

Target price increase

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Ticker	KAZ.LN
Recommendation	Buy
Current share price GBP/share (26.11.2019)	494
Target price 12M, GBP/share	641
Upside potential	29,9%

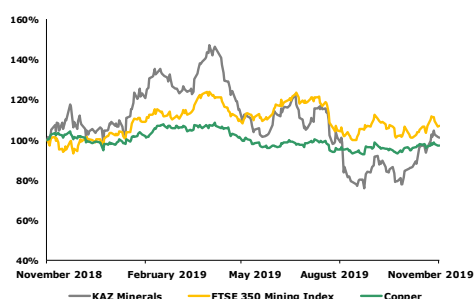
Ticker	GB_KZMS.KZ
Recommendation	Buy
Current share price KZT/share(26.11.2019)	2 470
Target price 12M, KZT/share	3 208
Expected potential	29,9%
Current number of shares,mn	481
Average daily trading volume for 3M, th USD	1 617
Free float	56%
Market capitalization, th USD	3 061

Main shareholders:	
Vladimir Kim	31,1%
Oleg Novachuk	7,7%
BlackRock Inc.	5,0%

Financial indicators, mn USD	2019E	2020F	2021F
Revenue	2 124	2 133	2 274
EBITDA	1 081	1 068	1 215
Net income	409	280	300
EPS, KZT	0,92	0,63	0,67
Total capital	1 442	1 707	1 991
Net debt	3 393	3 743	4 029

Estimated multipliers	2019П	2020П	2021П
Net debt/EBITDA	3,1	3,5	3,3
Net debt/Total capital	2,4	2,2	2,0
EV/Revenue	3,0	3,0	2,8
EV/EBITDA	5,9	6,0	5,2
P/E	7,5	10,9	10,2
P/B	2,1	1,8	1,5
ROE	28%	16%	15%

Dynamics of change of values	KAZ.LN	FTSE 350 mining
1M	0%	3%
3M	27%	9%
12M	-7%	16%
52 weeks max	745	21 194
52 weeks min	375	15 742



Source: Kaz Minerals data, Halyk Finance forecasts, Bloomberg

We recommend Buying common shares of Kaz Minerals, raising our 12M TP to 641 GBP per share: since our last report, company's stocks have risen by 27%. We expect continuation of positive momentum due to continued growth in operating performance. In addition, an increase in planned capex on Aktogay 2 and Baimskaya projects in 2019 will help speed up the process of bringing them to full capacity, which will demonstrate positive operating results and, potentially, increase copper production by 84% over the next 8 years. Demand for copper will get support from growth of China's economy – the main consumer of copper in the world, as well as through the development of infrastructure programs, the growth of electronics and the electric car market on a global scale.

Forecast for gold production is increased, copper – confirmed. The company's emphasis on long-term growth projects is paying off, which is confirmed by the positive results of operations in the reporting period. The company's production results for 9M2019 once again demonstrated an increase in the physical volume of production in the main categories in comparison with the same period last year. During 9M2019 the company produced 230.5k tons of copper, which exceeds the relative amount of the same period last year by 6.3%. A decrease in copper in concentrate production to 129.1k tons (-6.92% y/y) was offset by an increment in cathode copper production to 101.4k tons (+29.8% y/y), achieved by increasing the processing of material from Aktogay under the tolling scheme to the mark 32.3k tons versus 3.4k tons a year earlier. A significant contribution to the growth of gold production over the considered period was made by Bozshakol, with 26.6 million tons of ore mined (+14.6% y/y) and 110.2 thousand ounces of gold (+10% y/y) produced resulting in a total production of 146.2 thousand ounces (+8.3% y/y) over 9M2019.

The total debt as of September 30, 2019 amounted to \$3.2 bln, which is 6.3% higher than the same indicator at the end of 2018. The amount of cash and cash equivalents at the reporting date amounted to \$0.6 bln, while as of December 31, 2018 it totaled \$1.2 bln. The diminution of this indicator is associated with an increase in capital expenditures for the expansion of Aktogay (\$600 mln for 2019) and the acquisition of Baimskaya project (the amount of remuneration paid was \$436 mln).

