# Metals and Mining

# KAZ Minerals

## Review of 2018 results

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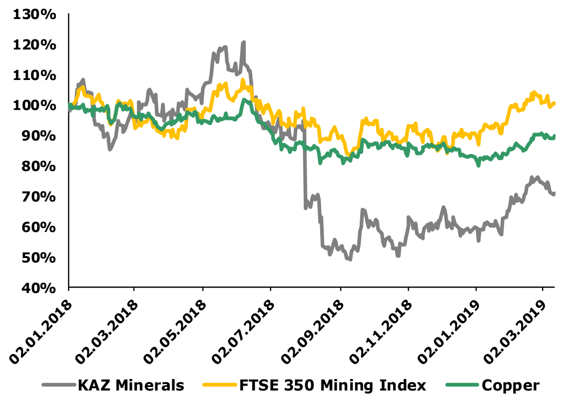
| Ticker | KAZ.LN |
|---|---:|
| Recommendation | Buy |
| Current share price GBp/share (14.03.2019) | 621 |
| Target price 12M, GBp/share | 760 |
| **Expected potential** | **22,4%** |
| **Ticker** | **GB_KZMS.KZ** |
| Recommendation | Покупать |
| Current share price KZT/share(14.03.2019) | 3 096 |
| Target price 12M, KZT/share | 3 904 |
| **Expected potential** | **26,1%** |
| Current number of shares,mn | 447 |
| Average daily trading volume for 3M, th USD | 1 608 |
| Free float | 42% |
| Market capitalization, th USD | 2 777 |
| **Main shareholders:** | |
| Vladimir Kim | 31,7% |
| Oleg Novachuk | 14,0% |
| Vladislav Kim | 6,7% |

| Financial indicators, mn USD | 2019F | 2020F | 2021F |
|---|---:|---:|---:|
| Revenue | 2 284 | 2 455 | 2 709 |
| EBITDA | 1 199 | 1 329 | 1 567 |
| Net income | 521 | 564 | 657 |
| EPS, KZT | 1,17 | 1,26 | 1,47 |
| Total capital | 1 548 | 2 082 | 2 704 |
| Net debt | 2 761 | 3 102 | 3 289 |
| **Estimated multipliers** | **2019F** | **2020F** | **2021F** |
| Net debt/EBITDA | 2,3 | 2,3 | 2,1 |
| Net debt/Total capital | 1,8 | 1,5 | 1,2 |
| EV/Revenue | 3,0 | 2,8 | 2,6 |
| EV/EBITDA | 5,8 | 5,2 | 4,4 |
| P/E | 5,3 | 4,9 | 4,2 |
| P/B | 1,8 | 1,3 | 1,0 |
| ROE | 34% | 27% | 24% |

| Dynamics of change of values | KAZ.LN | FTSE 350 mining |
|---|---:|---:|
| 1M | 20% | 10% |
| 3M | 26% | 19% |
| 12M | -24% | 1% |
| 52 weeks max | 1 076 | 20 447 |
| 52 weeks min | 437 | 15 608 |




*Sources: Bloomberg, Halyk Finance*

*Since the beginning of the year, KAZ Minerals' shares have increased in price by 19% due to the positive trend in the industrial metals market as the result of positive expectations of the trade negotiations between China and the United States, a decline in global inventory and an increase in demand for metals. We also note the Company's strong operating results for 2018, which were higher than our forecast data. Due to an increase in production growth rates at the 2nd sulphide factory at Aktogay, KAZ Minerals will exceed copper production of 350 kt in 2022. The main key factor of the long-term growth is the Baimskaya project, thanks to which the Company will achieve an annual average increase in copper production of 7% y/y in the period 2026-2029. Despite significant capital investments in the Baimskaya project and in the expansion of the production of the 2nd sulphide factory at Aktogay, the net debt/EBITDA ratio will not exceed, according to our estimates, 2.5x. Given the positive outlook for copper prices, low production costs and large-scale growth projects, we retain our* ***Buy*** *recommendation and raise our 12M TP from 720 GBp/share to* ***760 GBp/share****.*

**Growth of production indicators at low production cost.** In 2018 KAZ Minerals produced 294.7 kt of copper (+14% y/y), which corresponds to the upper limit of the planned annual range of 270-300 kt. The company also increased gross income by 30% y/y, reaching revenues of 2 162 mn USD. The growth of production was due to the high results of Aktogay and the increase in copper prices. The expansion project of the 2nd sulphide factory at Aktogay will contribute to the increase in production, which will exceed 350 kt of copper during the forecast horizon of 2022-2025 due to the construction of an additional concentration plant. Meanwhile, according to 2018 results, the Company succeeded to maintain a low net cash cost of copper production in the first quartile of the global cost curve in the amount of ~ 1 874 USD/ton due to an increase in production and a weaker tenge.

