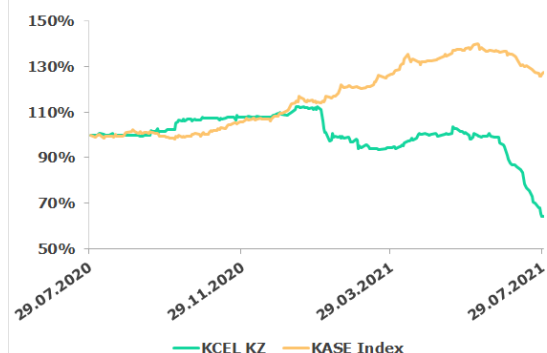


## Financial and operational results for the 1st half of 2021

August 3, 2021

Ticker	KCEL.KZ
Recommendation	<b>Buy</b>
Current price, KZT/share	1,565
12M target price, KZT/share	1,810
<b>Expected growth potential</b>	<b>16%</b>
Dividend forecast (2021), KZT/share	104.0
<b>Expected dividend yield</b>	<b>6%</b>
Number of shares, mn	200
Average daily trading volume, 3M (KZT mn)	49
Market capitalization, KZT mn	313,000
<b>Main shareholders:</b>	
Kazakhtelecom JSC	75%
Raiffeisenbank JSC	12%

Financial indicators (KZT mn)	2020	2021F	2022F
Revenue	174,684	191,401	204,045
EBITDA	56,988	74,931	72,276
Net profit	17,577	29,722	31,575
EPS (KZT)	88	149	158
Equity capital	82,083	99,501	110,270
Net debt	50,264	45,165	41,252
<b>Multipliers</b>	<b>2020</b>	<b>2021F</b>	<b>2022F</b>
EV/Revenue	2.3	2.1	2.0
EV/EBITDA	7.1	5.4	5.6
Net debt/EBITDA	0.9	0.6	0.6
Net debt/Equity	0.6	0.5	0.4
P/E	17.8	10.5	9.9
P/B	3.8	3.1	2.8
ROE	21%	30%	29%
<b>Dynamics of price changes</b>	<b>KCEL.KZ</b>	<b>KASE index</b>	
1M	-33%	-7%	
3M	-36%	-4%	
12M	-36%	27%	
A maximum of 52 weeks	2,840		
A minimum of 52 weeks	1,623		



Source: Company data, Bloomberg, Halyk Finance calculations

According to the results of the 1st half of 2021, Kcell's revenue increased by 15% yoy, and net profit increased by 83% yoy, which is generally in line with our expectations. Based on the projected growth of administrative expenses and capital expenditures for 2021 and 2022, we adjusted our target price from 2,190 to 1,810 tenge / share. Taking into account the 33% drop in the share price since the publication of our last recommendation ("[Delisting of GDRs and financial results for 2020](#)" dated March 11, recommendation to Sell), we are raising our recommendation from **Sell** to **Buy**.

**The growth of the main indicators is within our expectations.** According to the results of the 1st half of 2021, Kcell's subscriber base grew by 2.1% yoy to 8.03 mn users. The ARPU indicator increased by 9.7% yoy to 1,533 tenge, MOU (minutes of use) decreased by 8.8% yoy to 209 minutes/month.

According to the results of the 1st half of 2021, the company's total revenue increased by 15% yoy to 90 bn tenge. The growth was due to an increase in the subscriber base, as well as an increase in the ARPU indicator. In terms of items, revenue from voice communication services increased by 2.7% yoy and amounted to 37.4 bn tenge (41.4% of total revenue). Revenue from data transmission services increased by 17.9% yoy to KZT 32.4 bn (36% of total revenue). The sale of mobile devices brought the company 16 bn tenge, demonstrating an increase of 40.6% yoy (17.8% of total revenue).

The COGS increased to 29.5 bn tenge, an increase of 7.4% yoy. The growth was mainly caused by an increase in the cost of mobile devices.

Selling expenses amounted to 793 mn tenge, having decreased by 25.3% yoy. The decrease is due to the seasonality of marketing activities from quarter to quarter and a decrease in marketing costs in the 1st half of 2021 compared to the same period last year. However, these expenses will increase in the 2nd half of 2021 due to the launch of new marketing projects.

