July 16, 2025

RECOMMENDATION

Hold

JSC «Kazakhtelecom» (KZTK)

STOCK MARKET

DCF

Kazakhstan | Telecom

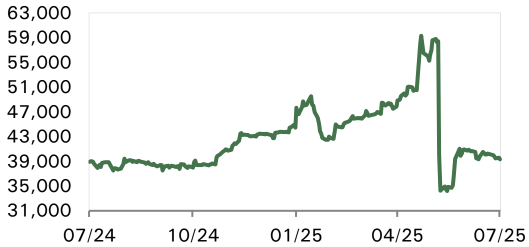
Upside: **-9%**
Target Price: **35,800 KZT**
Last price: **39,315 KZT**

update

Kazakhtelecom: Results for the 1st quarter 2025

Revenue, 3M '25 (billion KZT)	**138**
EBIT, 3M '25 (billion KZT)	**158**
Net Income, 3M '25 (billion KZT)	**9.6**
Net Debt, 3M '25 (billion KZT)	**114**
P/E, norm. 3M '25 (x)	**15.3x**
P/BV, 3M '25 (x)	**0.63x**
EV/S, 3M '25 (x)	**1.0x**
EV/EBITDA, 3M '25 (x)	**3.2x**
ROA (%)	**1.8%**
ROIC	**5.9%**
ROE (%)	**3.2%**
EBITDA Margin (%):	**35%**
Market cap (billion KZT)	**421**
Shares issued (million units)	**10.7**
Free float (%)	**9.4%**
52-week min/max (th. KZT)	**32.5-63.3**
Current price (KZT)	**39,315**
Target Price (KZT)	**35,800**
Upside (%)	**-9%**
Investment horizon	**6-12 months**
Planned price update frequency	**Quarterly**

Stock dynamics / exchange/ticker **KASE/KZTK**



Performance (%)	3 months	9 months	12 months
Absolute	-15%	-9%	15%
vs KASE	-26%	-16%	-4%

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JSC Kazakhtelecom reported results for Q1 2025. Quarterly revenue showed a modest increase, while operating margin declined slightly compared to 2024. This report was notable in that the company accounted for the recent sale of its subsidiary Mobile Telecom-Service (MTS, Altel-Tele2). As a result, net profit surged. However, this profit will not affect future dividends, as most of the proceeds from the deal have already been paid out. We believe that the share price should remain near its pre–ex-dividend date level, minus the dividend amount. In our valuation model, we updated key financial indicators and adjusted net debt to reflect recent dividend payments. As a result, our updated target price for one Kazakhtelecom share decreased to 35,800 KZT, representing a -9% downside potential from the current level. Recommendation – Hold.

(+) Quarterly revenue increased. Revenue, including government subsidies and excluding the now-divested Altel-Tele2, rose by 5.8% QoQ and 16% YoY, totaling 138 billion KZT. The main growth driver was data transmission services revenue, which amounted to 70 billion KZT. The "Other" category also contributed significantly, rising 15% QoQ and 31% YoY. Revenue from fixed and wireless telephony remained stable at around 25–26 billion KZT per quarter. Revenue from mobile device sales grew 18% YoY, but fell 6.4% QoQ, likely due to seasonality.

(=) Margin slightly declined. Gross margin fell from 24% in 2022 to 22.6%. Cost of goods sold rose 6% QoQ and 18% YoY, mainly due to a nearly threefold increase in miscellaneous costs. Depreciation and amortization also contributed significantly (+15% YoY), while personnel expenses remained roughly flat. The quarterly decline was only 3.8%, likely indicating salary growth, as Q4 is usually seasonally high due to bonuses. As a result, adjusted EBITDA margin declined from 36.4% to 35% YoY. Notably, the company recorded a profit of 162 billion KZT from the sale of MTS in Q1, which is excluded from our EBITDA and net profit calculations. Thanks to this sale, net profit hit a record 107 billion KZT, despite recognizing 22.7 billion KZT in impairment losses on other long-term financial assets. This is likely because not all proceeds from the transaction were received, and the remaining payment is conditional. Interest expenses reached 13 billion KZT (+50% QoQ, +38% YoY). FX losses also surged sharply from -1.1 billion KZT to -19.2 billion KZT YoY, as the deal proceeds were received in USD and the tenge's appreciation led to currency translation losses. According to our estimates, adjusted net profit attributable to shareholders, factoring in hypothetically reduced income tax and FX losses, but excluding MTS sale proceeds and abnormal impairment expenses, amounted to 9.6 billion KZT (-45% QoQ and +5.5% YoY).