**Baimskaya is a large-scale project with high growth potential.** The launch of the large-scale Baimskaya project will allow the Company to produce about 500 kt of copper in the period from 2027-2036, which will completely compensate the decline in production indicators of the existing deposits in the long term. However, the successful implementation of the project depends directly on the support of the Russian government, in particular in the timely construction of transport and energy infrastructures and providing access from the field to the port in order to transport the Company's products.

**Long-term prospects for copper.** As of November 30, 2018 world copper production increased by 2.4% y/y, mainly due to an increase in copper production at the largest mining companies in Chile, Indonesia and the Congo, which was offset by a decrease in metal production in the United States and Canada. In the long run, copper prices will be supported by favorable fundamental factors. According to analysts' consensus forecasts, a lack of investment in field development projects and the natural depletion of mines will lead to a prolonged supply shortage in the remote horizon. In addition, the development of renewable energy sources and the electric vehicle sector will stimulate the growth of copper demand, which will create prerequisites for price increases.

**Recommendation Buy with 12M TP 760 GBp/share.** According to our calculations, EBITDA margin will be 52% in 2019 and 54% in 2020. Given the positive consensus forecast on prices for industrial metals, we expect a potential increase in the Company's value of 22.4%.

**Fig. 1. The Company's results for 2018**

| mn USD | 2018 | 2017 | y/y |
|---|---|---|---|
| Gross revenue | 2 162 | 1 663 | 30% |
| Gross EBITDA | 1 310 | 1 038 | 26% |
| EBITDA margin, % | 61% | 62% | |
| Operating profit | 851 | 715 | 19% |
| Net debt | 1 986 | 2 056 | -3% |
| Gross cash costs, USD/ton | 3 175 | 3 042 | 4% |
| Net profit | 510 | 447 | 14% |

*Source: Company data*

## Review of financial results

The Company's gross income for 2018 amounted to 2 162 mn USD, which is an increase of 30% y/y. With an increase in copper sales of 14% y/y, the average price for copper (LME) increased by 6% y/y to 6 544.96 USD/ton. Gross EBITDA reached 1 310 mn USD (+26% y/y) with EBITDA margin of 61%. The increase in gross income and EBITDA was due to an increase in production at the Aktogay sulphide processing plant, partially offset by a decline in production in the East region and Bozymchak deposit. Operating income in 2018 increased by 19% y/y to 851 mn USD (2017: 715 mn USD) due to an increase in sales volumes from the Aktogay sulphide processing plant. Net income amounted to 510 mn USD in 2018 compared to 447 mn USD in 2017 (+14% y/y). As of December 31, 2018 net debt decreased by 3% y/y to 1 986 mn USD (2 056 mn USD at the end of 2017), with a total debt of 3 453 mn USD.

According to the results of 2018, gross cash costs amounted to 2 844 USD/ton for Bozshakol (+7% y/y), 2 337 USD/ton for Aktogay (+6% y/y) and 5 379 USD/ton for the East region and Bozymchak deposit (+17% y/y). The Company's gross cash costs were 3 175 USD/ton, an increase of 4% y/y, due to a higher indicator in the East region. Net cash costs increased to 1 874 USD/ton (+29% y/y) due to an increase in the production share at the Aktogay processing plant.

Capital expenditures in production expansion at Aktogay, Bozshakol, in the East region and Bozymchak field in 2018 were reduced by 100 mn USD and amounted to 530 mn USD instead of the planned 630 mn USD.

The company, for the first time since 2013, based on the results of successful implementation of the projects, Bozshakol and Aktogay, paid an interim dividend of 6 USc/share in October 2018. In addition, the Company's Board of Directors in 2018 recommended paying a final dividend of 6 USc/share. Thus, the total dividend for 2018 will be 12 USc/share with a dividend yield of 1.5% relative to the current market price (closing price on 14.03.2019: 620.8 GBp/share).

## Review of operating results

**Fig. 2. Execution of production results in 2018**

| | Kaz Minerals' forecast | Fact |
|---|---|---|
| Copper production, kt | 270-300 | **294,7** |
| Gold production, koz | 160-175 | **182,8** |
| Silver production, koz | 3 000 | **3 511** |
| Zinc production, kt | 60 | **49,7** |

*Source: Company data*

For 2018 KAZ Minerals produced 294.7 kt of copper (+14% y/y), which corresponds to the upper limit of the planned annual range. The company exceeded the forecast annual production of gold and silver, which amounted to 183.4 koz of gold (+2.6% y/y) and 3 511 koz of silver (+0.1% y/y), respectively. KAZ Minerals also produced 49.7 kt of zinc (-13.7% y/y).

