

Recalculating the closing prices had no impact on Tadawul

By Itqan Capital

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Tadawul All-Share Index (TASI) shut Sunday's session on a down note. It lost 0.88%, or 83.62 points to reach 9424.95 points, compared with 9508.57 points on Thursday. The Saudi Market tracked a decline in global markets last week. Over the weekend, the Dow Jones Industrial Average Index lost more than 400 points (or 2.5%). US stocks dropped as investors grew anxious that corporate earnings growth is faltering. Weaker results at JPMorgan Chase dragged bank stocks lower. More declines in high-growth Internet and biotechnology stocks pushed the Nasdaq composite down for the third week in a row.

In addition to tracking the declining global markets, Al Rajhi Bank, the worst performer on Saudi benchmark's bank index this year, plunged the most in 10 months as first-quarter profit trailed analysts' estimates. The stock whose weight on Tadawul is almost 6 percent dropped as much as 3.25 per cent. Al Rajhi, the Kingdom's biggest listed lender, reported a first-quarter profit of SR 1.71 billion riyals (\$456 million) compared to SR 2.05 billion riyals same period last year due to increasing expenses and cost to income ratio. The reported figures missed the average analysts' estimates of SR 2.08 billion riyals, according to Bloomberg. Al Rajhi has reported three consecutive quarters of lower profit growth.

Earlier in the day, the Saudi Stock Exchange announced that it started applying the Volume Weighted Average Price (VWAP) mechanism to calculate the closing price. The closing price of a stock had been the price of the last trade with a value exceeding SAR15,000. Starting from yesterday, the closing price will be the average of all trades in the final 15 minutes, weighted by the volume traded at each price. The new calculation methodology will make it harder for institutional investors and fund managers to manipulate the closing price and achieve a more favorable closing price. Some analysts blamed the change in the index calculation methodology as the main reason behind the decline but our statistical research – at Itqan Capital – showed that the change had insignificant impact on the index. Out of the 83 points drop, only 4 points could be attributed to the change in the methodology while the remaining 79 points were due to the aforementioned market and economic reasons.