

RECOMMENDATION

Buy**KazMunayGas JSC**

Upside potential: **52%**
 Target price: **12 800 KZT**
 Offering price: **8 406 KZT**

STOCK MARKET

Equity research | DCF

Kazakhstan | Oil and Gas

flashnote

KazMunayGas: 3Q 2022 Performance

**Financial performance, billion KZT, 9M22**

Revenue	7 660
Share in income of joint companies	779
Net profit	1 162
Free cash flow	730

Ratios, Indexes and Margin, 9M22

P/E, (x)	3,9x
EV/EBITDA, (x)	3,3x
P/B, (x)	0,52x
ROA, (%)	9,4%
ROE, (%)	16%
EBITDA margin, (%)	27%

IPO data

Shares issued (million shares)	610
Shares to be offered (million shares)	30,5
Offering price (KZT)	8 406
Capitalization (billion KZT)	5 129
Capitalization (mln USD)	10 904
IPO value (billion KZT)	256
Ticker KASE	KMGZ
Ticker AIX	KMG
Investment horizon:	6-12 months

On November 22, KazMunayGas reported moderately positive results for 9M 2022. The company continues to show revenue growth due to the growth in oil prices and the consolidation of Kashagan's financial data. At the same time, a key indicator, free cash flow, shows much more significant growth, including due to an increase in dividends from joint companies. We believe that dividends from joint companies will show significant growth at the end of the year, which will allow the company to maintain its current free cash flow growth rate. As a result, this will allow counting on dividends from KMG in the amount of KZT 450 billion, or KZT 740 per share, which gives a good dollar dividend yield to the offering price. Since the IPO has not taken place yet, we still retain our previous valuation of KazMunayGas shares at KZT 12,800 with upside potential of 52% of the offering price. **Recommendation: "Buy".**

(=) Revenue growth in line with expectations. In separate 3Q 2022, KazMunayGas's revenue continued to grow. Growth amounted to 34% YoY due to increase in the price of petroleum products due to a 34% YoY increase in oil prices. A quarterly revenue growth of 15% was largely due to the recent repurchase of a 50% stake in KMG Kashagan. In terms of segments, revenue from the sale of petroleum products showed the highest annual growth (+104%). The main factor behind the increase seems to have been the rise in prices for oil products in other countries, in particular in Romania. In quarterly terms, revenues from sales of crude oil and gas grew the most (+16% QoQ), despite a 13% QoQ decline in oil prices. It became possible thanks to the consolidation of Kashagan's financial data.

(+) Growth in dividends from joint companies. For 9M2022, the share in income from joint companies increased by 68% due to the growth in oil prices. In a separate 3Q, TCO showed the main growth with an increase in profit by 81% YoY, also CPC profit increased by 4% YoY. At the same time, all other more or less large joint companies, except KazGerMunai, showed a decrease in profits in a separate quarter. In quarterly terms, none of the major joint companies was able to show profit growth due to a quarterly decline in the average oil price. But, dividends from joint companies were up 262% YoY and 3% QoQ.

(+) Significant growth in free cash flow. For 9M2022, free cash flow of KMG amounted to KZT 730 billion with an increase of 72% YOY. Such trend became possible largely due to the growth of operating cash flows due to the increase in oil prices. In a separate

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quarter, growth is even more impressive due to the consolidation of Kashagan. The company's 9M EBITDA increased by 42% YoY, and in a separate quarter, it increased by 36% YoY and 29% QoQ, continuing the trend of revenue and free cash flow. The key leverage ratio "net debt/adjusted EBITDA" is now 1.3x, which allows investors to expect dividends of 40% of free cash flow.

Our opinion. We consider the company's report as moderately positive, and we expect the current annual free cash flow growth rates to be maintained. Most likely, KMG will receive additional dividends from joint companies in the 4Q, which will eventually allow us to count on free cash flow at the level of KZT 1.1 trillion at the end of the year. Amis above, it can be expected that dividends from KMG could amount to KZT 450 billion, or approximately KZT 740 per share after the end of 2022, which gives a good dollar dividend yield of 8.8% to the offering price. Since the IPO has not taken place yet, we still retain our previous valuation of KazMunayGas shares at **KZT 12,800 with upside potential of 52%** of the offering price **Recommendation: "Buy"**.

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