

# KazAtomProm: Uranium sales exceed expectations

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2018 operating results of KazAtomProm indicate a decrease in the level of production (attributable) by 5% yoy, which was expected. At the end of 2018, the volume of production, in which the KAP has a share, in proportion to the size of the equity participation, and does not include the rest, related to JV partners or third parties, amounted to 11.5ths tons of uranium. At the same time, uranium sales increased by 64% compared with the level of 2017, exceeding the production volume by 45% and reaching 16.6ths tons.

In general, the total uranium production in Kazakhstan decreased by 7% to 21.7ths tons, reflecting the planned reduction, the decision on which was made in early 2017.

The average selling price showed an increase of 2% yoy to \$24.56/lb, while spot prices at the end of 2018 increased by 13% relative to the price at the end of 2017 to \$24.59/lb.

In 2019, KAP expects a proportional share of uranium mining in the range of 13.0ths -13.5ths tons of U3O8, which takes into account the planned reductions in the period 2018-2020. In accordance with the existing subsurface use contracts, it is expected that this year mining will be about 22.7 - 22.8 tons of uranium (on a 100% basis).

Sales in 2019 are planned at the level of 13.5-14.5 tons, which exceeds the planned production levels. The company plans to provide the missing volumes at the expense of its subsidiaries and JV. In addition, KAP expects to maintain an inventory level of approximately six months of annual attributable production at the 2019 year-end.

Financial results will be available on March 6th.

## **Our view**

According to the company's plans in 2018, uranium production of 11.7ths tons was expected, which is slightly higher (2%) than the actual level of production. At the same time, the sales volume exceeded the Company's planned level by 4%, which is more indicative of revenue, taking into account the additional positive due to stronger uranium prices during 2018 relative to 2017.

The expected level of sales in the current year also corresponds to the previously announced plans of the company, which we took as a basis for modeling. We note a good potential for increasing the level of sales despite the decline in production and we expect the production volumes to correspond to sales volumes only after 2021.

KAP's operating results are moderately positive due to a slight excess of our expectations for sales in 2018 and the comparability of our forecasts and the Company plans for 2019. We maintain our Buy recommendation for KAP shares with 12M TP \$16.5/share.

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