Reallocation of capital expenditure for expansion of Aktogay and Baimskaya for 2019. The company decided to increase the amount of capex by an additional \$100 mln up from the previously announced \$500 mln for 2019. It should be noted, that the total project budget remains within \$1.2 bln, uniformly reducing the corresponding load in the next 2 years. Total capex for the development of Baimskaya in 2019 expected at around \$150 mln up from the previously planned \$70 mln. The Board of Directors of the company approved \$80 mln of capex for 2H2019, which will be utilized for the camp's primary construction works. The detalization of the capital expenditure schedule for the Baimskaya project allows us to project the cash flows of the respective periods more precisely. According to the statement, the peak of capex for this project will take place in 2022 and 2023 amounting to \$1.5 bln in each year, \$1 bln in 2024, \$500 mln in 2025, \$300 mln in 2026. The total capex budget for Baimskaya of \$5.5 bln remained unchanged in our forecast.

Over the next ten years, the value of the company will be determined by the success of Aktogay 2 and Baimskaya projects. Copper production at Aktogay 2 is planned to begin in 2021. We expect an increase in Aktogay copper production by 24% to 172k tons per year starting from 2022. Planned expansion of Aktogay's facilities, as well as reaching the planned output capacity of the company's enterprises, according to the production report, is the guarantor of stable operating dynamics of the company (over 300 thousand tons of copper per year), which, in our estimation, will contribute to the generation of significant operating cash flow by 2026 (presumably \$770 mln). At the same time, the relative temporal proximity effect of Aktogay 2 reduces production risks.

In the longer perspective, we expect the implementation of Baimskaya project with the production launched in 2026 would allow the company to increase total copper production by 7% CAGR from the moment of launch, up to the level of 560k tons in 2029 and therefore significantly increase generated cash flows.

Main risks. In our opinion, main risks are associated with the commissioning of new projects, as well as a decrease in forecasted metals price for the main categories of products sold in response to worsening expectations regarding demand for metals due to a slowdown in global economic growth. In the long term, for Kaz Minerals there is a significant risk in the effective implementation of the expensive Baimskaya

project, which depends on the support of the government of Russian Federation, including the development of energy and transport infrastructures. However, after the launch of this project, Kaz Minerals will be able to increase its copper production significantly by adding a large-scale long-term asset to the Company's portfolio.

Fig 1. Kaz Minerals 9M2019 production results.

Production	9M2018	9M2019	y/y
Copper, kt	216,8	230,5	6%
Gold, koz	135	146,2	8%
Silver, koz	2 578	2 496	-3%
Zinc, kt	38,3	28,9	-25%

Fig 2. Market prices for metals.

Price \$/t, \$/oz	9M2018	9M2019	y/y
Copper	6826	5981	-12%
Gold	1302	1321	1%
Silver	16	15	-6%
Zinc	3100,0	2512	-19%

Fig 3. By the end of 2019 we expect continued significant returns from recently launched projects.

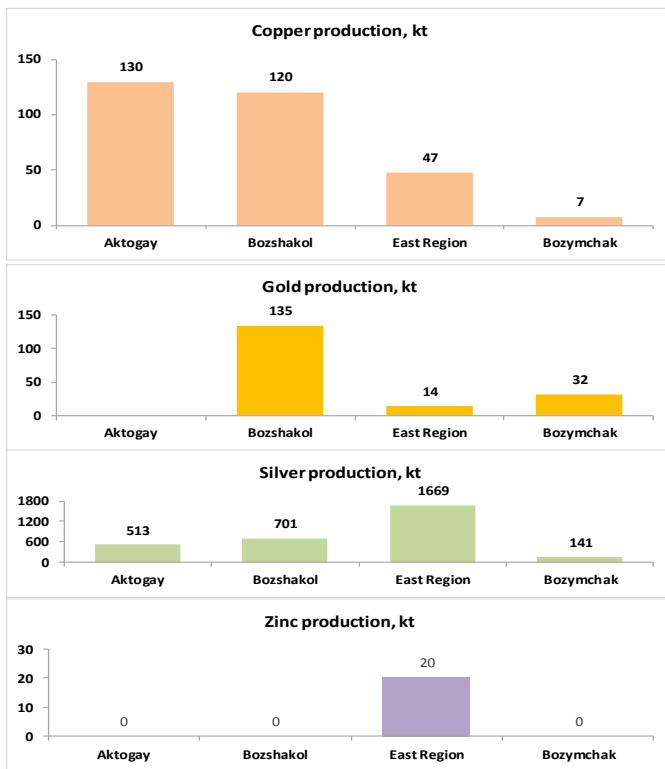


Fig 4. Baimskaya project will increase production and compensate depletion of existing fields.

