

Financial results of KAZ Minerals for 2018

Aliya Assilbekova — February 22, 2019

The company demonstrated strong financial results for 2018, which are within our expectations. A significant increase in production (+14% y/y) in combination with an increase in copper prices compared to 2017 (+6% y/y) contributed to increase in revenue to USD 2 162 mn (+30% y/y) in comparison with 2017, EBITDA to USD 1 310 mn USD (+26% y/y), operating profit to USD 851 mn (+19% y/y) and net profit to USD 510mn (+14% y/y).

The company's net debt reduced by 3% y/y to USD 1 986 mn (USD 2 056mn as of 31.12.2017). Free cash flows for 2018 amounted to USD 585 mn against free cash flows of USD 452 mn for 2017 (+29% y/y).

The actual expansionary capital expenditures for the reported period amounted to USD 530 mn against USD 630 mn, which were forecasted by the Company. Approximately USD 130 mn of unspent funds will be invested in sustaining and expansionary of production in 2019.

According to 2019 forecast, the Company is intended to produce 300 kt of copper, out of which 105-115 kt are planned to produce at Bozshakol mine, 130-140 kt at Aktogay and 55 kt at East region and Bozymchak.

Gross cash costs of copper production increased by 4% y/y due to high indicator in East region (in 2018 it was 3 175 USD/t against 3 042 USD/t in 2017). In 2019, the Company forecasts increase of the gross cash costs at Bozshakol mine, East region and Bozymchak as the result of the maintenance costs, lower copper output, higher raw materials prices and increase in inflation.

As the result of high indicators and successful delivery of Aktogay and Bozshakol projects, the Board of Directors approved the final dividends for 2018 in the amount of 6 USc/share in addition to the interim dividends in the amount of 6 USc/share, which were paid in October 2018. The final dividends for 2018 will amount to 12 USc/share with the dividend yield of 1,4% relative to the current market price.

Our opinion:

On the whole, the financial results of the Company for 2018 are within our expectations. Increased copper production and rising prices for realized metals stimulated an increase in revenues to USD 2 162mn (+30% y/y) in 2018. Despite the rise in prices of base metals observed in the second half of the 2018, the current market consensus for the copper for 2019-2020 suggests an average price increase of 3% y/y.

Due to lower capital expenditures (USD 630mn - the forecast, USD 530 mn -actual) and the receipt of the VAT return on growth projects (USD 232mn), the net debt of the Company was USD 1986 mn, which is below our expectations. Considering the expansionary capital expenditures for Baimskaya and Aktogay projects, the Company forecasts a relatively capital-intensive investment in the expansion of production, which will amount to USD 670 mn in 2019. As a result, we do not expect a significant reduction in the debt burden in the medium term. The adjustment of our forecasts in accordance with the provided forecasts of the Company does not entail a significant change in our target price. We maintain our recommendation to **Buy** with **12M TP 720 GBp/share**.

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