



Transneft's free-float increased: when the new indicator be reflected in the index review?

The Moscow Stock Exchange has upgraded the free float factor of Transneft preferred shares to 37%. This decision was made on April 16, 2020 following the Moscow Exchange Index Committee meeting.

The new indicator will be reflected in the Moex indices beginning from June 20, 2020. This move will support the company's shares.

HOW SOON THE NEW INDICATOR WILL BE REFLECTED IN MSCI RUSSIA?

MSCI Russian review will take place from April 17 to April 30. The number of Transneft preferred shares in free circulation used to calculate the index is 466462.5 (shares FIF Adjusted), or 30%.

Transneft weight in MSCI Russia is 0.54%.

Key points

- **will MSCI be ready to rely on Moex free-float upgrade** to change the index calculation parameters. Unfortunately, the Moex statement provides no details as to the way by which Transneft's free-float was increased.
- **how fast MSCI may process the changes and add new data** to its calculations. The next index review will take place in August.

Transneft shares now trade at 140,000 roubles. We view the following scenarios as the most likely:

- **1 Scenario:** if the free-float indicator remains 30%, then Transneft price will have to rise to more than 175,000 roubles per share; obviously, if it's not the case, there are high risks of excluding the stock from MSCI Russia.
- **2 Scenario:** if the free-float indicator rises to 37%, the current price level will be enough for the stock to stay in the index.

MSCI rounds up weight figures to the closest 5. Free-float capitalization - a condition of entering the index.

HIGHER FREE FLOAT - LOWER THE PRICE

Free-float	Required price, RUB per share	Upside (%)
30%	175 963	25.7%
35%	150 838	7.7%
37%	142 663	1.9%
40%	131 995	-5.7%

Source: ITI Capital

MSCI has traditionally been sticking to a conservative approach, which poses risks to Transneft shares. MSCI estimate of the number of Transneft preferred shares in free circulation may not coincide with that of the Moex or the adjustment process may take longer. Under this scenario Transneft shares may be excluded from MSCI Russia if the stock price doesn't rise.

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