General and administrative expenses increased by 47.7% yoy to KZT 6.9 bn, mainly due to an increase in labor costs.

The EBITDA indicator, excluding one-time expenses, increased by 19.9% yoy, amounted to 38.8 bn tenge, while the EBITDA margin was at the level of 43.0% (41.1% a year earlier).

Net financial expenses decreased to KZT 4.2 bn, showing a decrease of 13.2% yoy as a result of a 17% decrease in the volume of loans for the first half of the year to KZT 61 bn.

Net profit increased by 83% yoy to KZT 15.6 bn. The almost twice increase in net profit was provided by a more significant increase in revenue (+15% yoy) compared to an increase in cost (+7% yoy), a reduction in sales costs (-25% yoy), as well as a decrease in financial expenses (-13.3% yoy).

**The stock price correction provides an attractive entry opportunity.** The financial results for the 1st half of 2021 are generally in line with our forecast expectations. By the end of 2021, we forecast the company's total revenue at the level of 191.4 bn tenge (+9.6% yoy). This is generally in line with the

forecasts of the company's management, which expect growth of 8-9%.

Only certain items required minor adjustments, namely, an increase in the forecast of net operating income, which for the 1st half of the year amounted to 792 mn tenge compared to losses of 1.2 bn tenge for the same period last year. We also raised our forecasts for the amount of general and administrative expenses, which increased by 47.7% yoy.

In addition, our forecast of capital expenditures for 2021 and 2022 has been increased. According to the company's plans, in 2021, capital expenditures will amount to 22% of revenue, or about 42 bn tenge, an increase of 57% yoy. These capital expenditures will be directed to the integration of base stations together with Kazakhtelecom and Tele2, which is planned to be completed by the end of the 1st half of 2022. After the merger of the networks, the cost of servicing stations should be reduced by almost 2 times, which is also reflected in our forecasts.

According to our forecasts, net profit will amount to about 33 bn tenge, showing an increase of almost 2 times compared to the previous year. This growth will mainly be due to an increase in revenue in the absence of one-time expenses, such as provisions for court claims (4.4 bn tenge) and impairment of assets (5.2 bn tenge), which occurred in 2020.

We note that after the delisting of the company's GDRs from the LSE and AIX stock exchanges, the share price fell by 36% from mid-June to the current moment.

Previously, we have repeatedly noted the overvaluation of the company's shares and recommended their sale. Taking into account the significant drop of the price below our Price target, we consider the current moment attractive to buy the company's shares and raise our recommendation on Kcell shares from **Sell** to **Buy**.

**We expect an increase in dividends by 18.4% yoy.** At the end of 2020, Kcell paid dividends in the amount of 17.6 mn tenge or 87.89 tenge/share, which is almost 2 times more than in the previous year. The payments amounted to 100% of the consolidated net profit for 2020.

According to the company information, by the end of 2021, dividends at the level of 100% of the net profit are unlikely. However, taking into account the expected significant growth in net profit in 2021 and the historical level of dividend payment at the level of 70% of net profit, the dividends, according to our forecasts, will amount to 104.0 tenge/share, an increase of 18.4% yoy. The dividend yield will be about 6%.

