## Infrastructure Research

- Power: Kuwait, UAE, Qatar, Egypt, Saudi
- Water: Saudi, Kuwait, Qatar
- Ports: Saudi, Kuwait, UAE, Qatar, Oman
- ICT: UAE, Qatar, Saudi, Kuwait
- Aviation: Qatar, Kuwait, GCC
- Roads and Railways: Saudi, Qatar
- Real Estate: Qatar Residential Real Estate, Saudi Residential Real Estate, UAE Residential Real Estate, GCC Office Real Estate, Saudi Office Real Estate, GCC Affordable Housing, Kuwait Real Estate (Bilingual) (2015)
- Aviation: Full Service Carriers (FSC), GCC Aviation: Low Cost Carriers, UAE, Saudi

## Policy Research

- An Innovation driven Economic Diversification Strategy for Kuwait (KFAS)
- Kuwait – Starting Business
- Kuwait Reforms (series): Education (2015)
- Oil & Gas Markets and the Emergence of New Resources (2014)
- GCC Countries & Asia: Bolstering Energy Ties (2014)
- GCC Energy Strategies: The Way Forward (2014)
- Blueprint for Public Sector Good Governance in Kuwait (2013)
- Kuwait: Private Labor Market (2013)
- Kuwait: Alternatives for Power Generation (2013)
- Kuwait: Sustainable Power Strategy (2012)
- Tools to Strengthen & Support Kuwait's Private Sector (2012)

## Regulatory Research

- Kuwait's BOT law (2014)
- Land Reforms in Kuwait (2014)
- Kuwait's PPP Law (Bilingual) (2013)
- Bankruptcy Law in the GCC (2013)

## Company Reports

- KSA  
Al Rajhi Bank  
Almarai Group  
Company for Cooperative Insurance (Tawuniya)  
Jarir Marketing Co.  
National Commercial Bank  
Riyad Bank  
SABIC  
Samba Financial Group  
Saudi Arabian Fertilizer Co.  
Saudi Arabian Mining Company  
Saudi British Bank  
Saudi Cement Company
- Saudi Electricity Co  
Saudi Telecom  
Savola Group  
TASNEE National Industrialization Company  
The National Shipping Co. of Saudi Arabia (BAHRI)
- Qatar  
Barwa Real Estate Co QSC  
Commercial Bank of Qatar  
Ooredoo  
Qatar Electricity and Water Co  
Qatar Insurance Co  
Qatar National Bank




- UAE  
Abu Dhabi Commercial Bank  
Abu Dhabi National Hotels Co  
Air Arabia  
Aldar Properties PJSC  
Arab National Bank  
Arabtec Holding Company
- Aramex  
Dubai Islamic Banking  
EMAAR Properties  
Emirates NBD  
Emirates Telecom  
First Gulf Bank  
National Bank of Abu Dhabi




## Periodic Reports

- Daily Morning Brief
- Daily Fixed Income
- Kuwait Daily
- Monthly Market Review
- International Market Update
- GCC M&A Report
- GCC Bonds and Sukuk Market
- GCC Corporate Earnings
- GCC WACC
- GCC Stock & Debt Market Outlook
- GCC Regulatory Digest

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