**Fig. 3. Production results for 2018**

| | 2018 | 2017 | y/y |
|---|---|---|---|
| Copper production, kt | 294,7 | 258,5 | 14,0% |
| Gold production, koz | 183,4 | 178,7 | 2,6% |
| Silver production, koz | 3 511 | 3 506 | 0,1% |
| Zinc production, kt | 49,7 | 57,6 | -13,7% |

*Source: Company data*

***Bozshakol.*** Despite the reduction in the average copper grade processed from 0.53% to 0.48%, the volume of ore processed increased at Bozshakol. The throughput capacity at the processing factory increased by 16% y/y due to increased production at sulphide and clay concentrators. The overall copper recovery rate decreased from 81% to 79% due to the increased proportion of clay material processed, which has a lower recovery rate. As of 2018, 127.8 koz of gold (+7.4% y/y), 101.6 kt of copper (+0.3% y/y) and 666 koz of silver (-3.1% y/y) were produced at Bozshakol.

The company plans to produce 105-115 kt of copper, 30-140 koz of gold and 700 koz of silver in 2019. According to KAZ Minerals, the copper grade in sulfide ore will be 0.47% in 2019. Despite the fact that the clay plant exceeded the level of commercial production in 2018, the Company suspended copper production for 2-3 months in order to upgrade the reclaim systems to the process water in order to increase recycling rates and reduce water consumption, which will have a minimal impact on production at processing factory at Bozshakol.

***Aktogay.*** The sulphide factory's capacity increased by 60% y/y due to the ramp up of operations in 2018. With an increase in the recovery rate of up to 87% (80% in 2017) and the volume of the sulphide ore processed by 60% y/y in 2018, copper production increased by 62% y/y to 105.7 kt (2017: 65.1 kt). Despite the decrease in the average copper grade in sulfide ore processed from 0.66% in 2017 up to 0.61% in 2018, it is quite high relative to the life of mine grade due to the enriched ore. The copper cathode production from the heap leaching operations from oxide ore increased to 25.7 kt (+2% y/y) due to an increase in the volume of oxide ore processed, compensated by a decrease in the average copper grade in oxide ore from 0.36% to 0.33%. As of 2018, 25.7 kt of copper from oxide ore and 131.4 kt of copper from sulfide ore as well as 489 koz of silver were produced at Aktogay.

In 2019, the Company plans to produce 130-140 kt of copper (25 kt of cathode copper from oxide ore and 105-115 kt of copper from sulfide ore) and 500 koz of silver. Due to the achievement of the design capacity at the factory in 2018, it is expected that the Company will increase the production of copper, which will be partially compensated by a reduction in grades.

***East region and Bozymchak.*** Taking into the consideration the decrease in the average grade of copper in ore processed from 1.89% in 2017 to 1.81% in 2018 due to a lower grade at the Orlovsky mine, annual copper production dropped to 61.7 kt (-7.9% y/y). Reduced zinc production in 2018 to 49.7 kt was due to a decrease in the zinc grade in ore processed to 2.42% (2017: 2.65%) due to a lower than forecast grade at the Artemyevsky mine and the limited access to the ore with a higher grade. Gold production decreased to 55 koz of gold (-6.6% y/y) due to a decrease in the gold grade processed to 0.73 g/t (in 2017: 0.76 g/t). As of 2018 in the East region and Bozymchak, 2 356 koz of silver were produced, which is 7.6% y/y less, due to a decrease in the volume of processed ore and a decrease in the grade at Bozymchak mine.

It is expected that annual copper production in 2019 will be reduced as the result of reduction of ore processed due to depletion of mines and will be about 55 kt of copper. In 2019 the Company plans to produce 40-45 koz of gold, 1 800 koz of silver and 50 kt of zinc in concentrate.

