

KAZ Minerals: announced production results for 2018

Aliya Assilbekova — January 25, 2019

According to the production results, the Company produced 294,7 kt of copper, which is 14% y/y higher than the previous year's production results (2017:258,5 kt of copper) and corresponds to the upper limit of the planned annual range of 270-300 kt. Positive production results of Aktogay positively affected the Company's growth for the copper production. Company has increased its gold production by 3% y/y, which amounted to 183,4 koz, and turned out to be higher than the planned annual range of 160-175 koz. The Company has produced 3 511 koz of silver (+0,14% y/y), which exceeded annual target level of 3 000 koz. The annual production of the zinc concentrate equaled to 49,7 kt (-14% y/y) due to the lower than expected zinc grades.

The copper production in 2018 on Bozshakol mine has slightly increased and amounted to 101,6 kt of copper (+0,30% y/y). The decline in the copper production on Bozshakol was mainly due to the lower average copper grade processed (0,48% in 2018 versus 0,53% in 2017). There was also increase in the gold production reaching 127,8 koz (+7% y/y) on Bozshakol, which exceeded annual target indicator of 115-125 koz. The silver production in 2018 amounted to 666 koz (-3% y/y), which exceeded by 33% the planned figure of about 500 koz.

The overall increase in the Company's copper production was mainly due to the ramp up of the operations at the sulphide plant on Aktogay and higher recovery rates, where the figure has reached 131,4 kt of copper (+46% y/y) and slightly exceeded the planned range of 110-130 kt. The copper production on Aktogay included 105,7 kt (+62% y/y) of copper production from sulphide ore and copper cathode output of 25,7 kt (+2% y/y) from the heap leaching operations.

In the East region and Bozymchak, due to the reduction of ore processing (-3% y/y) and with a decrease in the average grade processed (1,81% in 2018 versus 1,89% in 2017), 61,7 kt of copper was produced (-8% y/y), which is 5% below the annual target of 65 kt. The production of zinc in concentrate reduced by 14% y/y (49,7 kt in 2018 versus 57,6 kt in 2017) due to the lower than expected zinc grades at the Artemyevsky mine. In 2018, 55 koz of gold were produced (-7% y/y) with the annual forecast of 45-50 koz. In addition, 2 356 koz of silver (-8% y/y) were produced at the expected level of 2 000 koz.

Our opinion:

The Company has achieved an annual copper production plan as the result of the increased production on the two main projects located in Kazakhstan - Bozshakol and Aktogay. Approximately 45% of the overall Company's copper production came from Aktogay mine, which was the key driver in increasing KAZ Minerals's copper production in 2018. The production results do not affect significantly our financial forecasts and estimates of the Company. Observing the gradual approximation of the copper price to the current consensus forecast (6 515 USD/t for 2019), we expect the Company's value to recover and maintain our recommendation to **Buy** with 12M TP **720 GBp/share**.

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