

# Pakistan Stock Exchange

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## **PSX DIVIDEND 20 INDEX**

*PSXDIV20*

INDEX BROCHURE

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## PSX DIVIDEND 20 INDEX (PSXDIV20)

The Index is designed to track the performance of top 20 dividend-paying companies at PSX. The companies are ranked and weighted based on trailing 12-month dividend yield and have a dividend distribution history. It can be used as a benchmark Index for the income-seeking equity investors.

### 1. INDEX METHODOLOGY

#### 1.1 Constituents Selection

**Universe:** The stocks must be listed on Pakistan Stock Exchange (excluding Open-End Funds, Exchange Traded Funds, and Closed-End Funds)

To be eligible for inclusion in the Index, the stocks should pass through the following two screenings:

##### a. Technical Screening

1. The stock must have a minimum listing history of three years
2. The stock must not have been declared Non-Tradable in the last 6 months
3. The stock must not have been in defaulters' segment in the last 6 months
4. The stock must have traded at least 90% of the total trading days in the last 6 months
5. The stock must have minimum free-float shares of 5%

Stocks meeting the above-mentioned criteria (1 – 5), shall be ranked based on traded-value (6 months Period from the last re-composition of the Index) and top 100 stocks are selected for Dividend Payout screening.

##### b. Dividend Payout Screening

1. The stock should have paid cash dividend:
  - a) *in the recent financial year<sup>1</sup>*
  - b) *in at least one of the two financial years prior to the recent financial year*
2. The stock should have a minimum 5% Dividend Payout Ratio (Dividend per share / Earning Per Share<sup>2</sup>):
  - a) *in the recent financial year*
  - b) *in at least one of the two financial years prior to the recent financial year*
3. The stock should have a minimum 10% ratio of Dividend Per Share to Face Value Per Share (DPS/FVPS):
  - a) *in the recent financial year*
  - b) *in at least one of the two financial years prior to the recent financial year*

#### 1.2 Constituents Ranking

The top 20 stocks from the universe meeting the above-mentioned technical and dividend payout criteria (section 1.1), shall be ranked from highest to lowest based on trailing 12-month dividend yield.

The 12-months period for the purpose of determining the trailing dividend yield will be taken from the re-composition date.

In a case where screening results in fewer than 20 constituents, then the traded-value criteria, as provided in section 1.1 a. 6. (above) shall be relaxed until the number of constituents reaches 20, keeping all other factors constant.

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<sup>1</sup> *If a company does not make its annual accounts published, it will be considered as a non-dividend paying company for that particular financial year.*

<sup>2</sup> *Basic Earnings Per Share*

### 1.3 Constituents Weight

The constituents of the Index are weighted based on the trailing 12-months dividend yield. However, the weight of each constituent shall not be more than 12%.

In case weight of any constituent is more than 12%, then the excess weight of such constituent shall be proportionately re-distributed among the remaining constituents.

### 2. BASE PERIOD

The base date of the Index is October 29, 2020 with the base value is 10,000 index points.

### 3. MAINTENANCE OF THE INDEX

The day-to-day maintenance of the Index involves:

- a. Adjustment of corporate action events in the underlying stocks
- b. Semi-annual re-composition and re-balancing.

### 4. RE-COMPOSITION/ RE-BALANCING PERIOD

The Index shall be re-composed/re-balanced on a semi-annually basis e.g., for the re-balancing scheduled in 2022, following parameters shall be considered:

Re-composition/Re-balance Date	Notice	Implementation
Last working day of Apr-22	5 working days before the Index implementation	First working day of Jun-22
Last working day of Oct-22		First working day of Dec-22

### 5. LIVE COMPUTATION OF THE INDEX

During market hours, prices of the Index constituent stocks at which trades are executed, are automatically used by the trading system to calculate the Index points and continuously disseminate on all trading workstations connected to the PSX trading system on a real-time basis.

### 6. ADJUSTMENT IN THE INDEX FOR CORPORATE ACTIONS

PSXDIV20 Index shall be calculated on Total Return basis and therefore will need to be adjusted for corporate actions (Dividend, Bonus, Right or any combination etc) in order to maintain the Index continuity and comparability.