**Fig. 4. Preliminary assessment of the Baimskaya project**

| | |
|---|---|
| Processing capacity, mn tons | 60 |
| Average copper produciton, ktons | 250 |
| Average gold production, koz* | 400 |
| Estimated filed life | 25 years |
| Estimated capital investment in 2018-2026, bn USD | 5,5 |
| Estimated reserves of copper (JORC), mn tons with a content of 0.43% | 9,5 |
| Estimated gold reserves (JORC), mn oz with a grade of 0.23 g/ton | 16,5 |

*In the first 10 years of work

*Source: Company data*

### Baimskaya project

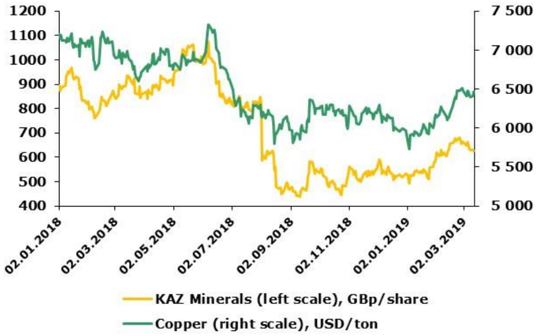
On the 22d of January 2019, the Company announced the initial completion of the acquisition of a 75% stake in the Baimskaya gold-copper deposit located in the Chukotka Autonomous Region of the Russian Federation. The Company paid 436 mn USD in cash and 239 mn USD with an additional issue of 22.3 mn shares (5% of the current volume of shares). Deferred remuneration in the amount of 225 mn USD for the remaining 25% stake in the project, KAZ Minerals will pay 21 mn shares as an additional issue of shares (4.7% of the current volume) if the project implementation conditions are fulfilled until March 31, 2029. Conditions include the provision of transport and energy infrastructures by the Russian government, year-round access to the port of Pevek and receipt of tax preferences. If a number of conditions for the launch of the project are not be satisfied until March 31, 2029, KAZ Minerals will pay 225 mn USD in cash.

The results of the feasibility study, including planned figures for the capital expenditure schedule, production volumes, operating expenses and capital costs for maintaining production will be announced in the first half of 2020.

Given the location of the project in the region, defined by the Russian government as strategically important for economic development, the expected tax preferences include the absence of income taxes during the first 5 years from the moment of receiving the first profit and a reduced tax rate in the next 5 years. Because we do not have information on the tax rates, we do not include tax preferences in our forecast.

Considerable support from the Russian government is a key factor in field development. It is expected that the Russian government will finance the construction of a year-round road to provide access from the field to the port. The company plans to supply copper concentrate to consumers from the port of Pevek to end customers, presumably to China.

**Fig. 5. The dynamics of copper and KAZ Minerals since beginning of 2018**




*Source: Bloomberg*

## Copper perspectives

After the correction in copper prices in the second half of 2018, due to the introduction of mutual duties by the United States and China, an increase in world copper production (mainly in Chile, Indonesia and the Congo), as well as a low level of total supply disruptions, the price of the base metal increased by 11% since the beginning of 2019. According to the consensus forecast by Bloomberg, the increase in metal prices from an average of 6 544 USD/ton in 2018 is expected to 6 945 USD/ton in 2020 (+3% y/y).

The growth of interest rates in the USA and the strengthening of the dollar against a number of currencies of the main trading partners can negatively affect the positive price movements in the forecast horizon in the commodity market. In addition to pressure from the dollar, concerns about trade wars between the United States and China, which could slow global economic growth, are key factors affecting copper demand. On the other hand, the stimulation of economy from China will support the demand for metals in the country. In the long term, forecasts for copper remain positive. Given the decline in investment in new deposits and the depletion of existing mines, supply for the market will not be enough to meet demand. In general, we expect an increase in copper prices in the long term due to the expectation of growth in the electric vehicle industry, energy infrastructure and the consumer goods industry.

## Update of recommendation

The main factors that influenced to increase our target price were:

- Positive forecasts for the industrial metals market and production indicators of the Company;
- Weighted average cost of capital (WACC) and long-term growth of the Company;
- The inclusion of the Baimskaya project in our assessment according to preliminary resource estimates and capital expenditure data; capital expenditures on the expansion of production.

**Fig. 6. Forecast of metal prices for period of 2019-2023**

| | 2019F | 2020F | 2021F | 2022F | 2023F |
|---|---|---|---|---|---|
| Copper, USD/ton | 6 531 | 6 945 | 7 165 | 7 263 | 7 336 |
| Gold, USD/oz | 1 282 | 1 333 | 1 323 | 1 331 | 1 345 |
| Zinc, USD/ton | 2 707 | 3 697 | 2 871 | 2 862 | 2 919 |
| Silver, USD/oz | 16 | 17 | 18 | 19 | 19 |

*Source: Bloomberg, Halyk Finance*

Considering the positive expectations for global copper demand and the global effect of the reduction in investment in new projects, we raised our forecast for copper prices in the forecast horizon. According to the consensus forecast of Bloomberg, we have assumed an average growth rate in copper prices equaling to 3% y/y for the period of 2019-2023 with the subsequent decrease in average growth to 1% y/y in the period of 2024-2029.