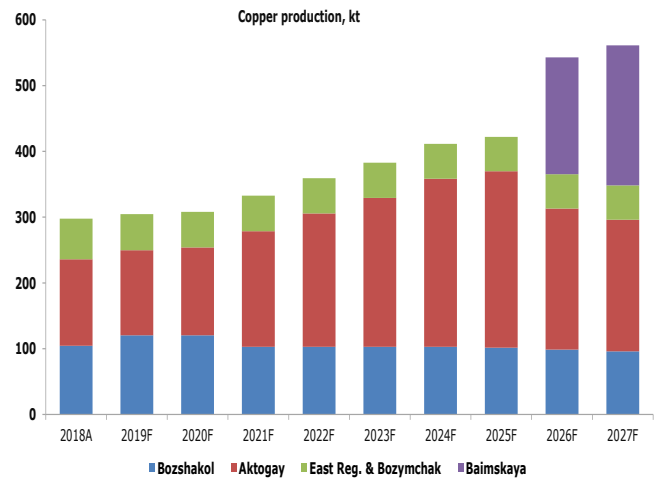


Fig 5. Change in base metal price forecasts.

	2019F			2020F			2021F			2022F			2023F		
	updated	previous	change,%	updated	previous	change,%	updated	previous	change,%	updated	previous	change,%	updated	previous	change,%
Copper	5982	6105	-2%	5906,25	6313	-6%	5959	6650	-10%	6400	6600	-3%	6700	7000	-4%
Gold	1400	1353	3%	1500	1383	8%	1507	1400	8%	1600	1325	21%	1325	1313	1%
Zinc	2550	2600	-2%	2375	2544	-7%	2350	2513	-6%	2400	2700	-11%	2400	2800	-14%
Silver	16	16	1%	17	16	5%	18	16	9%	16	16	1%	17	16	6%

Source: Kaz Minerals data, Halyk Finance forecasts, Bloomberg

Fig 6. Net cash cost of copper production, \$/ton.

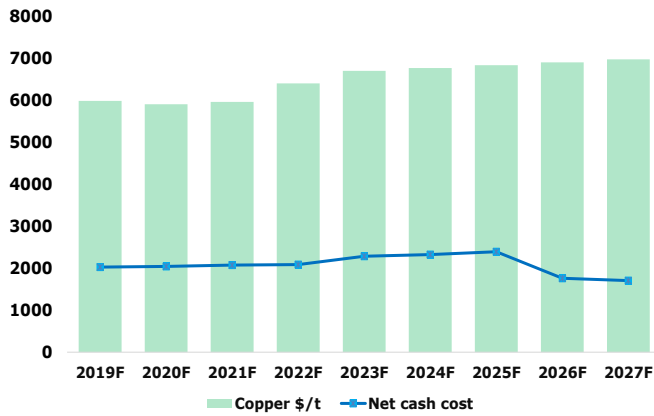


Fig 7. Free cash flow will recover in the medium term, even with capital-intensive projects, due to increased production.

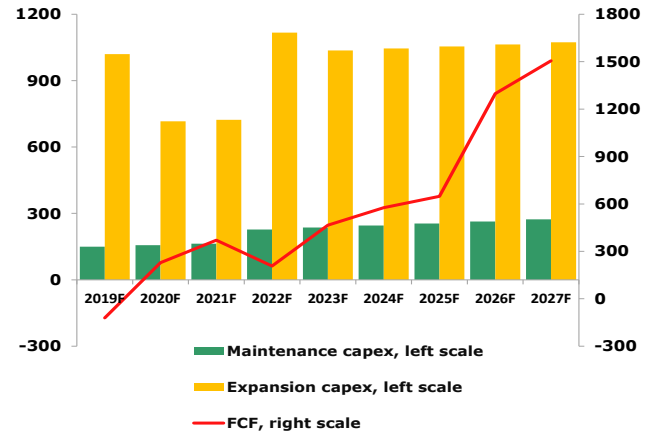


Fig 8. Net profit margin will exceed 20% by 2027.

