March 31, 2025

RECOMMENDATION

Buy

JSC «KazMunayGas» (KMGZ)

STOCK MARKET

DCF

Kazakhstan | Integrated Oil & Gas

Upside: **20%**
Target Price: **17,500 KZT**
Last price: **14,560 KZT**

flashnote/update

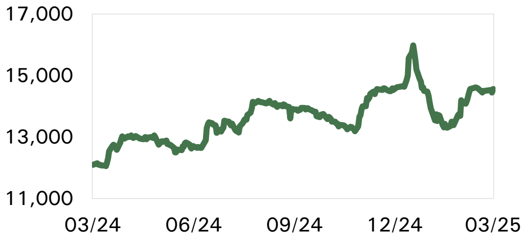
KazMunayGas: Results for the 4th quarter 2024

Revenue, '24 (billion KZT)	**8,330**
Share in profit from JV and associates, '24 (billion KZT)	**531**
Net Income, '24 (billion KZT)	**1,078**
Free Cash Flow, '24 (billion KZT)	**1,199**

P/E, '24 (x)	**8.2x**
EV/EBITDA, '24 (x)	**4.9x**
P/BV, '24 (x)	**0.7x**
ROA (%)	**6.4%**
ROE (%)	**10.9%**
EBITDA Margin (%):	**24%**

Market cap (billion KZT)	**8,883**
Shares issued (million units)	**610**
Free float (%)	**3%**
52-week min/max (KZT)	**11,490-16,000**
Current price (KZT)	**14,560**
Target Price (KZT)	**17,500**
Upside (%)	**20%**
Investment horizon	**6-12 months**
Planned price update frequency	**Quarterly**

Stock dynamics / exchange/ticker **KASE/KMGZ**



Performance (%)	3 months	9 months	12 months
Absolute	-1%	-2%	-7%
vs KASE	-3%	-9%	-21%

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KazMunayGas published its financial report for the fourth quarter of 2024. Overall, the company's quarterly financial performance showed a noticeable decline, largely due to differences in dividend payout schedules, which this year fell in the third quarter. However, when looking at the annual report, revenue and EBITDA remained stable despite a significant drop in oil prices in 2024. On the other hand, free cash flow saw substantial growth, while net debt decreased. In our valuation model, we raised the projected inflation rate and discount rate due to the increase in the National Bank base rate. However, the depreciation of the tenge and the decline in net debt offset the decrease in valuation. As a result, our updated target price for a KazMunayGas share slightly decreased to 17,500 KZT, implying a 20% upside potential from the last market price. Recommendation – "Buy".

(=) Revenue Declined as Expected Due to Oil Prices. KazMunayGas reported Q4 2024 revenue of 1.98 trillion KZT, down 11% y/y and 6.1% q/q. The annual revenue decline was mainly driven by a 25% y/y drop in crude oil sales revenue due to an 11% y/y decrease in the average quarterly oil price. Total quarterly oil production also declined by 3.9% y/y, primarily due to a 12% drop at Tengiz and a 28% decline at Kashagan. On a quarterly basis, crude oil revenue also fell by 10%, despite a 0.9% increase in production from operating assets. Meanwhile, annual revenue from petroleum products grew by 7% y/y, and revenue from oil and petroleum product processing increased by 5.3% y/y. The share of earnings from joint ventures declined by 11% q/q but showed strong annual growth compared to last year's losses. Most of the annual growth came from TCO and Ural Group Limited, with quarterly profits rising significantly. However, despite a 93% q/q increase in TCO's profit, several companies posted quarterly losses, contributing to the overall quarterly decline in earnings from joint ventures. As a result, total revenue, including other income, amounted to 2.17 trillion KZT (-3.2% y/y and -5.8% q/q).

