

June 2019

MARMORE
FIRST TAKE

MSCI upgrades Kuwait to Emerging Markets

A significant milestone for
Kuwait's Capital Markets



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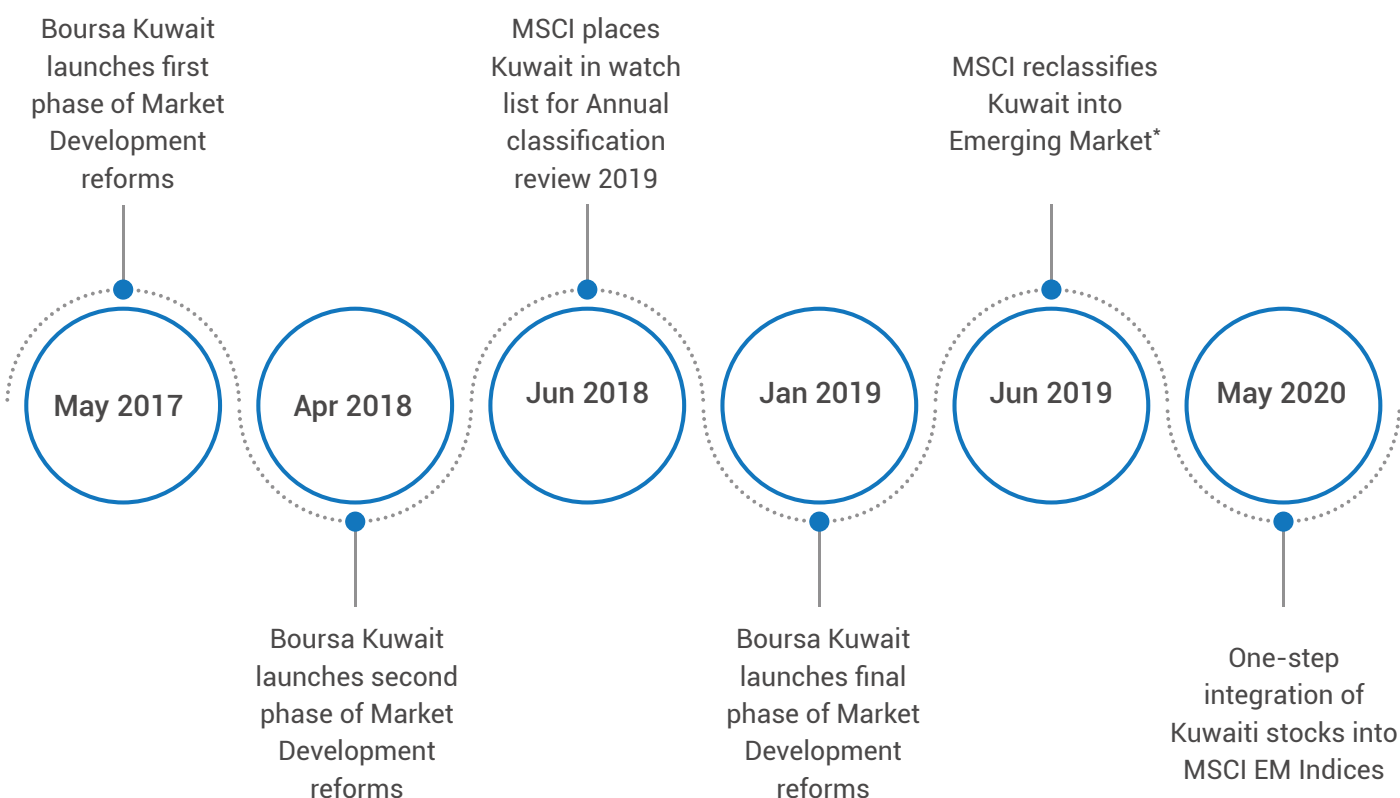
HIGHLIGHTS

- The Morgan Stanley Capital International (MSCI), a leading provider of global capital market indices, announced on June 25, 2019 that it would reclassify Kuwait as an emerging market, subject to availability of omnibus account structures and same National Investor Number (NIN) cross trades for international investors before the end of November 2019. MSCI is expected to convey its final decision on December 31, 2019. Kuwait now becomes the fourth GCC nation following the UAE, Qatar and Saudi Arabia to become part of the MSCI EM indices.
- Currently, only local licensed entities are allowed to trade using omnibus accounts and same NIN trading is available for only certain exempt 'non-discretionary' local accounts. An omnibus account allows for managed trades of more than one person, and allows for anonymity of the persons in the account. A broker who manages the Omnibus account would have the ability to execute trades on behalf of the holders of the account. The National Investor Number is a pre-requisite to trade in equity markets. Kuwait's Capital Market Authority has announced that they will both be made available to international institutional investors before November 2019.
- According to the MSCI, the reforms undertaken by the Kuwait's Capital Market Authority through the Market Development Project has brought about significant regulatory and operational enhancements in Kuwait's equity market, improving the accessibility of the market to foreign institutional investors.
- Key changes that helped Kuwait in securing an Emerging Market upgrade included the removal of foreign ownership restrictions on listed banks, modification of the settlement cycle to T+3 for foreign and local investors, a new delivery versus payment (DvP) settlement provision and a new failed-trade management process. In addition, further changes such as the instruction of a central clearing counterparty, stock lending, short selling and availability of stock swaps are also being worked upon for implementation.
- Upon the final confirmation of MSCI in December 2019, the integration of Kuwait into MSCI's emerging market indices is expected to take place in a one-step process, coinciding with the May 2020 Semi-Annual Index Review. Nine Kuwaiti stocks are expected to be included in this process, carrying a pro-forma weightage of 0.5% in the MSCI EM index. (see Figure 2)
- Kuwait's inclusion into some of the popular indices will be a major boost to the country's capital markets. The major implication for Kuwait's economy with regard to the index inclusions would be the inflow of funds from foreign investors. As the capital markets move towards matching international standards, the outlook of foreign investors towards the country could become more positive. This positivity would translate into greater fund flows into the market and the economy, which bodes well for its development. The move will also encourage domestic companies to come forward and list their companies in the stock exchange.