As required in Rule 10.6 of PSX Rule Book, PSX determines the ex-price in case of corporate action announcement based on the mechanism prescribed by PSX. In order to maintain the continuity of the Index performance, the Index Divisor shall be adjusted due to the corporate actions at the close of T-3 day of its Book Closure starting date. For example, starting day of Book Closure = Friday, new divisor shall be calculated at close of Tuesday.

The adjustment for corporate actions will be made as per the following methodology:

#### 6.1 ADJUSTMENT IN INDEX DIVISOR FOR CASH DIVIDEND

PSXDIV20 Index is a total-return Index; therefore, adjustment for cash dividend shall be made.

Case: If a stock declares a 10% cash dividend while the pre-adjusted closing parameters are as follows:

Index points = 1,120

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

Index Divisor = 12,455,357

Constituents	Share Price	No. of Shares	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
<b>Total Market Capitalization</b>			<b>13,950,000,000</b>

### Step-1

Determine the ex-dividend price of 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 the day to calculate the New Divisor for the next day

Constituents	Share Price	No. of Shares	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
<b>Revised Free Float Market Capitalization</b>			<b>13,900,000,000</b>

New Divisor = Revised Market Cap. / Index points  
 $13,900,000,000 / 1,120 = 12,410,714$

## **6.2 ADJUSTMENT FOR BONUS SHARES**

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

### Step-1

Index Points = 1,120  
Index market capitalization = Rs. 13,950,000,000  
Index Divisor = 12,455,357

Closing Price of Stock A: Rs. 22.50

Bonus: 10 %

For simplicity assume that the lot size= 100 Shares

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

- Total No. of 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:  $2,250/110 = \text{RS } 20.45$

### Step-2

#### Illustration, Revision in the Market Capitalization and Divisor

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

Stock A		
No. of shares	Bonus	Total no. of shares
50,000,000	10%	55,000,000

Constituents	Share Price	No. of Shares	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
<b>Revised Market Capitalization</b>			<b>13,949,750,000</b>

\*New Divisor = Revised Market Cap. / Index points

$13,949,750,000 / 1,120 = 12,455,134$

*\*The change in divisor before and after adjustment is due to decimals*

## 6.3 ADJUSTMENT FOR RIGHT SHARES

Closing price of stock is adjusted with Right issue (Face Value / Premium/ Discount) and number of shares will be increased accordingly. Just for understanding, hereunder is the continued case re-calculated due to Right @ Par issue.

Index Points	= 1,120
Index Market Capitalization	= Rs 13,950,000,000
Index Divisor	= 12,455,357

If Stock A has issued 10 % Right shares at par value:

**Step:1**

Determine the Ex-Right price of stock A to calculate the revised 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 based on a lot of 100 shares.

i. Total no of 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)

$$100 \text{ shares} \times \text{closing price of stock A} + 10 \text{ Right shares} \times \text{par value}$$

$$= (100 \times 22.50) + (10 \times 10)$$

$$= \text{Rs } 2,350$$

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

$$= \text{Rs } 21.36$$

**Step 2**

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

Stock A			
Shares	Right Issue	Total no. of shares	
50,000,000	10%	55,000,000	
Constituents	Share Price	No. of Shares	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
<b>Revised Market Capitalization</b>			<b>13,999,800,000</b>

New Divisor = Revised Market Cap/ Index points

$$\text{New Divisor} = 13,999,800,000/1,120 = 12,499,821$$

The policy of ready stock price adjustment in case of Dividend, Bonus, Right or combinations is available on the PSX website for your reference.

<https://www.psx.com.pk/psx/themes/psx/uploads/priceCalMethod.pdf>

## 7. DISCLAIMER

The performance of PSXDIV20, as computed and determined by PSX, is for informational purposes only, without any express or implied warranty of any kind, including the warranty of accuracy, completeness, or fitness for any particular purpose. The information related to this Index contained in or provided through the PSX websites or digital media platforms, is not intended to be and does not constitute financial, investment or trading advice. You should not make any decision, either financial or investment based on any of the information presented on the PSX websites/digital media platforms, related to PSXDIV20 without undertaking independent due diligence or consultation with a professional broker or consultant.

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