(=) Low Quarterly Profitability but Strong Annual Results. Net operating expenses in the fourth quarter decreased by 1.9% q/q and 17% y/y. However, most of this dynamic is due to a high positive foreign exchange gain of 129 billion KZT for the quarter. Nevertheless, excluding this income, total expenses fell by 9.6% y/y, largely due to a 15% q/q decrease in the cost of purchased oil and petroleum products. Meanwhile, production expenses increased by 5.9% y/y. As a result, the company posted an operating profit of 305 billion KZT in the fourth quarter, down 24% from the previous quarter but significantly higher than in 2023 when there was a 5.6 billion KZT loss. Adjusted EBITDA dropped significantly by 53% y/y and 52% q/q, amounting to 352 billion KZT, while the adjusted EBITDA margin declined from 31% in the third quarter to 17%. The decrease was primarily due to lower dividends from joint ventures and associates in the fourth quarter, as most of them were received in the third quarter. As a result, for 2024, KMG received dividends totaling 643 billion KZT (+3.7% y/y), while annual EBITDA increased by 1.1% y/y. The annual EBITDA margin slightly rose from 23.5% to 23.7%. The quarterly net profit attributable to KMG shareholders amounted to 225 billion KZT (-27% q/q). In annual comparison, quarterly net profit increased by 236 billion KZT. The quarterly net profit per share was 370 KZT, while for the entire year of 2024, it amounted to 1,794 KZT (+14% y/y). Free cash flow for the fourth quarter reached 187 billion KZT (-64% y/y and -54% q/q). The decline was mainly due to differences in the timing of dividend payments from joint ventures and associates. For the full year, free cash flow reached a record 1.2 trillion KZT (+22% y/y). KMG's net debt decreased by 7% q/q and 25% y/y. As a result, the net debt-to-EBITDA ratio for 2024 declined from 0.86x to 0.64x but increased from 0.58x on a quarterly basis.

Our opinion and valuation model changes. KMG's financial report can be considered neutral when viewed on a quarterly basis. In this case, financial performance generally declined due to differences in the payout schedules of most dividends from joint ventures and associates. A relatively low average quarterly oil price also had a negative impact. However, when considering the report for the entire year of 2024, it appears moderately positive. While annual revenue did not grow, adjusted EBITDA and its margin slightly increased. This occurred despite a significant drop in oil prices throughout the year. Additionally, there was substantial annual growth in free cash flow, leading to a reduction in net debt and its ratio to EBITDA. This ratio is now at its lowest year-end level for the first time in many years. In our valuation model, we increased the projected inflation rate, accelerating the growth of cost of sales and production expenses. Additionally, we noted an increase in the weighted average cost of capital due to the rise in the base rate and the equity risk premium. On the other hand, an increase in both the forecasted and actual exchange rate of the dollar, along with a reduction in net debt, offset the decline in the valuation. Collectively, these changes resulted in a slight decrease in the target price of a KazMunayGas share to **17,500 KZT**, with a **20% upside potential. Recommendation – "Buy".**

Appendix

Illustration 1. Key changes in the latest version of the valuation model

Changes	Date of valuation 02.12.2024	Date of valuation 31.03.2025	Change, %	Comments
Weighted average WACC, %	13.4%	13.8%	+40 bp	National Bank base rate hike and increase in equity risk premium
USDKZT exchange rate	483	505	+4.6%	Actual rise of exchange rate and subsequent increase of its projections

Freedom Broker estimates

Illustration 2. Previous recommendations and price targets from Freedom Broker. (B - "buy", H - "hold", S - "sell")