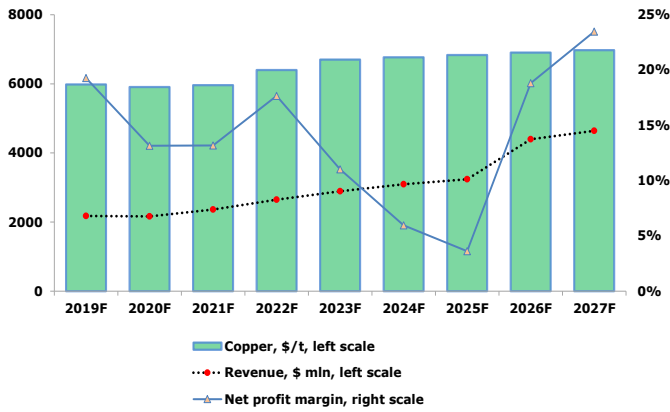


Fig 9. Debt burden will remain at an acceptable level.

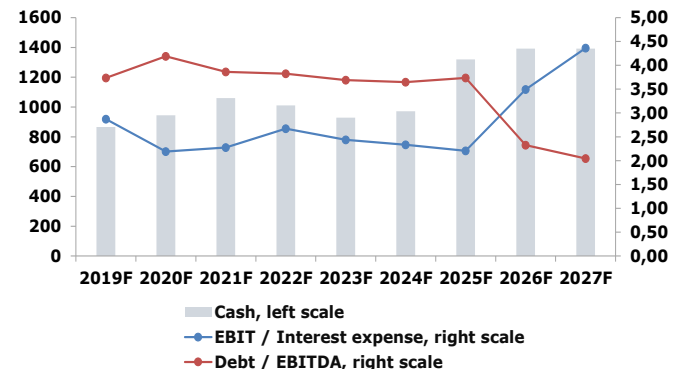


Fig 10. Calculation of 12M TP, mln USD

	2019F	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F
Revenue	2 124	2 133	2 274	2 590	2 785	2 985	3 074	4 230	4 465	4 623	4 626
EBIT	791	640	724	942	883	818	770	1 610	1 795	1 936	2 172
" +Amortization"	289	428	492	548	785	993	1 090	1 077	1 036	989	904
" -Income tax"	130	75	80	122	82	47	30	212	279	329	394
" -Capital expenditures"	1 080	717	723	1 687	1 636	1 195	704	563	523	353	366
" -Changes in working capital"	61	- 1	14	29	39	41	20	101	18	11	- 27
Free cash flows	- 190	277	398	- 347	- 89	527	1 106	1 812	2 011	2 233	2 342
WACC	11%										
Free cash flows (PV)	- 171	224	289	- 227	- 52	278	524	771	769	768	724
Terminal value (PV)	2 463										
Enterprise value (EV)	6 361										
" - Net debt forecast"	2 414										
Market capitalization	3 947										
Number of shares, mn	481										
12M Target price (GBP)	641										

Source: Kaz Minerals data, Halyk Finance forecasts, Bloomberg

Appendix 1. Forecasted financial indicators, \$ mln, except per share amounts.