KAZ Minerals confirmed the annual forecast for the production of copper and other metals, as well as the expected gross cash costs (Fig. 7 and 8). Taking into account the data for 2018, we adjusted upward our expectations for the levels of copper, gold, zinc and silver production for 2019. KAZ Minerals plans to significantly increase production in the medium term through the construction of the 2nd Aktogay factory in 2022 (+80 kt of copper for the period from 2022-2027, +60 kt of copper in the future). According to the plans of the Company, the first production will commence in 2021. The company is investing 1.2 bn USD in new field, 400 mn USD of which will be spent in 2019. We adjusted upward our forecasts for capital costs and depreciation due to an increase in the capacity of the 2nd Aktogay factory. The launch of the factory will positively affect the Company's operating cash flows in the medium term. According to our forecasts, thanks to the construction of a new factory, the annual copper production will exceed 350 kt (+18% in 2022).

**Fig. 7. KAZ Minerals production forecats for 2019**

| | |
|---|---|
| Copper production, kt | 300 |
| Gold production, koz | 170-185 |
| Silver production, koz | 3 000 |
| Zinc production, kt | 50 |

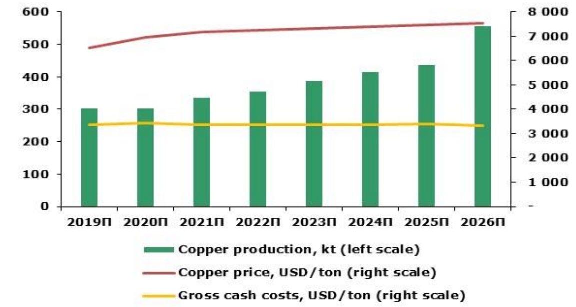
*Source: Company data*

**Fig. 8. Gross cash costs forecast for 2019, USD/t**

| | |
|---|---|
| Bozshakol | 2 866-3 307 |
| Aktogay | 2 315-2 756 |
| East region and Bozymchak | 5 732-6 173 |

*Source: Company data*

**Fig. 9. Forecast of copper production, prices for copper, gross cash costs of KAZ Minerals for 2019**




*Source: Bloomberg, Halyk Finance*

According to Wood Mackenzie research, as of December 31, 2018 the Company occupies a leading position in the industry in terms of net cash costs, being in the first quartile of the global cost curve. We do not expect a significant increase in production costs over the forecast time horizon. A significant part of the Company's operating expenses is denominated in tenge, and we base their growth in line with expected inflation at 5.1% y/y in Kazakhstan.

The company plans to start production at the Baimskaya deposit by the time production performance of existing deposits will decline due to the natural depletion of the mines. Given the practical experience of KAZ Minerals in the implementation of large-scale and low-cost projects, a positive effect from the launch of the project is anticipated in the long term. As the result of the project launch, the Company will increase copper production by 250 kt and gold production by 400 koz. Capital expenditures into the project in 2019 will be associated with the completion of the project feasibility study and will equal approximately 70 mn USD. The total investment in the project, including the costs in 2019, will be 5.5 bn USD.

According to our estimates, the fair value of KAZ Minerals is **760 GBp/share** and **3 904 KZT/share**, respectively, a **Buy** recommendation.

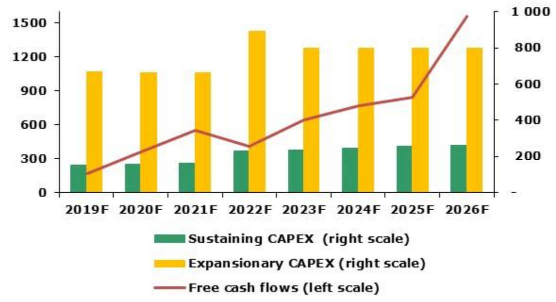
**Fig 10. Calculation of 12 TP of KAZ Minerals, mn USD**

