

Kazakhtelecom received funds to finance purchase of 49% of JV Tele2-Altel. Favorable moment to buy stocks

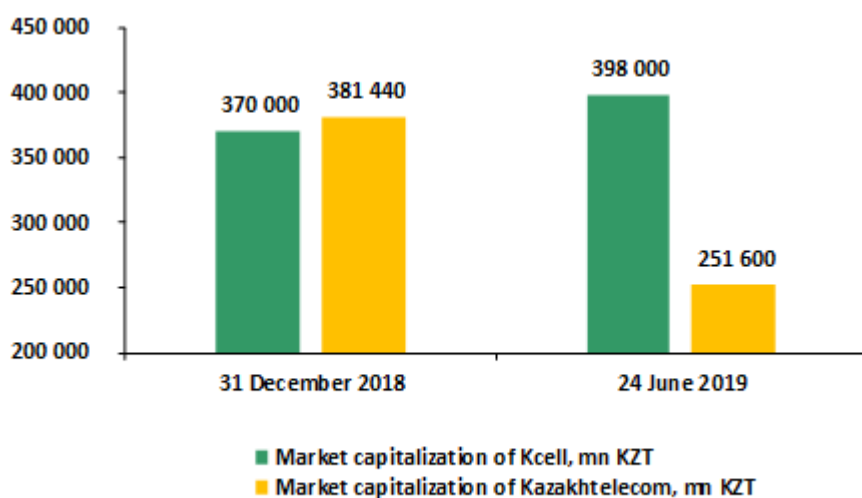
Halyk Finance Research — June 25, 2019

On June 19, 2019 Kazakhtelecom placed bonds on KASE in the amount of KZT80 bn (with maturity - 7 years, coupon rate - 11.5%). According to our expectations, these funds, together with the funds available on the company's balance sheet, would be used to acquire 49% stake in Khan Tengri Holding B.V (JV Tele2-Altel). To remind, after acquiring a 75% stake in Kcell at the end of last year, on May 23, 2019, Kazakhtelecom signed an agreement with Tele2, according to which the former acquires JVTele2-Altel from the latter. According to the Tele2 press release, also published on May 23, 2019, the cost of the 49% stake in the JV Tele2-Altel was estimated at \$267.13 mn (about KZT101.3 bn). In addition, the press release also states that the parties have agreed to repay the shareholder loan in the amount of KZT80 bn. Thus, to finance the above transaction (purchase of shares and repayment of the loan) Kazakhtelecom required funds in the amount of approximately KZT181.5 bn. On May 22, 2019, Kazakhtelecom entered into an agreement to open a credit line with the Halyk Bank of Kazakhstan, under which Kazakhtelecom received a loan in the amount of KZT80.8 bn to refinance a shareholder loan. As the result, taking into account the amount of cash available on the balance sheet (as of 01.04.2019, the amount of cash on the Company's balance sheet amounted to KZT47 bn), the funds raised as a result of issuance of bonds (KZT80 bn) as well as the loan received (KZT80.8 bn), Kazakhtelecom provided itself with sufficient funds to complete the above transaction.

Our opinion:

This placement of bonds is the final step in the process of organizing financing of large-scale transformations of the operator and eliminates uncertainty regarding the sources of funding for the acquisition of a stake in the JV Tele2-Altel. We expect a positive impact on the value of Kazakhtelecom's shares, which have declined significantly over the past few months, including the need to attract significant amounts of funding.

We also note that as the result of a decline in the market value of Kazakhtelecom's shares (-28% since the beginning of the year) and an increase in the value of Kcell's shares (+ 8.5% since the beginning of the year), currently Kcell's market capitalization (KZT398bn) significantly exceeds the market capitalization of Kazakhtelecom (KZT251.6 bn).



Source: Bloomberg

Currently, the market value of 75% of Kazakhtelecom's share in Kcell is KZT298 500mn, which is higher than the entire

market value of Kazakhtelecom's share capital. At the same time, Kazakhtelecom acquired Kcell's shares at a price of about 1 100 KZT per share (the total cost of a 75% stake was 165 bn KZT), and the current market value of Kcell's shares is KZT1 990 (KZT298.5 bn). The difference between the acquisition cost and the current value is KZT133.5 bn.

In addition, Kazakhtelecom fully consolidates the JV Tele2-Altel, which costs KZT209 bn, and has its own business with a virtually monopolistic position in the fixed-line market.

We believe that the current decline in the market value of Kazakhtelecom's shares provides a good opportunity to buy shares of the Company. We note that the Company is demonstrating an improvement in fundamental indicators due to the consolidation of the JV Tele2-Altel, as well as through the acquisition of Kcell. We expect significant operational synergies when combining two mobile operators, development of the Company in new business areas and implementation of large-scale projects related to the deployment of 5G networks. We maintain our recommendation **to Buy** Kazakhtelecom's shares with **12M TP 30 130 KZT/share**.

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