



Pakistan Stock Exchange



MEEZAN PAKISTAN INDEX

MZNPI

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MEEZAN PAKISTAN INDEX (MZNPI)

The Islamic Index aims to track the performance of top 12 companies with highest average traded value and free float market capitalization of KMI30 index.

Universe: Constituents of KMI-30 Index (Please refer to the KMI 30 Criteria is available on the PSX Website).

https://www.psx.com.pk/psx/themes/psx/documents/BrochureKMI_Idx.pdf

1. FREE - FLOAT METHODOLOGY

Free-Float means proportion of total shares issued by a company that are readily available for trading at the Stock Exchange. It generally excludes the shares held by controlling directors / sponsors / promoters, government and other locked-in shares not available for trading in the normal course.

1.1 OBJECTIVE AND DESCRIPTION

- Free-Float calculation can be used to construct stock indices for better market representation than those constructed on the basis of total market capitalization of companies.
- It gives weight for constituent companies as per their actual liquidity in the market and is not unduly influenced by tightly held large-cap companies.
- Free-Float can be used by the Exchange for regulatory purposes such as risk management and market surveillance.

1.2 FREE-FLOAT CALCULATION METHODOLOGY

Total Outstanding Shares			xxx	
Less	Government Holdings	xxx		
	Shares held by Directors / Sponsors / Senior Management Officers and their Associates	xxx		
	Shares in Physical Form	xxx		
	Shares held by Associate Companies / Group Companies (Cross Holdings)	xxx		
	Shares issued under Employees Stock Option Scheme that cannot be sold in the Open market in normal course	xxx		
	Treasury Shares	xxx		
	Any other category that are barred from Selling at the review date	xxx	xxx	
	Free Float			xxx

2. ELIGIBILITY AND SELECTION OF CONSTITUENTS

- All Shariah Compliant stocks from KMI – 30 index are selected.
- Shortlist the companies that traded at least 98% of the trading days in the past 6 months.
- First, assign weights to securities based on 12 Month (70%), 6 Month (15%) and 3 Month (15%) Average Traded Value.
- Then, derive ranking by giving a weight of 60% to Average Traded Value and 40% to Free Float Market Capitalization.
- Choose the top 12 highest ranked securities for the index / basket

In case the number of stock having traded 98% of the time falls below 12, the criteria limit of 98% may be relaxed that is currently applicable for KMI 30 Index

Rebalancing

- Index Stock weights are based on Free Float Market Capitalization. These weights are capped and floored at 15% and 3.5%. In case of a breach of cap/floor, the excess weight will be distributed to/from the security to the basket.
- Sector weights are capped at 25%. In case of a breach of cap/floor, the excess weight will be distributed to/from the securities in that sector to the basket.

Free float shares shall be adjusted semiannually at the time of Index re-composition

3. BASE PERIOD

The base period of MZNPI is 1 September 2020 and the base value is 10,000 index points. This is indicated by the notation 2020 = 10,000. The calculation of MZNPI involves dividing the free-float market capitalization of 12 companies in the Index by a number called the Index Divisor. The Divisor is the only link to the original base period value of MZNPI. It will keep the Index comparable over a period of time and will also be the adjustment point for all future corporate actions, replacement of scrips etc.

4. MAINTENANCE OF MZNPI

The day-to-day maintenance of the Index will be carried out within the Index Policy Framework set by the Pakistan Stock Exchange (PSX) and Al Meezan Investment Limited. The Management of PSX will ensure that MZNPI and all the other PSX indices maintain their benchmark properties by striking a balance between frequent replacements in indices and maintaining their historical continuity.

5. RE-COMPOSITION/ REBALANCING

Index shall be recomposed on semi-annually basis

Review on Basis of	Notice	Implementation of MZNPI
KMI 30 re-composition due in June	Aftermarket hours, 1 working days before Index implementation date	10th working day after KMI re-composition of June is implemented
KMI 30 re-composition due in December		10th working day after KMI re-composition of December is implemented

6. ON -LINE COMPUTATION OF INDEX

During market hours, prices of the Index constituents at which trades are executed, are automatically used by the trading computer to calculate MZNPI and to continuously update on all trading workstations connected to the PSX trading computers on real time basis.