| | 2019F | 2020F | 2021F | 2022F | 2023F | 2024F | 2025F | 2026F | 2027F | 2028F | 2029F |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | 2 284 | 2 455 | 2 709 | 2 880 | 3 109 | 3 334 | 3 497 | 4 748 | 5 015 | 5 022 | 5 027 |
| EBIT | 910 | 955 | 1 104 | 1 176 | 1 236 | 1 280 | 1 286 | 2 093 | 2 189 | 2 109 | 2 362 |
| "+Amortization" | 289 | 374 | 463 | 543 | 666 | 765 | 855 | 936 | 1 009 | 1 075 | 981 |
| "-Income tax" | 139 | 150 | 165 | 176 | 190 | 204 | 214 | 290 | 306 | 307 | 307 |
| "-Capital expenditures" | 820 | 817 | 823 | 1 117 | 1 036 | 1 045 | 1 054 | 1 063 | 1 073 | 353 | 366 |
| "-Changes in working capital" | 75 | 5 | 25 | 20 | 31 | 32 | 26 | 118 | 33 | 10 | - 28 |
| **Free cash flows** | **164** | **357** | **553** | **406** | **645** | **765** | **847** | **1 558** | **1 786** | **2 514** | **2 699** |
| WACC | 13% | | | | | | | | | | |
| Free cash flows (PV) | 146 | 281 | 385 | 250 | 353 | 371 | 364 | 594 | 603 | 753 | 716 |
| Terminal value (PV) | 2 112 | | | | | | | | | | |
| Enterprise value (EV) | 6 928 | | | | | | | | | | |
| "- Net debt forecast" | 2 270 | | | | | | | | | | |
| Market capitalization | 4 657 | | | | | | | | | | |
| Number of shares, mn | 447 | | | | | | | | | | |
| 12M Target price (GBp) | 760 | | | | | | | | | | |

*Sources: Company data, Halyk Finance*

With the exception of the Baimskaya project, capital expenditures on the expansion of production in 2019 include the following: 400 mn USD for the expansion of the 2nd sulphide factory at Aktogay, 70 mn USD for the development of the Artemyevsky mine and 20 mn USD for the study of the Koksay deposit.

**Fig. 11. CAPEX and free cash flow forecast, mn USD**




*Source: Company data, Halyk Finance*

When calculating the target price, we considered the new forecasts for the price of metals and updated the parameters for calculating the WACC. When increasing the debt burden, KAZ Minerals will increase the risk to market factors, which results in an increase in the cost of capital (WACC) at the level of 13% due to the impact of debt on the cost of funding. We have updated the risk-free rate of 1.16%, the average market return of 11.54% and the beta value for KAZ Minerals, which equals to 1.85. We take into account a long-term growth rate of 3.5% after 2029.

**Risks**

There are number of significant risks that may affect the Company's fundamental value. The deterioration in operating performance due to the depletion of existing fields, the negative change in copper price forecasts, and the worsening geopolitical situation between the Russian Federation and Western countries can make a significant adjustment to the Company's fair value.

For KAZ Minerals, there is a significant risk in the long term in the effective implementation of the Baimskaya project, which depends on the support of the Russian government, including the development of energy and transport infrastructures. However, in case the project is launched and the demand for copper increases, the Company will achieve significant copper production, adding a large-scale long-term asset to the Company's portfolio.

Appendix 1. The pro forma financial performance of KAZ Minerals, taking into account the launch of the Baimskaya project, million USD, except for data per share

| **Profit and Loss statement** | **2017A** | **2018A** | **2019F** | **2020F** | **2021F** | **2022F** | **2023F** | **2024F** | **2025F** | **2026F** | **2027F** | **2028F** | **2029F** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Revenues | 1 663 | 2 162 | 2 284 | 2 455 | 2 709 | 2 880 | 3 109 | 3 334 | 3 497 | 4 748 | 5 015 | 5 022 | 5 027 |
| Cost of sales | -755 | -1 077 | -1 164 | -1 286 | -1 378 | -1 465 | -1 618 | -1 781 | -1 924 | -2 309 | -2 458 | -2 545 | -2 297 |
| **Gross profit** | **908** | **1 085** | **1 120** | **1 169** | **1 332** | **1 416** | **1 491** | **1 552** | **1 574** | **2 439** | **2 557** | **2 477** | **2 729** |
| Selling and distribution expenses | -69 | -94 | -98 | -100 | -109 | -118 | -129 | -141 | -152 | -194 | -211 | -208 | -214 |
| Administrative expenses | -108 | -115 | -117 | -119 | -123 | -127 | -132 | -137 | -142 | -160 | -166 | -169 | -163 |
| Net other operating income | 4 | 4 | 4 | 5 | 5 | 5 | 6 | 6 | 6 | 9 | 9 | 9 | 9 |
| Impairement losses | -20 | -29 | - | - | - | - | - | - | - | - | - | - | - |
| **Operating profit** | **715** | **851** | **910** | **955** | **1 104** | **1 176** | **1 236** | **1 280** | **1 286** | **2 093** | **2 189** | **2 109** | **2 362** |
| Finance income | 30 | 33 | 34 | 28 | 30 | 33 | 34 | 32 | 30 | 35 | 44 | 55 | 75 |
| Finance costs | -165 | -245 | -282 | -269 | -312 | -329 | -375 | -390 | -395 | -406 | -297 | -241 | -147 |
| Net foreign exchange gain | - | 3 | - | - | - | - | - | - | - | - | - | - | - |
| **Profit/Loss before tax** | **580** | **642** | **661** | **714** | **822** | **880** | **895** | **922** | **921** | **1 723** | **1 936** | **1 923** | **2 290** |
| Income tax expense | -133 | -132 | -139 | -150 | -165 | -176 | -190 | -204 | -214 | -290 | -306 | -307 | -307 |
| **Profit/Loss from continuing operations** | **447** | **510** | **521** | **564** | **657** | **704** | **705** | **719** | **708** | **1 433** | **1 630** | **1 617** | **1 983** |
| Loss from discontinued operations | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **Net profit/loss for the year** | **447** | **510** | **521** | **564** | **657** | **704** | **705** | **719** | **708** | **1 433** | **1 630** | **1 617** | **1 983** |
| Number of shares, mn | 447 | 447 | 447 | 447 | 447 | 447 | 447 | 447 | 447 | 447 | 447 | 447 | 447 |
| **Profit/Loss per share, USD/share** | **1,00** | **1,14** | **1,17** | **1,26** | **1,47** | **1,57** | **1,58** | **1,61** | **1,58** | **3,20** | **3,64** | **3,61** | **4,43** |