- Assets worth approximately 1.8 Trillion USD (KD 546 Billion) track the MSCI EM index, which would mean that Kuwait's would bring about sizeable passive fund inflows in addition to active inflows. Considering the pro-forma weightage of 0.5%, we estimate a fund flow of between USD 3.6-9 billion (KD 1.1-2.7 billion) from passive investors into the country. The head of Kuwait's stock exchange and NBK Capital expect passive inflows of around USD 2.8 billion due to the MSCI EM upgrade. The head of MENA investments in Franklin Templeton Emerging Markets Equity expects an investor flows of about USD 10 billion.

Appendix

Figure 1: Timeline of Key events for Kuwait's capital markets



Source: Boursa Kuwait, MSCI, FTSE, Capital Markets Authority of Kuwait; Note: * - Decision subject to omnibus account structures and same National Investor Number (NIN) cross trades being made available for international institutional investors before the end of November 2019. Final decision would be made in December 2019.

Figure 2: List of stocks expected to be included into MSCI EM index

Security Name	Industry Group	ADVT 6 Mo. (KD Mn)	Foreign Inclusion Factor	Company Full Mkt Cap (KD Mn)	FIF Mkt Cap (KD Mn)
National Bank Of Kuwait	Banks	4.86	0.50	6,302	3,151
Kuwait Finance House	Banks	4.50	0.55	4,932	2,713
Mobile Telecom Co	Telecom	2.00	0.50	2,298	1,149
Boubyan Bank	Banks	0.65	0.30	1,664	499
Agility	Transportation	1.11	0.55	1,349	742
Gulf Bank	Banks	3.86	0.50	936	468
Burgan Bank	Banks	0.92	0.30	919	276
Mabane Co Sakc	Real Estate	0.46	0.50	738	369
Boubyan Petrochemicals	Materials	0.25	0.75	479	359

Source: MSCI, Reuters, as of 26 June, 2019; Note: ADVT – Average Daily Value Traded, FIF – Foreign inclusion factor

Figure 3: MSCI Classification framework 2019

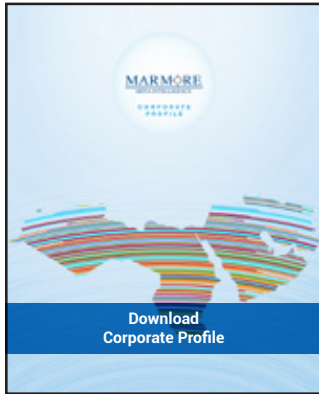
	Frontier	Emerging	Developed
Economic Development			
Sustainability of economic development	No requirement	No requirement	Country GNI per capita 25% above the World Bank high income threshold for 3 consecutive years
Size and Liquidity Requirements			
Number of companies meeting the following Standard Index criteria	2	3	5
Company size (full market cap)**	USD 776 mm	USD 1,551 mm	USD 3,102 mm
Security size (float market cap)**	USD 61 mm	USD 776 mm	USD 1,551 mm
Security liquidity	2.5% ATVR*	15% ATVR*	20% ATVR*
Market Accessibility Criteria			
Openness to foreign ownership	At least some	Significant	Very high
Ease of capital inflows / outflows	At least partial	Significant	Very high
Efficiency of operational framework	Modest	Good and tested	Very high
Competitive landscape	High	High	Unrestricted
Stability of the institutional framework	Modest	Modest	Very high

Source: MSCI; ATVR – Annualized Traded Value Ratio: AVTR methodology is used by MSCI to calculate liquidity;

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Marmore MENA Intelligence provides research-based consulting solutions to help understand current market conditions, identify growth opportunities, assess supply/demand dynamics, and make informed business decisions.

Marmore is a fully-owned research subsidiary of Kuwait Financial Center 'Markaz'. Since 2006, Markaz Research has been at the forefront in disseminating thought-provoking, hard-data backed research reports. Marmore continues that legacy with a focused approach to providing actionable solutions for business leaders and policymakers.

Since its inception, Marmore has published over 700 research reports and covered more than 25 varied industries and infrastructure segments; all focused primarily on the GCC economies. (To view our Research Library, please [click here](#))

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Marmore is the only regional firm providing niche research based on strong analytics in areas that are less researched. Marmore provides full range of financial market, sector specific and economic and policy researches, as well. The different types of researches are availed based on the client's requirements. It is notable that Marmore research reports have regularly been used by various renowned institutions to better understand the MENA region.

Marmore's strengths can be summarized as follows:

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- » Skilled team with extensive experience in advanced quantitative and qualitative analysis techniques;
- » Deep understanding of MENA market and access to wide-ranging database
- » Delivers high quality, client specific, insightful research reports; highlighting key client issues and uncovering key answers/opportunities for the clients.

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