7. ADJUSTMENT IN MZNPI FOR CORPORATE ACTIONS

MZNPI shall be calculated on total return basis and corporate actions (cash dividend, bonus and Right issue) adjustments shall be made in order to maintain the index continuity. If no adjustments were made, a gap would arise between the current value of the index and its previous value despite the non-occurrence of any economic activity of substance. At the Exchange, the base value will be adjusted, which is used to alter market capitalization of the component stocks to arrive at the MZNPI value.

The determination of Ex price of a security is mentioned in Rule 10.6 of PSX Rule Book that: *“If the Books of a Security are closed for determining any entitlement for its shareholders by the Company, the Exchange shall determine the ex-price based on the mechanism prescribed by the Exchange, as an opening price for the Trading Day falling on two Settlement Day before its Books Closure starting date”*.

New Divisor shall be calculated due to corporate action at the end of T-3 days of its Book Closure starting date. E.g. Starting day of Book Closure = Friday, new divisor shall be calculated at day end of Tuesday.

The adjustment for corporate actions will be made as given under:

7.1 ADJUSTMENT FOR CASH DIVIDEND

MZNPI is a total return index; therefore, adjustment of cash dividend will be made.

If company declared a 10% cash dividend:

MZNPI = 1,120 points

MZNPI market capitalization = Rs. 13,950,000,000

Divisor = 12,455,357

Constituents	Share Price	Free Float Shares	Free Float Market Capitalization (RS)
Stock A	22.50	50,000,000	1,125,000,000
Stock B	41.00	150,000,000	6,150,000,000
Stock C	44.50	150,000,000	6,675,000,000
Total Free Float Market Capitalization			13,950,000,000

Step-1

Determine the ex-dividend price of the stock A to calculate the revised market capitalization and a new divisor for the next day

Stock A

Par value: Rs.10 per share

Closing Price: Rs. 22.50 per share

Cash Dividend 10 % of par value

i) Cash dividend amount per share = par value x dividend% = Rs 10 x 10% = Rs.1

ii) Ex-dividend price = closing price – cash dividend amount = Rs.22.50 – Rs.1 = Rs.21.50

Step-2

Illustration, Revision in the Market Capitalization and Divisor

Share price of stock A shall be adjusted after the close of day to calculate the New Divisor for the next day

Constituents	Share Price	Free Float Shares	Free Float Market Capitalization (Rs)
Stock A	21.50	50,000,000	1,075,000,000
Stock B	41.00	150,000,000	6,150,000,000
Stock C	44.50	150,000,000	6,675,000,000
Revised Free Float Market Capitalization			13,900,000,000

New Divisor = Revised Market Cap. / Index points
 $13,900,000,000 / 1120 = 12,410,714$

7.2 ADJUSTMENT FOR BONUS SHARES

Declaration of Bonus requires adjustment in the free float capitalization and within the Index Divisor itself. The following process illustrates the process for a situation whereby a stock A has declared 10% bonus in terms of shares. Following steps are recommended to be followed in order to determine the price of Ex-Bonus of Stock A to calculate the revised free-float market capitalizations and new divisor for the next day.

Step-1

MZNPI = 1,120 points

Free-float market capitalization = Rs. 13,950,000,000

Divisor = 12,455,357

Closing Price of Stock A: Rs. 22.50

Bonus: 10 %

Stock lot size= 100 Shares

Given below example, calculates the Ex-bonus price on the basis of a stock lot size of 100 shares by observing following steps.