| **Balance sheet** | **2017A** | **2018A** | **2019F** | **2020F** | **2021F** | **2022F** | **2023F** | **2024F** | **2025F** | **2026F** | **2027F** | **2028F** | **2029F** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Non-current assets** | | | | | | | | | | | | | |
| Property, plant and equipment, mining assets | 2 973 | 2 562 | 3 744 | 4 629 | 5 426 | 6 661 | 7 654 | 8 550 | 9 358 | 9 079 | 9 671 | 8 829 | 8 075 |
| Intangible assets | 7 | 6 | 7 | 7 | 7 | 7 | 7 | 7 | 7 | 7 | 7 | 7 | 7 |
| Other non-current assets | 170 | 301 | 286 | 280 | 274 | 268 | 262 | 257 | 251 | 245 | 239 | 233 | 227 |
| Deferred tax asset | 65 | 28 | 55 | 49 | 44 | 49 | 48 | 47 | 48 | 48 | 48 | 48 | 48 |
| **Total non-current assets** | **3 215** | **2 897** | **4 092** | **4 965** | **5 751** | **6 986** | **7 971** | **8 860** | **9 664** | **9 378** | **9 964** | **9 117** | **8 357** |
| **Current assets** | | | | | | | | | | | | | |
| Cash and cash equivalents | 1 821 | 1 219 | 914 | 982 | 1 084 | 1 152 | 1 088 | 1 000 | 1 049 | 1 424 | 1 505 | 2 511 | 2 513 |
| Current investments | - | 250 | - | - | - | - | - | - | - | - | - | - | 1 749 |
| Trade and other receivables | 132 | 127 | 134 | 144 | 159 | 169 | 183 | 196 | 205 | 279 | 295 | 295 | 295 |
| Inventories | 359 | 439 | 553 | 612 | 655 | 696 | 769 | 847 | 915 | 1 098 | 1 169 | 1 210 | 1 092 |
| Prepayments and other current assets | 82 | 90 | 97 | 78 | 78 | 78 | 78 | 78 | 78 | 78 | 78 | 78 | 78 |
| Income taxes prepaid | 13 | 18 | 18 | 18 | 18 | 18 | 18 | 18 | 18 | 18 | 18 | 18 | 18 |
| **Total current assets** | **2 407** | **2 143** | **1 716** | **1 834** | **1 994** | **2 114** | **2 136** | **2 139** | **2 265** | **2 897** | **3 064** | **4 113** | **5 746** |
| **Total assets** | **5 622** | **5 040** | **5 808** | **6 799** | **7 745** | **9 099** | **10 107** | **10 999** | **11 929** | **12 275** | **13 029** | **13 229** | **14 102** |
| **Total equity** | | | | | | | | | | | | | |
| Share capital | 171 | 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 | 2 650 |
| Capital reserves | -2 029 | -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 | 203 | 686 | 1 180 | 1 714 | 2 336 | 3 003 | 3 671 | 4 351 | 5 021 | 6 378 | 7 922 | 9 453 | 11 331 |
| Non-controlling interests | 3 | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 |
| **Total equity** | **998** | **1 054** | **1 548** | **2 082** | **2 704** | **3 371** | **4 039** | **4 719** | **5 389** | **6 746** | **8 290** | **9 821** | **11 699** |
| **Non-current liabilities** | | | | | | | | | | | | | |
| Borrowings | 3 459 | 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 | 70 | 76 | 73 | 75 | 74 | 74 | 74 | 74 | 74 | 74 | 74 | 74 | 74 |
| Other non-current liabilities | 88 | 77 | 79 | 81 | 84 | 86 | 89 | 91 | 94 | 97 | 100 | 103 | 106 |
| **Total non-current liabilities** | **3 617** | **3 067** | **3 336** | **3 329** | **3 695** | **3 952** | **4 143** | **4 175** | **4 046** | **3 812** | **2 898** | **2 149** | **1 561** |
| **Current liabilities** | | | | | | | | | | | | | |
| Borrowings | 418 | 539 | 490 | 911 | 836 | 1 234 | 1 328 | 1 450 | 1 786 | 871 | 942 | 328 | - |
| Trade and other payables | 272 | 320 | 419 | 463 | 496 | 528 | 583 | 642 | 693 | 832 | 886 | 917 | 828 |
| Other non-current liabilities | 302 | 49 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 |
| Income taxes payable | 15 | 11 | 11 | 11 | 11 | 11 | 11 | 11 | 11 | 11 | 11 | 11 | 11 |
| **Total current liabilities** | **1 007** | **919** | **924** | **1 389** | **1 346** | **1 776** | **1 925** | **2 105** | **2 493** | **1 717** | **1 841** | **1 259** | **842** |
| **Total liabilities** | **4 624** | **3 986** | **4 260** | **4 717** | **5 041** | **5 728** | **6 068** | **6 280** | **6 539** | **5 529** | **4 739** | **3 408** | **2 403** |
| **Total equity and liabilities** | **5 622** | **5 040** | **5 808** | **6 799** | **7 745** | **9 099** | **10 107** | **10 999** | **11 929** | **12 275** | **13 029** | **13 229** | **14 102** |

