

Equities

2 March 2012 | 7 pages

Kazakhmys Plc (KAZ.L)

Alert: Management Meeting Feedback

- We attended a breakfast meeting with Kazakhmys management today. The shares have fallen by ~ 9% since results were announced, on account of the company's cost guidance of 150c-180c in 2012 and an incremental \$100mn of capex in the captive power plants to refurbish turbines. We expected costs of 159c/lb but we suspect that some of the sell side and certainly most of the buy side had lower cost expectations – probably around 120c/lb. The capex bump was a surprise for us too.
- We came away reassured that our view of conservative volume guidance (285-295) still holds. We should also see a next wave of projects being moved into feasibility studies over the next 12-18 months, and the Akbastau concentrator could be approved this year. Assuming a 2-year lead time, we could get an increase to volumes by 2015E and a drop in costs (\$600/t saving in transport costs alone).
- Investors will ultimately care more about the next 12 months than 2015 today, in our view. Nearer term, we should see gold sales resume at market price (ex-VAT), power tariffs at the captive power stations should increase substantially, and a first dividend from the power business is likely in 2012E.

Company Update

Buy	1
Price (02 Mar 12)	£10.49
Target price	£15.20
Expected share price return	44.9%
Expected dividend yield	6.1%
Expected total return	51.0%
Market Cap	£5,554M
	US\$8,862M

Price Performance

(RIC: KAZ.L, BB: KAZ LN)



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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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Kazakhmys Plc

Valuation

We have a target price of £15.2 on Kazakhmys. Our target price is based on a blend of NPV and earnings-based multiples (2011E EV/EBITDA). We derive a DCF value of £17.4 (based on a DR of 14.1%, terminal growth of 2% and a premium of 5%), which is supported by our multiples-based fair value estimate. We calculate £11.8/share from a SOTP EV/EBITDA valuation and £18.7/share from free cash flow analysis, which are equally weighted with our DCF value of £17.4 to give a target price of £15.2.

Risks

Adverse movements in the copper price away from our forecasts could see a significant delta in our forecasts from actual profits, both positively and negatively. The company conducts the bulk of its business in Kazakhstan and geopolitical risks could cause the share price to deviate significantly from our target price. If the impact on the company from any of these factors proves to be more or less negative than we anticipate, the stock could have difficulty achieving or exceed our financial and price targets.

Appendix A-1

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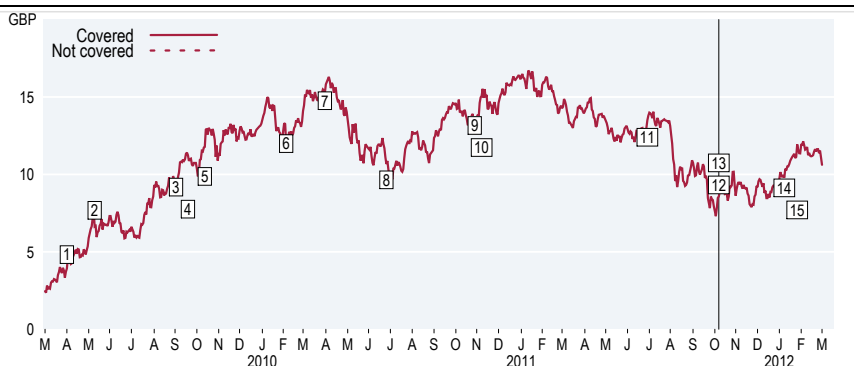
Kazakhmys Plc (KAZ.L)

Ratings and Target Price History

Fundamental Research

Analyst: Anindya Mohinta

Covered since June 22 2010



	Date	Rating	Target Price	Closing Price
1	1-Apr-09	2M	*3.96	3.92
2	10-May-09	*1M	*8.35	7.68
3	2-Sep-09	1M	*11.00	9.20
4	18-Sep-09	*2M	*13.00	11.24
5	13-Oct-09	2M	*12.70	11.78

	Date	Rating	Target Price	Closing Price
6	4-Feb-10	2M	*13.30	11.99
7	31-Mar-10	2M	*16.10	15.27
8	25-Jun-10	2M	*13.00	10.67
9	28-Oct-10	*1M	*15.30	13.26
10	7-Nov-10	1M	*16.00	14.97

	Date	Rating	Target Price	Closing Price
11	29-Jun-11	*1H	*15.50	13.50
12	7-Oct-11	Stock rating system changed		
13	7-Oct-11	*1	15.50	8.58
14	9-Jan-12	1	*15.60	9.79
15	26-Jan-12	1	*15.20	11.94

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Kazakhmys Plc (KAZ.L)

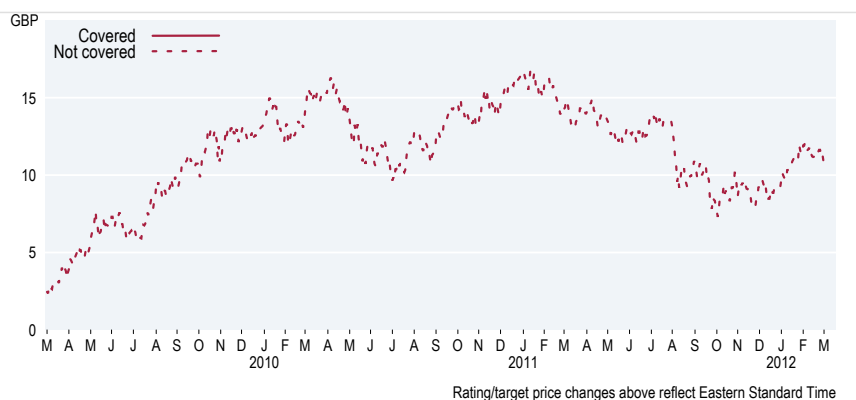
Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Anindya Mohinta

Covered since June 22 2010



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Data current as of 31 Dec 2011

	12 Month Rating			Relative Rating		
	Buy	Hold	Sell	Buy	Hold	Sell
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