(–) Decline in free cash flow. Free cash flow in Q1 2025 amounted to -38.9 billion KZT, down 17% from Q4 and 88% YoY. The main factors were the MTS divestiture and higher income tax payments due to the large one-time profit from the deal. CapEx declined by only 12.5% YoY compared to last year, which included MTS cash flows. We also note an income tax prepayment of 76 billion KZT still on the balance sheet, resulting from a large Q4 overpayment due to the MTS sale. The company received 371 billion KZT as part of the transaction; the remaining funds are held in long-term financial assets. As a result, cash as of end-March 2025 stood at 501 billion KZT. However, after the ex-dividend date, available cash was 207 billion KZT, while net debt reached 114 billion KZT.

Our opinion and valuation model changes. This is effectively the first report post-divestiture of MTS. While revenue continues to grow, operating margins have softened compared to last year. We emphasize that the high net profit is misleading, as most of the transaction proceeds have already been distributed as dividends. The adjusted figures are more indicative for future dividend forecasts. We believe that the company's valuation without the sizeable MTS subsidiary and after recent large dividend payouts should reflect the share price less the dividend amount. In our model, we updated the key financials, with the most notable change being the increase in net debt due to the dividend payment. This reduced cash position has resulted in a lower fair value for the company. We also assume the remaining transaction proceeds will be fully received. At the same time, we raised the WACC due to the adjusted cost of debt. On the other hand, we revised CapEx forecasts. Ultimately, our updated target price for one Kazakhtelecom share is **35,800 KZT,** representing a **-9% downside potential**. **Recommendation – Hold.**

Appendix

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

Changes	Date of valuation		Change, %	Comments
	22.04.2025	16.07.2025		
WACC, %	14.3%	15.4%	+110 bp	Increase of cost of debt of the company according to the last report
Net Debt, billion KZT	-241	114	-	Net debt correction after the latest dividends
CapEx, 2026, billion KZT	129	110	-15%	Lower CapEx relative to our previous expectations