Profit and Loss statement	2018A	2019F	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F
Revenues	2 162	2 176	2 165	2 361	2 649	2 890	3 095	3 239	4 397	4 639	4 667	4 668
Cost of sales	- 1 077	- 1 153	- 1 289	- 1 353	- 1 433	- 1 585	- 1 743	- 1 879	- 2 248	- 2 390	- 2 479	- 2 233
Gross profit	1 085	1 023	875	1 008	1 217	1 305	1 352	1 360	2 149	2 249	2 188	2 435
Selling and distribution expenses	- 94	- 99	- 101	- 110	- 119	- 129	- 141	- 151	- 190	- 206	- 203	- 208
Administrative expenses	- 115	- 118	- 119	- 124	- 128	- 132	- 137	- 141	- 159	- 164	- 167	- 161
Net other operating income	4	4	4	4	5	5	6	6	8	9	9	9
Impairment losses	- 29	-	-	-	-	-	-	-	-	-	-	-
Operating profit	851	811	659	778	975	1 048	1 079	1 074	1 808	1 887	1 826	2 075
Finance income	33	33	26	27	29	31	30	28	33	40	51	70
Finance costs	- 245	- 282	- 301	- 342	- 365	- 430	- 463	- 487	- 518	- 433	- 405	- 337
Net foreign exchange gain	3	-	-	-	-	-	-	-	-	-	-	-
Profit/Loss before tax	642	562	384	463	640	649	646	615	1 323	1 495	1 472	1 808
Income tax expense	- 132	- 133	- 132	- 144	- 162	- 176	- 189	- 198	- 268	- 283	- 285	- 285
Profit/Loss from continuing operations	510	429	252	319	478	473	457	418	1 054	1 212	1 187	1 523
Loss from discontinued operations	-	-	-	-	-	-	-	-	-	-	-	-
Net profit/loss for the year	510	429	252	319	478	473	457	418	1 054	1 212	1 187	1 523
Number of shares, mn	447	447	447	447	447	447	447	447	447	447	447	447
Profit/Loss per share, USD/share	1,14	0,96	0,56	0,71	1,07	1,06	1,02	0,93	2,36	2,71	2,65	3,41
	1 140,28											
Balance sheet	2018Ф	2019П	2020П	2021П	2022П	2023П	2024П	2025П	2026П	2027П	2028П	2029П
Non-current assets												
Property, plant and equipment, mining assets	2 562	4 144	4 789	5 370	6 611	7 609	8 509	9 322	9 049	9 645	8 805	8 054
Intangible assets	6	7	7	7	7	7	7	7	7	7	7	7
Other non-current assets	301	286	280	274	268	262	257	251	245	239	233	227
Deferred tax asset	28	55	49	44	49	48	47	48	48	48	48	48
Total non-current assets	2 897	4 492	5 125	5 695	6 935	7 926	8 820	9 627	9 348	9 938	9 093	8 335
Current assets												
Cash and cash equivalents	1 219	871	866	945	1 060	1 012	928	972	1 319	1 392	2 333	2 334
Current investments	250	-	-	-	-	-	-	-	-	-	-	-
Trade and other receivables	127	128	127	139	156	170	182	190	258	273	274	274
Inventories	439	548	613	643	681	754	829	894	1 069	1 137	1 179	1 062
Prepayments and other current assets	90	97	78	78	78	78	78	78	78	78	78	78
Income taxes prepaid	18	18	18	18	18	18	18	18	18	18	18	18
Total current assets	2 143	1 662	1 702	1 823	1 993	2 031	2 035	2 152	2 742	2 897	3 882	3 766
Total assets	5 040	6 153	6 828	7 518	8 928	9 957	10 855	11 779	12 090	12 834	12 975	12 101
Total equity												
Share capital	171	171	171	171	171	171	171	171	171	171	171	171
Share premium	2 650	2 650	2 650	2 650	2 650	2 650	2 650	2 650	2 650	2 650	2 650	2 650
Capital reserves	- 2 457	- 2 457	- 2 457	- 2 457	- 2 457	- 2 457	- 2 457	- 2 457	- 2 457	- 2 457	- 2 457	- 2 457
Retained earnings	686	1 092	1 331	1 633	2 086	2 534	2 966	3 362	4 361	5 508	6 633	8 075
Non-controlling interests	4	4	4	4	4	4	4	4	4	4	4	4
Total equity	1 054	1 460	1 699	2 001	2 454	2 902	3 334	3 730	4 729	5 876	7 001	8 443
Non-current liabilities												
Borrowings	2 914	3 184	3 173	3 537	3 792	3 981	4 010	3 878	3 641	2 724	1 973	1 381
Deferred tax liability	76	73	75	74	74	74	74	74	74	74	74	74
Other non-current liabilities	77	79	81	84	86	88	90	93	95	98	100	103
Total non-current liabilities	3 067	3 336	3 329	3 695	3 952	4 143	4 174	4 045	3 810	2 896	2 147	1 558
Current liabilities												
Borrowings	539	928	1 322	1 321	1 992	2 327	2 704	3 313	2 728	3 187	2 920	1 281
Trade and other payables	320	416	465	488	516	571	628	677	810	861	893	804
Other non-current liabilities	49	3	3	3	3	3	3	3	3	3	3	3
Income taxes payable	11	11	11	11	11	11	11	11	11	11	11	11
Total current liabilities	919	1 357	1 800	1 822	2 522	2 912	3 346	4 004	3 551	4 063	3 827	2 099
Total liabilities	3 986	4 693	5 129	5 517	6 474	7 055	7 520	8 049	7 362	6 958	5 974	3 658
Total equity and liabilities	5 040	6 153	6 828	7 518	8 928	9 957	10 855	11 779	12 090	12 834	12 975	12 101

Source: Kaz Minerals data, Halyk Finance forecasts, Bloomberg

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