| **Cash Flow statement** | **2017A** | **2018A** | **2019F** | **2020F** | **2021F** | **2022F** | **2023F** | **2024F** | **2025F** | **2026F** | **2027F** | **2028F** | **2029F** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Net cash flows from operating activities | 752 | 673 | 937 | 1 303 | 1 262 | 1 541 | 1 385 | 1 521 | 1 818 | 2 288 | 1 884 | 1 843 | 698 |
| Net cash flows used in investing activities | -121 | -826 | -670 | -660 | -660 | -890 | -800 | -800 | -800 | -800 | -800 | - | - |
| Net cash flows from financing activities | 82 | -451 | -573 | -575 | -500 | -583 | -649 | -809 | -969 | -1 113 | -1 004 | -837 | -696 |
| **Net decrease/increase in cash and cash equivalents** | **713** | **-604** | **-305** | **69** | **102** | **68** | **-64** | **-88** | **49** | **375** | **80** | **1 007** | **2** |
| Cash and cash equivalents at the beginning of the year | 1 108 | 1 821 | 1 219 | 914 | 982 | 1 084 | 1 152 | 1 088 | 1 000 | 1 049 | 1 424 | 1 505 | 2 511 |
| Effect of exchange rate changes | - | 2 | - | - | - | - | - | - | - | - | - | - | - |
| **Cash and cash equivalents at the end of the year** | **1 821** | **1 219** | **914** | **982** | **1 084** | **1 152** | **1 088** | **1 000** | **1 049** | **1 424** | **1 505** | **2 511** | **2 513** |

*Sources: Company data, Halyk Finance*

Appendix 2. Brief description of the Company.

KAZ Minerals is a copper mining company with high growth potential, whose assets is represented by mines of the open type Bozshakol and Aktogay in Kazakhstan, three underground mines and three concentration plants in East Kazakhstan, and the Bozymchak gold mine in Kyrgyzstan. The company also produces associated metals: zinc, gold and silver.

On January 22 2019, the Company announced the initial completion of the acquisition of a 75% stake in the Baimskaya gold-copper deposit. According to preliminary estimates, the deposit's reserves are 9.5 mn tons of copper and 16.5 mn oz of gold, which implies an annual production of 330 kt of copper equivalent in the first 10 years of operation.

The company entered the IPO in 2005. Shares of KAZ Minerals are listed on the London and Kazakhstan stock exchanges. The main shareholders of KAZ Minerals are Vladimir Kim (31.7%), Oleg Novachuk (14%) and Vladislav Kim (6.7%).

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