

Kazakhtelekom: 1H2019 results

Altynay Ibraimova — August 27, 2019

According to the results of 1H2019, there is an increase in revenue by 74% yoy to 178bn tenge. The main growth effect was provided by the provision of mobile communication services in the amount of 72bn tenge.

Recall that these results consolidate the results of the recently acquired Kcell. In addition, revenues from fixed telephony increased by 4% yoy to 107bn tenge.

The cost of sales rose 1.9 times, recovering mainly from an increase in staff costs (+ 30% yoy) and a twofold increase in depreciation and amortization.

Gross profit margin was 27.4% versus 34.2% in 1H2018.

Operating profit increased by 56% yoy to 32.6bn tenge.

Financing expenses increased 6.5 times (to 16bn tenge) due to an increase in interest expenses on loans by 12 times and the occurrence of rental expenses in the amount of 3.2bn tenge.

The Group's share in the joint venture's profit increased 2.6 times to KZT5.95bn.

Net profit for 1H2019 amounted to 36.8bn tenge, increasing by 85% yoy.

Our view

We note that Kazakhtelecom's results are slightly behind our expectations due to both a slower growth in mobile phone revenues and a smaller increase in expenses due to consolidation. Gross margin for 1H2019 is at the level of 27% compared with our expected level of 30% for the whole of 2019. At the same time, due to a one-time revaluation income of 17bn tenge and a profit by share in the joint venture of 6bn tenge, we observe a faster increase in net profit compared to our forecast and we expect that the company will reach our target profit levels by the end of the year. We maintain our Buy recommendation on Kazakhtelecom.

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