Freedom Broker estimates

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

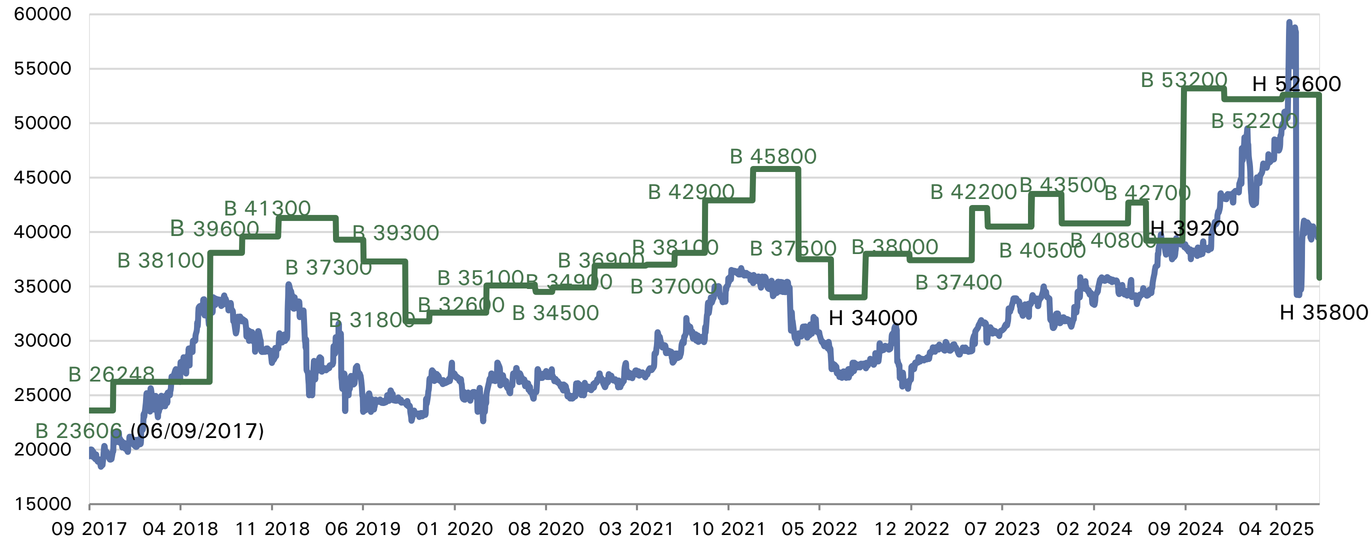

Illustration 3. P/E and EV/EBITDA multiples according to Freedom Broker estimates

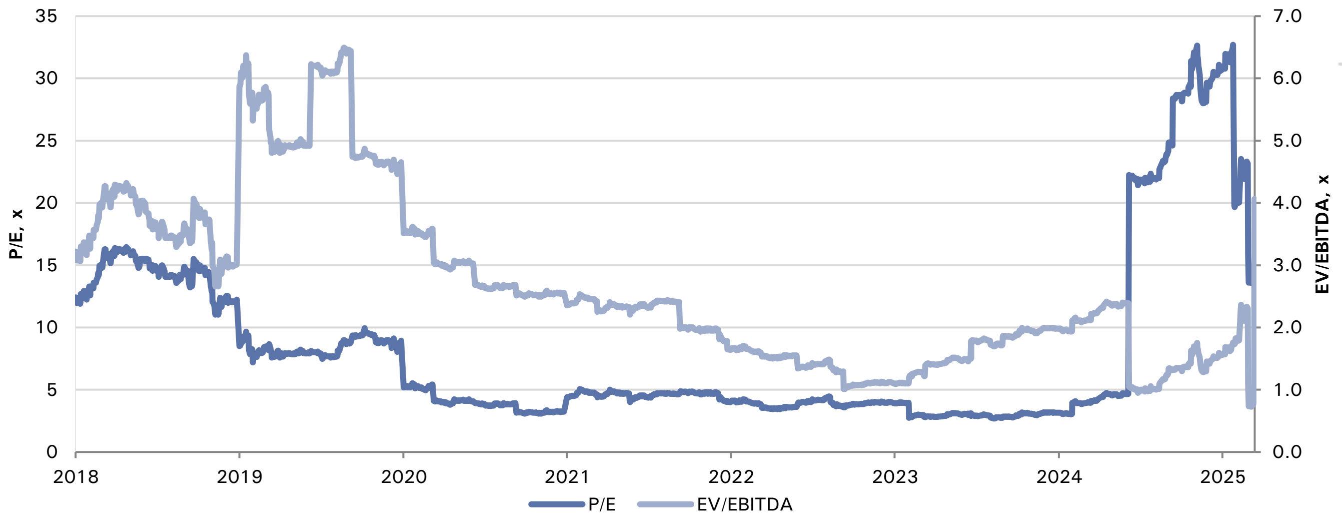

Illustration 4. Current Rating Percentage from Freedom Broker for KASE securities

Recommendation	Quantity	Percentage
Buy	7	70%
Hold	2	20%
Sell	1	10%

FREEDOM BROKER

July 16, 2025

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- 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.