

Kaz Minerals: decline in financial performance due to low copper prices

Altynay Ibraimova — August 16, 2019

Despite an increase in production, Kaz Minerals lost 4% in revenue following the correction of copper prices in 1H2019.

Copper sales accounted for 81% of total revenue. In 1H2019 sales of copper in concentrate decreased by 12% yoy to 80thns tons, and the average selling price was \$5616/ton, which is lower by 8% yoy. Revenue from the sale of copper in concentrate decreased by 20% yoy to \$449mn.

At the same time, the company continues to hold low cost positions in the industry, with the unit net cash cost of 80USc/lb (82USc/lb in 1H2018), which allowed it to maintain the total cost at 1H2018 unchanged (\$533mn).

Operating profit made \$410mn, down 12% yoy.

Taking into account the growth in financial expenses (+11% yoy), profit for the period amounted to \$227mn, decreasing by 18% yoy.

Capex for expansion amounted to \$332mn (\$325mn in 1H2018), Capex for depreciation - \$66m (\$39mn in 1H2018), with a planned annual rate of \$150mn. Total capex for the development of Baimskaya in 2019 expected at around \$150mn, instead of the previously planned \$70mn: BoD approved \$80mn capex for 2H2019. The capex plan for Aktogay II was increased from the previous \$400mn to \$600mn in 2019, while the project budget did not change (\$1.2bn).

Free cash flow decreased by 41% yoy to \$182mn. Net debt is \$2560mn. Cash position declined from \$1.469bn at the end of 2018 to \$739mn at the end of 1H2019.

Our view

In 1H2019 copper price formed at less favorable levels for the company and is inferior to our forecasts of \$6531/ton for 2019. At the same time, EBITDA margin (59% in 1H2019) exceeds our annual forecast of 52% due to the preservation of low-cost production. We assess the growth of the Capex plan for the current year as neutral and do not note a strong influence on the company's valuation, taking into account the preservation of the overall budget for large projects. We put our recommendation under review due to the deterioration of external factors in the international market of industrial metals.

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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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