# Pakistan Stock Exchange

# UBL PAKISTAN ENTERPRISE INDEX

## UPP9 INDEX (VERSION.1)

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## UBL PAKISTAN ENTERPRISE INDEX (UPP9 INDEX)

The Index aims to track the performance of top 9 companies from KSE-100 index (excluding Oil and Gas Sector) based on the highest free float market capitalization and traded Value.

**Universe:** Constituents of KSE-100 Index excluding Oil and Gas sector companies (Please refer to the KSE – 100 index criteria available on PSX Website for further information)**.**

https://www.psx.com.pk/psx/themes/psx/documents/BrochureKSE100_Idx.pdf

*Oil and Gas sector includes: Oil & Gas Exploration Companies, Oil & Gas marketing Companies and Refineries*

## 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 OF UPP9 INDEX

### 2.1 ELIGIBILITY CRITERIA

- Top 25 companies with highest free float market capitalization of KSE-100 Index excluding Oil and Gas sector companies shall be selected.
- Top 25 companies of KSE-100 Index by traded value excluding Oil and Gas sector companies shall be selected

Traded value of stocks calculated on the basis of 70% weight assigned to current year and 30% weight given to preceding year.

### 2.2 SELECTION OF CONSTITUENTS

The stocks which are same in top 25 companies of highest free float market capitalization and top 25 companies of traded value shall be selected if these stocks are more than 9 stocks, then top 9 stocks shall be selected on the basis of highest free float market capitalization. If stocks are less than 9 stocks, then criteria of free float market capitalization and traded value shall be extended to beyond 25 stocks till the UPP9 Index has a minimum of 9 stocks.

## 3. BASE PERIOD

The base period of UPP9 Index is 17 March 2020 and the base value is 10,000 index points. The calculation of UPP9 Index involves dividing the free-float market capitalization of 9 companies in the Index by a number called the Index Divisor. The Divisor is the only link to the original base period value of the UPP9 Index. 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 UPP9 INDEX

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 UBL Fund Manager Limited. The Management of PSX will ensure that UPP9 Index maintains its benchmark properties by striking a balance between frequent replacements in index and maintaining its historical continuity.

## 5. RE-COMPOSITION/ REBALANCING

Index shall be recomposed/rebalanced on semi-annually/quarterly basis and Index constituents weight shall be subjected to cap and floor of 16% and 3.5% respectively.

i)     In case weight for a security is less than 3.5% in the original distribution, then the weight from those stocks which are beyond 16% would be allocated to increasing the weight to 3.5%.

ii)    Incase weight of stock does not suffice or initial weight of no stock is greater than 16%, weights from those barring the ones falling below 3.5% would be proportionately distributed to ones falling below 3.5%, until a minimum weight of 3.5% is achieved.

iii)   Even if after redistribution of weight to those falling below the minimum threshold, the weight of a certain stock remains higher than 16%, than the weight would be distributed proportionally to the allocation to the remaining stocks.

| Basis | Notice/Implementation | Actions |
|---|---|---|
| Last working day of April | **Notice:** After the market hour on first trading day | Re-composition/Rebalancing |
| Last working day of July | | Rebalancing |
| Last working day of October | **Implementation:** At opening of second trading day | Re-composition/Rebalancing |
| Last working day of January | | Rebalancing |

*Index composition may be provided to Index licensee (UBL Fund Managers) a working day before from implementation of index re-composition.*

## 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 the UPP9 Index and continuously make updations on all trading workstations connected to the PSX trading computers on real time basis.

## 7. ADJUSTMENT IN THE UPP9 INDEX FOR CORPORATE ACTIONS

UPP9 Index 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 discontinuity 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 UPP9 Index 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

UPP9 Index is a total return index; therefore, adjustment of cash dividend will be made.

If company declared a 10% cash dividend:

UPP9 Index = 11,200 points

UPP9 Index market capitalization = Rs. 13,950,000,000

Divisor = 1,245,536

| 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 / 11,200 = 1,241,071

## 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**

UPP9 Index = 11,200 points

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

Divisor = 1,245,536

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 X 10 %) = 110 shares

- Cost of stock-lot size 100 shares x closing price of stock A: 100 x 22.50= Rs. 2,250

  Ex-Bonus Price: 2,250/110 = 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 / 11,200 = 1,245,513

*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

UPP9 Index = 11,200 Points

UPP9 Index Market Capitalization = Rs 13,950,000,000

Divisor = 1,245,536

**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 shares + (100 shares x 10 % Right) = 110 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 = 13,999,800,000/11,200= 1,249,982

## 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

UPP9 Index = 11,200 points

UPP9 Index Market Capitalization = 13,950,000,000

Divisor = 1,245,536

### *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/ 11,200    = 1,254,482