



مجلس الأعمال السعودي الأمريكي
U.S.-Saudi Arabian Business Council

Saudi Arabia's Promotion to Emerging Market Indices February 2019

Saudi Arabia's opening of its stock market to foreign investors has yielded new injections of capital inflows into the regions largest stock exchange in terms of market capitalization and turnover. The addition of the MSCI Tadawul 30 Index (MT30) to the Tadawul is the first stock market investment exposure that has been made available to foreign investors. The MT30's performance signals that foreign investor appetite is advancing and anticipation of Saudi Arabia's inclusion into both MSCI Emerging Markets Index and the FTSE Russell Secondary Emerging Market in 2019 is increasing. Moreover, Saudi Arabia has built robust market reforms in order to meet the formal requirements to be included in emerging market indices. The reforms include the introduction of enhancements to the Independent Custody Model (ICM) and further opening of the Saudi Arabia capital market to Qualified Foreign Investors (QFI), which was initiated in 2015 and further enhanced in 2018.

According to MSCI, the MT30 is based on the MSCI Saudi Arabia IMI Index that represents the performance of large, mid and small-cap stocks of the Saudi Arabia equity market. The Index targets the top 30 securities of the MSCI Saudi Arabia IMI Index Based on free float market capitalization with capping criteria and is designed to be able to serve as the basis for financial products including derivatives and ETFs. Between 25 and 35 constituents are allowed and the maximum security weight is capped at 15 percent.

Foreign investors have been net buyers of Tadawul shares for eight straight weeks in 2019. During the last week, foreign investors purchased approximately \$118 million worth of Saudi shares. In terms of annual performance in 2018, the MT30 outperformed both the MSCI Saudi Arabia IMI and the Tadawul All Shares Index (TASI). Furthermore, the MT30's weighting heavily favors the financials and materials sectors, both of which have done relatively well compared to other sectors.



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The chart below reveals MT30’s performance compared to the MSCI Saudi Arabia IMI between May 2015 and January 2019:

CUMULATIVE INDEX PERFORMANCE - PRICE RETURNS (USD) (MAY 2015 – JAN 2019)



Source: MSCI

The annual performance of the MT30, MSCI Saudi Arabia IMI, and TASI from 2016 to 2018:

ANNUAL PERFORMANCE (%)

Year	MSCI Tadawul 30	MSCI Saudi Arabia IMI	TASI
2018	15.73%	12.41%	8.31%
2017	4.04%	2.54%	0.22%
2016	7.38%	8.53%	4.32%

Source: MSCI



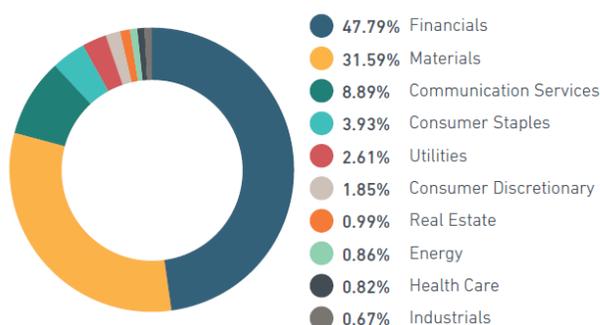
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As previously mentioned, the financials and materials sectors account for the largest shares of overall weighting. Financials account for 47.79 percent while materials account for 31.59 percent.

TOP 10 CONSTITUENTS (DECEMBER 31, 2018)

	Sector	Index Wt. (%)
AL RAJHI BANKING & INV	Financials	14.41%
SAUDI BASIC IND CORP	Materials	14.20%
NATIONAL COMM BANK	Financials	11.88%
SAUDI TELECOM CO	Communication Services	7.60%
SAMBA FINANCIAL GROUP	Financials	6.37%
RIYAD BANK	Financials	4.92%
SAUDI ARABIAN MINING CO	Materials	4.17%
ALINMA BANK	Financials	3.49%
SAUDI ARAB FERTILIZER	Materials	2.99%
YANBU NATL PETROCHEMICAL	Materials	2.97%
Total		73.01%

SECTOR WEIGHTS



Source: MSCI

Saudi Arabia's inclusion into the FTSE Russell Secondary Emerging Market index will provide additional investment options to foreign investors as soon as March 2019. According to FTSE Russell, Saudi Arabia will be the largest Middle East market in the FTSE Emerging Index with an overall weighting of approximately 2.7 percent. Within the FTSE Global All Cap Index, Saudi Arabia is projected to have an index weight of approximately 0.25 percent.

The introduction and implementation of Vision 2030 and the National Transformation Plan has ushered in new opportunities for foreigners to become active participants in the Saudi Arabian economy. After lower foreign direct investments inflows into the economy over the last couple of years, Saudi Arabia has benefited from improvements in oil prices, early economic reforms, and liberalization efforts and the resulting inclusion in emerging market indices. These developments bode well for Saudi Arabia as foreign direct investments more than doubled in 2018 to reach \$3.5 billion, according to the government.