

Operating results of KAZ Minerals for 1Q2019

Aliya Assilbekova — April 26, 2019

Copper production in 1Q2019 increased to 70 ktons (+4% y/y), gold production decreased to 43.4 koz (-13% y/y), zinc production amounted to 6.2 ktons (-56% y/y) and silver production decreased to 626 koz (-27% y/y). The company confirmed its production targets for 2019 at the level of 300 ktons of copper, 170-185 koz of gold and 3,000 koz of silver, while the production of zinc in concentrate is expected to be lower than the planned 50 ktons. As of March 31 2019, the Company's net debt increased from USD1 986 mn at the end of 2018 up to USD2 487 mn, which was mainly due to the payment for the acquisition of the Baimskaya copper deposit in the amount of USD436 mn, as well as capital expenditures for the expansion of Aktogay in the amount of USD92 mn.

Fig 1. Metal production by field

	1Q2019	1Q2018	%
Bozshakol			
Copper production, ktons	23,8	26,9	-12%
Gold production, koz	30	36	-17%
Silver production, koz	169	183	-8%
Aktogay			
Copper production, ktons	36,7	26,4	39%
Copper cathode production, ktons	5,7	5,3	8%
Silver production, koz	143	95	51%
East region and Bozymchak			
Copper production, ktons	9,5	14	-32%
Gold production, koz	12,5	13,6	-8%
Silver production, koz	314	574	-45%
Zinc production, ktons	6,2	14,2	-56%

Source: Company data

At Bozshakol, the Company increased its ore output by 9% y/y to 8.9 mn tons due to the large amount of clay ore extracted to gain access to sulphide ore. Copper and gold production was reduced due to lower content (0.44% copper, 0.25 g/t gold). Meanwhile, the Company expects an increase in the average content of gold and copper grade at Bozshakol until the end of 2019, confirming the forecast range of copper and gold production for 2019 at the level of 105-115 ktons and 130-140 koz, respectively.

At Aktogay, copper production from sulphide ore increased to 31 ktons (+ 46.9% y/y) due to a higher level of extraction, while the copper cathode production from heap leaching reached 5.7 ktons (+ 7.5% y/y) compared with last year, when production was affected by low temperatures at the beginning of the year. Ore output in 1Q2019 increased by 30% y/y compared to 1Q2018 due to increased production at the Aktogay sulphide concentration plant.

The volume of ore processing in the Eastern Region and Bozymchak was reduced to 625 ktons (-33% y/y) due to the planned shutdown of the Nikolayevsky plant, which resulted in a 32% reduction in copper production to 9.5 ktons. Zinc production decreased to 6.2 ktons as the result of a decrease in the volume of processing and lower average grade at Orlovsky mine. Due to lower processing volumes, gold production (-8% y/y) and silver (-45% y/y) decreased in 1Q2019 compared to 1Q2018.

Our opinion:

In general, due to the increased recovery rates and an increase in the volume of ore processed in 1Q2019 on Aktogay, copper production in the amount of 37 ktons was achieved, compensating for the seasonal fluctuation of oxide production and a decrease in the average copper grade in the ore. The company predicts an increase in production at Bozshakol and in the Eastern region during the following nine months of 2019. By the end of the year, an increase in the processing volume is expected at the Nikolayevsky and Bozshakolsky plants for the processing of clay ore. KAZ Minerals operating

results for 1Q2019 do not have significant deviations from our expectations and do not make changes to our annual forecast. We maintain our **Buy** recommendation and 12MM TP **760 GBp/share**.

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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

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