

Kazatomprom in 1H2019 met expectations

Altynay Ibraimova — August 28, 2019

Kazatomprom's financial results show revenue growth of 22% in 1H2019, mainly reflecting the rise of uranium spot prices.

Revenues from the sale of 5.4ths tons of U3O8 (-3% yoy) at an average price of \$26.99/lbs (+ 14% yoy) amounted to 176.6bn tenge. In the reporting period, the uranium market developed a favorable environment and spot prices rose by an average of 19% yoy. In addition, the weakening of the tenge against the US dollar by 16% yoy during 1H2019 also favored exporter sales.

The increase in cost of sales within 15% to 130bn tenge was facilitated by an increase in raw material costs (+ 13% yoy) despite lowering of prices for sulfuric acid, and an increase in depreciation costs (+ 43% yoy) due to recognition of acquired assets at fair value. The main reason for these changes is due to an increase in the group's share in subsidiaries Baiken-U LLP, Kyzylkum LLP and Khorasan-U LLP. At the same time, due to the weakening of the tenge and overall measures to optimize expenses, the unit cash cost (in proportion to the share) on the contrary significantly decreased to \$9.86/lbs (-19% yoy). The indicator "Cash cost + capital expenditures" amounted to \$ 13.27/lbs (-18% yoy).

Operating profit increased by 69% and amounted to 27bn tenge.

Adjusted net profit excluding non-recurring income last year amounted to 32bn tenge, which is 151% more than in 1H2018. If in 1H2018 the company as a result of changes in the structure of assets received an income of 308bn tenge, then in 1H2019 the result of acquisitions decreased to 71bn tenge (-77% yoy). Given these one-time incomes as part of a change in the structure of assets in the past year, the company's net profit is lower than in 1H2018 by 66% (104bn tenge).

Our opinion

We assess the financial results of Kazatomprom as neutral. On the positive side, we note the continued low unit cost of production, the advantage of which remains significant in conditions of low uranium prices. We also observe good support from the weak tenge - the "currency" nature of revenue at the current tenge rate is a strong driver of increasing cash flows, given that the company's forecasts were based on the rate of 370 tenge. We maintain our 12M TP at \$16.55/share and confirm our Buy recommendation on KAP.

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