Kazatomprom’s financial results for 2018

Altynay Ibraimova — March 11, 2019

Following the 2018 results, KAP reported on revenue growth by 58% yoy to 437bn tenge, which was a result of uranium sales growth by 65% yoy to 16.6ths tons and sales price increases in currency by 1% and in tenge by 7% yoy. The average selling price in 2018 was T21 930/kg ($24.46/lb), showing an increase of 8% yoy.

The cost increased by 49% to 314bn tenge, which was mainly due to the increase in costs for raw materials (+ 41% yoy). At the same time, due to the weakening of the tenge, the specific cash cost (in terms of the share of participation) narrowed from $12.02/lb to $11.56/lb (-4% yoy). Including capital expenditures, cash costs decreased by 6% yoy to $16.09/lb.

In addition, in the reporting period in comparison with previous years, the company reflected changes in the structure of assets that had a one-time impact on the indicators. The share of participation in Inkai increased from 40% to 60%, in Khorasan-U from 34% to 50%, in Baiken-U from 5% to 52.5% and in Kyzylkum from 30% to 50%, and in Akbastau projects and Karatau have changed the conditions for transactions with Uranium One. According to the calculations of the Company the impact of these changes on net income is positive and amounts to 315bn tenge.

General and administrative expenses increased by 15% due to an increase in employee wages (+ 8% yoy) and expenses for consulting and information services (+ 42% yoy).

A significant increase was observed in sales costs by 144% yoy to 10.5bn tenge due to increased costs for loading, transporting and storing, which was caused by an increase in sales of uranium products and a change in the structure of assets.

Nevertheless, thanks to higher sales volumes and sales prices, as well as due to the strengthening of the dollar, operating profit amounted to 77.5bn tenge, exceeding the 2017 indicator by 138%.

Adjusted EBITDA (attributable) rose by 9% to 140bn tenge.

Net income as a result of simultaneous changes, including consolidation of the value of investments and the implementation of the put option in 2017, amounted to 66.8bn tenge, which corresponds to an increase of 11% yoy.

Our view

The company's revenue is above our expectations by 0.4%. The cash cost corresponds to the levels declared by the company, while high sales of uranium contributed to a more accelerated increase in total cost than our expectations. This effect also applies to the costs of implementation, which greatly exceeded our forecasts. Noting the main reason for the high costs of increased sales, we estimate the change in the cash cost as neutral.

Free cash flow (FCF), defined according to the KAP dividend policy as cash flow from operating activities (CFO) minus acquisitions of fixed assets, intangible assets and mining assets, and exploration and evaluation assets plus dividends from associates and joint ventures by our calculation is about 12.8bn tenge.

Net debt to adjusted EBITDA for 2018 is estimated by the company at 0.54, an indicator where, according to the KAP dividend policy, the amount of dividends declared must be at least 75% of FCF, which according to actual data corresponds to about 9.6bn tenge or 37 tenge/share in as a dividend - we estimate the low probable payment of such a dividend. KAP is committed to the previous payment plans of at least $200mn as a dividend, which at the end of 2018 at T344.84/$ corresponds to about T266/share, and, according to our estimates, is a more optimal level. Dividend decisions will be announced in May and paid within 90 days.

Noting the need to update the calculations based on annual results, we put our recommendation on KAP shares under review.

Research	**Department**	**Telephone**	**E-mail**
Stanislav Chuyev	Head		s.chuyev@halykfinance.kz
Assan Kurmanbekov	Macroeconomics		a.kurmanbekov@halykfinance.kz
Dmitriy Sheikin	Macroeconomics		d.sheikin@halykfinance.kz
Zhansaya Kantayeva	Fixed income		zh.kantayeva@halykfinance.kz
Madina Meterkulova	Equity		m.meterkulova@halykfinance.kz
Vladislav Benberin	Equity		v.benberin@halykfinance.kz

Sales	**Department**	**Telephone**	**E-mail**
Mariya Pan	Head		m.pan@halykfinance.kz
Aizhan Moldakhmetova	Institutional		a.moldakhmetova@halykfinance.kz
Asel Baizhanova	Institutional		a.baizhanova@halykfinance.kz
Zhanna Nuralina	Retail		zh.nuralina@halykfinance.kz
Shynar Zhakanova	Retail		sh.zhakanova@halykfinance.kz
Aliya Abdumazhitova	Retail		a.abdumazhitova@halykfinance.kz
Alya Mukhametzhanova	Retail		a.mukhametzhanova@halykfinance.kz

Halyk Finance
Abay av. 109 «B», 5th fl.
Almaty, Kazakhstan, A05A1B4
Tel: +7 727 331 59 77
www.halykfinance.kz

Bloomberg
HLFN
Thomson Reuters
Halyk Finance
Factset
Halyk Finance
Capital IQ
Halyk Finance