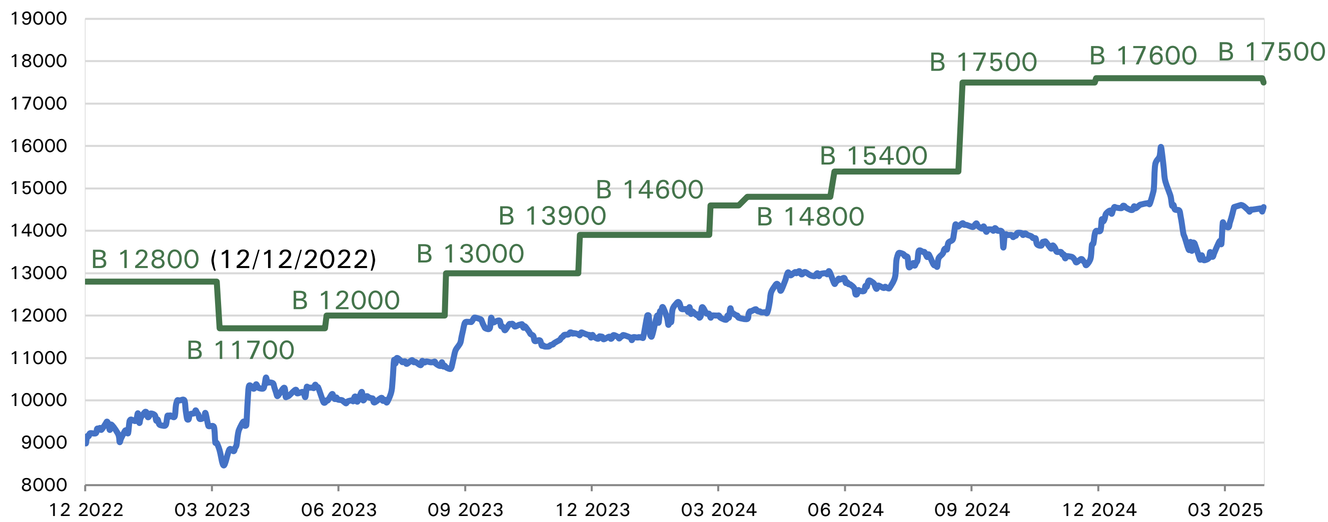

Illustration 3. P/E and EV/EBITDA multiples according to Freedom Broker estimates

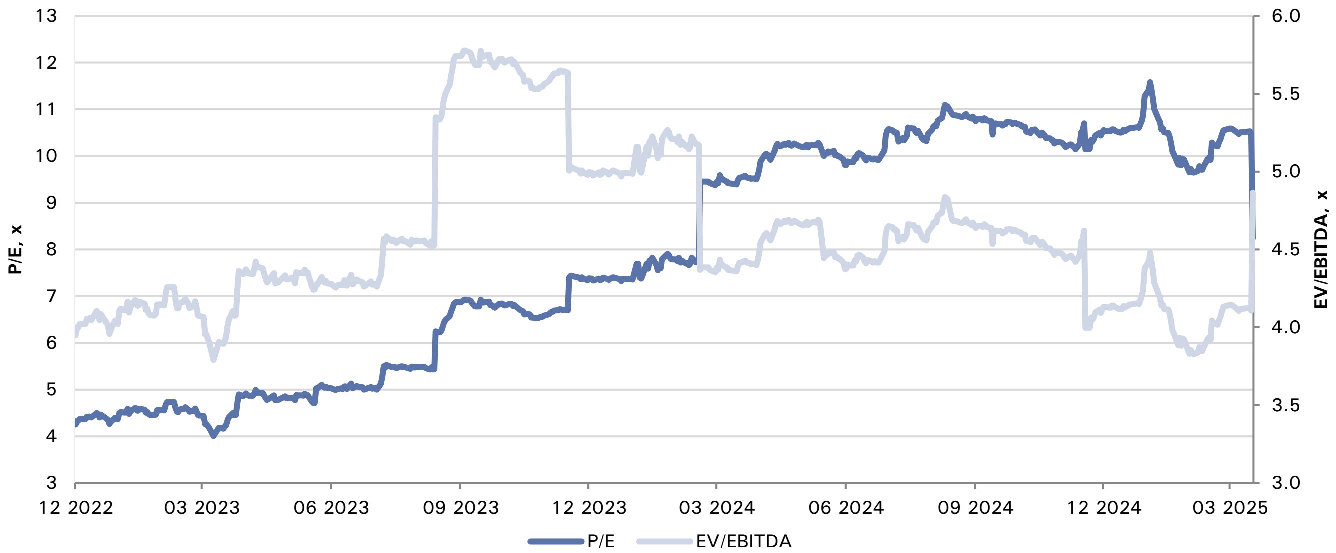

Illustration 4. Current Rating Percentage from Freedom Broker for KASE securities

Recommendation	Quantity	Percentage
Buy	8	80%
Hold	1	10%
Sell	1	10%

Disclosure of information

- The author(s) or member of his/her family of this report have no financial interest in the securities of the Issuer
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- The Company may be a market maker in relation to the Issuer's shares. A detailed list of financial instruments is available on the website of the Kazakhstan Stock Exchange at this link: https://kase.kz/ru/membership/SEVEN/

Rating system

- Buy: A stock that, at the time of rating, is expected to increase in price by more than 20 percent over the next 6-12 months.
- Hold: A stock that, at the time of rating, is expected to move in price in the range of minus 10 percent to plus 10 percent over the next 6-12 months.
- Sell: A stock that, at the time of rating, is expected to decline in price by more than 10 percent over the next 6-12 months.