**Fig. 1. Kcell Financial Results**

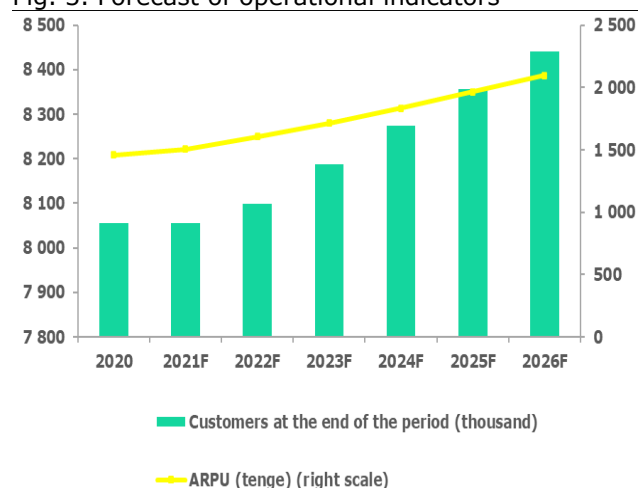
<i>Tenge, mn</i>	<b>1H2021</b>	<b>1H2020</b>	<b>YoY</b>	<b>2020</b>	<b>2019</b>	<b>YoY</b>
<b>Revenue</b>	<b>90,163</b>	<b>78,688</b>	15%	<b>174,684</b>	<b>156,657</b>	12%
Cost of sales	-59,179	-55,085	7%	-119,133	-108,928	9%
<b>Gross profit</b>	<b>30,984</b>	<b>23,603</b>	31%	<b>55,551</b>	<b>47,729</b>	16%
<i>Gross profit margin</i>	<i>153%</i>	<i>188%</i>		<i>226%</i>	<i>375%</i>	
General & Administrative expenses	-6,929	-4,690	48%	-10,426	-8,925	17%
Selling expenses	-793	-1,061	-25%	-1,965	-2,887	-32%
Other operating income/expenses, net	791	-1,232	N/A	-10,334	-12,836	-19%
<b>Operating profit</b>	<b>24,053</b>	<b>16,620</b>	45%	<b>32,826</b>	<b>23,081</b>	42%
<i>Operating profit margin</i>	<i>119%</i>	<i>133%</i>		<i>133%</i>	<i>181%</i>	
Interest income/expenses, net	-4,183	-4,817	-13%	-9,453	-10,479	-10%
Other income/expenses, net	326	729	-55%	1,248	140	N/A
<b>Profit before tax</b>	<b>20,196</b>	<b>12,532</b>	61%	<b>24,621</b>	<b>12,742</b>	93%
Income tax	-4,569	-3,994	14%	-7,044	-2,727	158%
<b>Net profit</b>	<b>15,627</b>	<b>8,538</b>	83%	<b>17,577</b>	<b>10,015</b>	76%
<i>Net profit margin</i>	<i>77%</i>	<i>68%</i>		<i>71%</i>	<i>79%</i>	
Earnings per share (KZT), diluted	78.1	42.7	83%	87.9	50.1	75%

Source: Company data

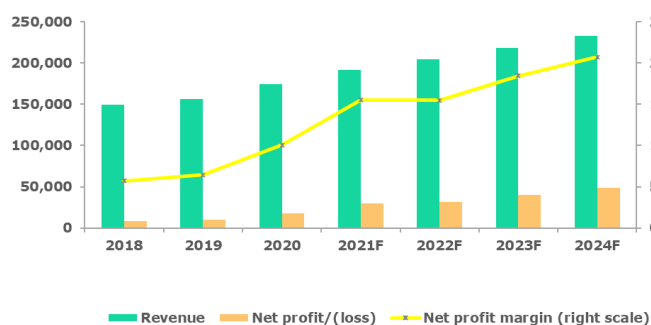
**Fig. 2. Key operational indicators**

	<b>1H2021</b>	<b>1H2020</b>	<b>YoY</b>
Subscribers at the end of the period (thousand)	8,028	7,863	2.1%
MOU (min/month)	209	229	-8.7%
ARPU (tenge)	1,533	1,398	9.7%
Outflow rate (%)	34.1%	35.8%	-1.7 pp

