

Kcell presents financial results for 2018

Aliya Assilbekova — March 12, 2019

The Company's total revenue for 2018 reached 149 701 mn KZT (+ 1.5% y/y), EBITDA excluding non-recurring costs amounted to 50 943 mn KZT (-8.3% y/y) with EBITDA margin of 34% (37.7% in 2017), Kcell's net profit for the reporting period decreased to 8 531 mn KZT (-27.1% y/y).

The decline in revenue from voice services was mainly due to a decrease in voice traffic (-7.7% y/y). According to the results of 2018, the ARMU indicator remained at the same level as in 2017, and amounted to 2.1 KZT. A slight increase in revenue from data transmission services (+ 0.6% y/y) was observed due to an increase in traffic volume (+ 34% y/y), while the ARMB index decreased to 0.18 KZT (0.23 KZT in 2017). The Company's revenue from additional revenues decreased by 18.9% y/y. Other types of income increased by 52.6% y/y due to an increase in sales of contract phones.

Kcell's cost of sales grew by 7.9% y/y mainly due to the recognition of expenses associated with interconnection charges, as well as due to an increase in handset sales. The company reduced sales and marketing costs to KZT 9,805 mn (-5.6% y / y) by improving the distribution process, as well as reducing subsidies and paid commissions. The annual increase of 23.6% y/y in the Company's general and administrative expenses was mainly due to the tax reserve and the increase in consulting and staff costs. In August 2018, the Company announced that 87% of the net income for 2017 in the amount of 11 678 mn KZT (or 58.39 KZT/share) was paid as an annual dividend.

The Company's subscriber base at the end of 2018 decreased to 8 969 thousand contracts (10 009 thousand contracts at the end of 2017) due to the outflow of inactive promotional SIM-cards as a result of the revision of strategic priorities, namely the transition from distribution to attracting high-quality customers. According to the results of 2018, ARPU and MOU indicators amounted to 1 150 KZT (+ 0.3% y/y) and 218 min/month (-3.5% y/y), respectively. According to the Company, in 2018 the significant expansion of 4G/LTE network coverage has improved the quality of services provided. The 4G/LTE network currently covers 61.9% of the country's population.

On December 21, 2018 the Company announced the completion of the transfer of 75% of ordinary shares to the telecommunications operator Kazakhtelecom.

Our opinion:

According to the results of 2018, the Company exceeded our revenue expectations, mainly due to an increase in other revenues. Sales of contract phones, along with insignificant data transfer revenues, continue to provide significant support to the Company's revenues.

In general, the Company does not demonstrate any special improvements in financial and operational performance beyond our expectations. At the same time, the potential opportunities and the expansion of the scope of activities in connection with the acquisition by Kazakhtelecom of a controlling stake will combine the strategic and operational resources of the companies. Since the value of the shares has reached the target price, we put our recommendation under review.

© 2021 Halyk Finance, a subsidiary of Halyk Bank.

For contact details see the information on Halyk Finance website www.halykfinance.kz or contact Halyk Finance office. All rights reserved. This document and/or information has been prepared by and, except as otherwise specified herein, is communicated by Halyk Finance. This document is for information purposes only. Opinions and views expressed in this document do not necessarily represent the opinions and views held by Halyk Finance, or other subsidiaries of Halyk Bank. The differences of opinion stem from different assumptions, sources information, criteria and methodology of valuation. Information and opinions expressed herein are subject to change without notice; and neither Halyk Finance, or Halyk Bank, or any of its subsidiaries or affiliates are under any obligation to keep them current. This document is not an offer or an invitation to engage in investment activity. It cannot be relied upon as a representation that any particular transaction necessarily could have been or can be effected at the stated price. This document does not constitute an advertisement or an offer of securities, or related financial instruments. Descriptions of any company or companies or their securities or the markets or developments mentioned herein are not intended to be complete. Views and opinions expressed in this document cannot substitute for the exercise of own judgment and do not attempt to meet the specific investment objectives, financial situation or particular needs of any specific investor. The information and opinions herein have been arrived at based on information obtained from sources believed to be reliable and in good faith. Such sources have not been independently verified; information is provided on an 'as is' basis and no representation or warranty, either expressed or implied, is provided in relation to the accuracy, completeness, reliability, merchantability or fitness for a particular purpose of such information and opinions, except with respect to information concerning Halyk Finance and its affiliates.

The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. Options, derivative products and futures are not suitable for all investors and trading in these instruments is considered risky. Past performance is not necessarily indicative of future results. Foreign-currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or the price of, or income derived from, the investment. Halyk Finance and its affiliates, directors, representatives, employees, or clients may have or have had interests in issuers described herein. Halyk Finance may have or have had long or short positions in any of the securities or other financial instruments mentioned herein at any time and may make a purchase and/or sale, or offer to make a purchase and/or sale, of any such securities or other financial instruments at any time, as principal or agent. Halyk Finance and its affiliates may act or may have acted as market maker in the securities or other financial instruments described herein, or in securities underlying or related to such securities. Employees of Halyk Finance or its affiliates may serve or have served as officers or directors of the said companies. Halyk Finance and its affiliates may have or have had a relationship with or have provided investment banking, capital markets, advisory, investment management, and/or other financial services to the relevant companies. Halyk Finance relies on information barriers to avoid the appearance of conflict of interests within Halyk Finance or in its relations with clients, other issuers, and external investors.

The information herein is not intended for distribution to the public and may not be reproduced, redistributed or published, in whole or in part, for any purpose without the written permission of Halyk Finance. Neither Halyk Finance nor any of its affiliates accepts any liability whatsoever for the actions of third parties in this respect. This information may not be used to create any financial instruments or products or any indices. Neither Halyk Finance, nor its affiliates, nor their directors, representatives, or employees accept any liability for any direct or consequential loss or damage arising out of the use of any information herein.

© 2021 All rights reserved

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