- Total free-float shares after the Bonus issue: $100 + (100 \times 10\%) = 110$ shares
- Cost of stock-lot size 100 shares x closing price of stock A: $100 \times 22.50 = \text{Rs. } 2,250$

Ex-Bonus Price: $2250/110 = \text{RS } 20.45$

Step-2

Illustration, Revision in the Market Capitalization and Divisor

Share price and free-float shares of stock A shall be adjusted after the close of day to calculate the New Divisor for the next day

Stock A		
Free Float shares	Bonus	Total free float shares
50,000,000	10%	55,000,000

Constituents	Share Price	Free Float Shares	Free Float Market Capitalization
Stock A	20.45	55,000,000	1,124,750,000
Stock B	41.00	150,000,000	6,150,000,000
Stock C	44.50	150,000,000	6,675,000,000
Revised Free Float Market Capitalization			13,949,750,000

*New Divisor = Revised Market Cap. / Index points

$$13,949,750,000 / 1120 = 12,455,134$$

**Divisor changed as stock prices are reported in two decimal places*

7.3 ADJUSTMENT FOR RIGHT SHARES

Closing price of stock is adjusted with right issue (Face Value / Premium/ Discount) and free float of stock will be increased as per the Right Ratio.

Right issue at Par

If Stock A has issued 10 % right shares at par value

MZNPI = 1,120 Points

MZNPI Market Capitalization = Rs 13,950,000,000

Divisor = 12,455,357

Step:1

Determine the Ex-Right price of the stock A to calculate the revised free-float market capitalization and a new divisor

Closing price of Stock A: Rs 22.50

Right: 10 %

For simplicity in working, we will calculate the Ex-Right price on the basis of a lot of 100 shares.

i. Total free-float shares after the Right issue

$$100 \text{ shares} + (100 \text{ shares} \times 10 \% \text{ Right}) = 110 \text{ shares}$$

ii. Cost of a lot (100 shares)

100 shares x Closing price of stock A + 10 right shares x par value

= (100 x 22.50) + (10 x 10)

= Rs 2,350

iii. Ex- Right price per share = 2,350/110

= Rs 21.36

Step 2

Share price and free-float shares of Stock A shall be adjusted after the close of Day to calculate the New Divisor for the next day.

Stock A		
Free Float shares	Right Issue	Total Free Float shares
50,000,000	10%	55,000,000

Constituents	Share Price	Free Float Shares	Free Float Market Capitalization
Stock A	21.36	55,000,000	1,174,800,000
Stock B	41.00	150,000,000	6,150,000,000
Stock C	44.50	150,000,000	6,675,000,000
Revised Free Float Market Capitalization			13,999,800,000

New Divisor = Revised Market Cap/ Index points

New Divisor = 13,999,800,000/1,120= 12,499,821

7.4 BONUS AND RIGHT ISSUE ADJUSTMENT (SIMULTANEOUSLY)

If Stock A has announced;

Bonus: 10%

Right: 10%

At a Premium of Rs 10 per share

Closing price: Rs 22.5

MZNPI = 1120 points

MZNPI Market Capitalization = 13,950,000,000

Divisor = 12,454,357

Step 1

Calculate the Ex-Bonus and Ex- Right price of the stock A:

For simplicity we will calculate its price on the basis of a lot of 100 shares.

I. Total shares after the Right issue and Bonus

100 shares + (100 shares x 10 % Right) + (100 shares x 10% Bonus)

100+ 10 +10 = 120 shares

II. Cost of a lot (100 shares)

100 shares x closing price of stock A + {10 right shares x (par value + premium)}

= 100 x 22.50+ 10 x (10+10) = Rs 2,450

III. Ex-Bonus and Ex- Right price per share = 2,450/120 = Rs 20.42

Step 2

Share price and free-float shares of stock A shall be adjusted after the close of Day to calculate the New Divisor for the next day

Stock A			
Free Float shares	Right Issue	Bonus	Total Free Float shares
50,000,000	10%	10%	60,000,000

Constituents	Share Price	Free Float Shares	Free Float Market Capitalization
Stock A	20.42	60,000,000	1,225,200,000
Stock B	41.00	150,000,000	6,150,000,000
Stock C	44.50	150,000,000	6,675,000,000
Revised Free Float Market Capitalization			14,050,200,000

New Divisor = Revised Market Cap/ Index points

New Divisor = 14,050,200,000/ 1,120 = 12,544,821