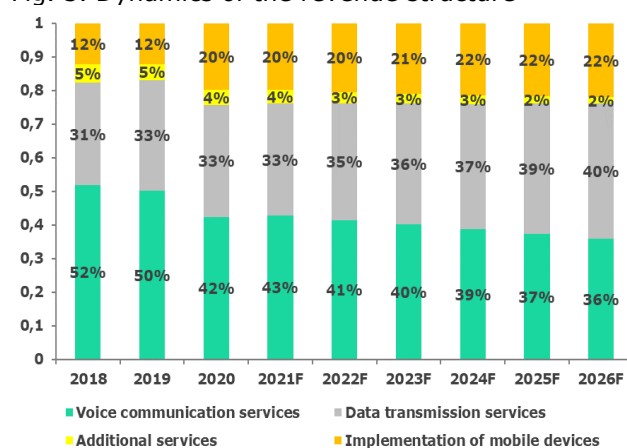
Source: Company data

**Fig. 3. Forecast of operational indicators**


Source: Company data, calculations by Halyk Finance

**Fig. 4. Actual and forecast dynamics of the main financial indicators**


Source: Company data, calculations by Halyk Finance

**Fig. 5. Dynamics of the revenue structure**


Source: Company data, calculations by Halyk Finance

Fig. 6. Calculation of the 12M target price, mn tenge

	2021F	2022F	2023F	2024F	2025F	2026F
Revenue	191,401	204,045	217,960	233,167	249,929	266,346
EBIT	51,392	47,425	57,900	66,833	73,702	80,299
+ Depreciation	23,539	24,851	26,300	27,899	29,657	31,593
- Income tax	-8,878	-7,894	-10,056	-12,089	-13,707	-15,037
- Capital expenditures	-42,108	-32,145	-34,338	-36,733	-39,374	-41,960
- Change in net working capital	2,105	-1,206	-2,185	-2,266	-2,351	-2,461
Free cash flows	26,049	31,031	37,621	43,644	47,927	52,433
WACC	14%					
<b>Free cash flows (PV)</b>		<b>27,287</b>	<b>29,090</b>	<b>29,675</b>	<b>28,656</b>	<b>27,567</b>
Terminal value (PV)	264,839					
Enterprise value (PV)	407,114					
- Net debt (PV)	45,165					
Market capitalization	361,949					
Number of shares, mn	200					
12M target price (KZT/share)	1,810					
Current Price (KZT / share)	1,565					
Potential growth/(decline)	16%					
<b>Recommendation</b>	<b>Buy</b>					

