

From: Paul Barrett <[REDACTED]>

To: jeffrey E. <jeevacation@gmail.com>

CC: Richard Kahn <[REDACTED]>

Subject: Saudi

Date: Mon, 23 Jul 2018 03:45:29 +0000

Inline-Images: image004.jpg; image007.jpg; image008.jpg

Jeffrey

Do you have any strong opinions on the Saudi stock market? Here is a summary of what changes are coming.

1. On June 20th, MSCI included the MSCI Saudi Arabia Index in the MSCI Emerging Markets Index, representing approximately 2.6% of the MSCI EM Index with 32 securities. The first inclusion will coincide with the May 2019 Semi-Annual Index Review and the second step in August 2019.
2. Foreign ownership of Saudi equities (as a proportion of total market cap) is extremely low, at just 1.9%. In contrast, other more mature EM markets such as South Africa and Russia have ~40% and ~45% foreign ownership respectively. The Saudi market's foreign participation level is also surpassed by Dubai (16%) and Qatar (19%) which were included in the indices in 2014.
3. Currently there is \$350bln of passive and \$1.3Trn of active money following MSCI EM Index products. Bank of America estimates the inclusion would ultimately result in ~\$20bln of inflows going into 32 securities with a combined current market cap of \$140Bln. This results in anywhere between 2 and 200 days of buying based on current liquidity of the underlying stocks (weighted average >60 days)
4. A Saudi Aramco IPO would result in a 4.5% weighting in the EM Index.
5. The chart below tells the story of just how under-owned Saudi currently is.
6. Index trading around 14.5x P/E (banks and petrochemicals account for around 70% of index)

One could buy the US listed ETF (which is up 24% YTD and 5% since the June inclusion) or ask DB if we can do a total return swap on the 32 names.

You know this place better than most. What do you think?



Paul Barrett

Alpha Group Capital LLC

142 W 57th Street, 11th Floor, New York, NY 10019

646-876-5277 (o) 646-342-6930 (c)