Sources: Company data, calculation of Halyk Finance

## Appendix 1. Forecasts of financial indicators in mn tenge, except for the values per share

Profit and Loss Statement	2020	2021F	2022F	2023F	2024F	2025F	2026F
Revenue	174,684	191,401	204,045	217,960	233,167	249,929	266,346
Cost of sales	- 119,133	- 124,411	- 132,629	- 137,315	- 144,564	- 152,457	- 162,471
<b>Gross profit</b>	<b>55,551</b>	<b>66,990</b>	<b>71,416</b>	<b>80,645</b>	<b>88,604</b>	<b>97,472</b>	<b>103,875</b>
Commercial and marketing expenses	- 1,965	- 2,029	- 2,090	- 2,153	- 2,218	- 2,273	- 2,319
General and administrative expenses	- 10,426	- 13,858	- 14,274	- 14,702	- 15,143	- 15,522	- 15,832
Other operating income	827	882	2,508	1,406	1,599	1,838	1,614
Other operating expenses	- 11,161	- 594	- 10,136	- 7,297	- 6,009	- 7,814	- 7,040
<b>Operating profit</b>	<b>32,826</b>	<b>51,392</b>	<b>47,425</b>	<b>57,900</b>	<b>66,833</b>	<b>73,702</b>	<b>80,299</b>
Financial income	1,248	1,012	469	338	361	386	413
Financial expenses	- 9,453	- 13,803	- 8,426	- 7,955	- 6,747	- 5,552	- 5,526
<b>Profit before tax</b>	<b>24,621</b>	<b>38,601</b>	<b>39,468</b>	<b>50,282</b>	<b>60,447</b>	<b>68,537</b>	<b>75,186</b>
Income tax expense	- 7,044	- 8,878	- 7,894	- 10,056	- 12,089	- 13,707	- 15,037
<b>Profit and total comprehensive income for the year</b>	<b>17,577</b>	<b>29,722</b>	<b>31,575</b>	<b>40,225</b>	<b>48,357</b>	<b>54,829</b>	<b>60,149</b>
Number of shares, mn	200	200	200	200	200	200	200
<b>Earnings per share, KZT/share</b>	<b>87.89</b>	<b>148.61</b>	<b>157.87</b>	<b>201.13</b>	<b>241.79</b>	<b>274.15</b>	<b>300.74</b>
Balance sheet	2020	2021F	2022F	2023F	2024F	2025F	2026F
<b>Assets</b>							
Fixed assets	78,109	83,132	88,514	94,319	100,602	107,432	114,668
Intangible assets	39,730	41,321	43,233	45,465	48,018	50,903	54,035
Long-term accounts receivable	2,421	2,183	1,907	2,170	2,087	2,055	2,104
Cash resources that are limited in use	185	75	88	116	93	99	102
The costs of concluding the contract	293	307	280	293	293	289	292
Other non-current assets	22,741	23,710	23,710	23,387	23,602	23,566	23,519
<b>Total non-current assets</b>	<b>143,479</b>	<b>150,728</b>	<b>157,732</b>	<b>165,751</b>	<b>174,694</b>	<b>184,345</b>	<b>194,720</b>
Inventory items	9,362	7,433	7,924	8,204	8,638	9,109	9,708
Accounts receivable for core activities	36,746	33,543	35,759	38,198	40,863	43,800	46,677
Prepayment of income tax	3,876	1,302	1,736	2,305	1,781	1,941	2,009
Accounts receivable from related parties	245	878	831	651	787	757	732
Short-term investments	-	7,851	5,700	7,580	6,576	15,244	24,086
Cash and cash equivalents	23,023	3,828	2,040	2,180	2,332	2,499	2,663
<b>Total current assets</b>	<b>73,252</b>	<b>54,835</b>	<b>53,991</b>	<b>59,118</b>	<b>60,976</b>	<b>73,350</b>	<b>85,874</b>
<b>Total assets</b>	<b>216,731</b>	<b>205,563</b>	<b>211,723</b>	<b>224,869</b>	<b>235,670</b>	<b>257,694</b>	<b>280,594</b>
<b>Equity and liabilities</b>							
Authorized capital	33,800	33,800	33,800	33,800	33,800	33,800	33,800
Retained earnings	48,283	65,701	76,470	94,594	114,793	135,772	157,540
<b>Total equity</b>	<b>82,083</b>	<b>99,501</b>	<b>110,270</b>	<b>128,394</b>	<b>148,593</b>	<b>169,572</b>	<b>191,340</b>
Long-term loans	49,933	48,993	43,292	37,087	27,183	27,183	27,183
Deferred tax liabilities	-	917	722	546	728	666	647
Other long-term liabilities	24,017	23,804	23,804	23,875	23,827	23,835	23,846
<b>Total non-current liabilities</b>	<b>73,950</b>	<b>73,714</b>	<b>67,817</b>	<b>61,508</b>	<b>51,739</b>	<b>51,684</b>	<b>51,675</b>
Short-term loans	23,354	-	-	-	-	-	-
Accounts payable for core activities	30,546	24,882	27,067	28,023	28,346	29,603	30,655
Debt to related parties	1,978	947	1,038	1,321	1,102	1,153	1,192
Deferred income	4,219	5,222	4,530	4,657	4,803	4,663	4,708
Income tax payable	601	601	601	601	601	601	601
Taxes payable	-	696	399	365	487	417	423
<b>Total current liabilities</b>	<b>60,698</b>	<b>32,348</b>	<b>33,635</b>	<b>34,967</b>	<b>35,338</b>	<b>36,438</b>	<b>37,579</b>
<b>Total liabilities</b>	<b>134,648</b>	<b>106,062</b>	<b>101,452</b>	<b>96,476</b>	<b>87,077</b>	<b>88,122</b>	<b>89,254</b>
<b>Total liabilities and equity</b>	<b>216,731</b>	<b>205,563</b>	<b>211,723</b>	<b>224,869</b>	<b>235,670</b>	<b>257,694</b>	<b>280,594</b>
Cash flow statement	2020	2021F	2022F	2023F	2024F	2025F	2026F
Cash flows from operating activities	28,315	54,887	55,890	61,776	55,482	35,285	42,429
Cash flows from investing activities	- 26,842	- 42,108	- 32,145	- 34,338	- 36,733	- 39,374	- 41,960
Cash flows from financing activities	4,274	- 36,598	- 26,507	- 28,307	- 38,062	- 33,850	- 38,381
<b>Decrease/increase in cash</b>	<b>5,747</b>	<b>- 23,819</b>	<b>- 2,762</b>	<b>- 869</b>	<b>- 19,313</b>	<b>- 37,939</b>	<b>- 37,911</b>
The impact of changes in the exchange rate of foreign curr	-	-	-	-	-	-	-
Cash at the beginning of the year	8,825	23,023	3,828	2,040	2,180	2,332	2,499
<b>Change in cash, net</b>	<b>23,023</b>	<b>3,828</b>	<b>2,040</b>	<b>2,180</b>	<b>2,332</b>	<b>2,499</b>	<b>2,663</b>

Sources: Company data, calculations by Halyk Finance

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