May 19, 2025

RECOMMENDATION

Buy

JSC «KEGOC» (KEGC)

STOCK MARKET

DCF

Kazakhstan | Electric Power

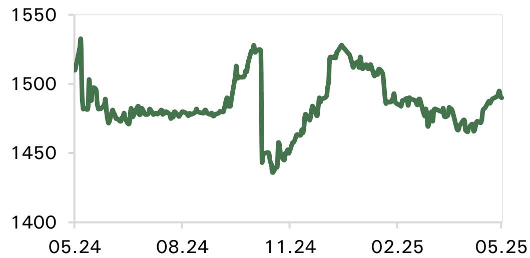
Upside: **40%**
Target Price: **2,090 KZT**
Last price: **1,490 KZT**

flashnote/update

KEGOC: Financial results for the 1st quarter 2025

Revenue, 3M '25 (billion KZT)	88
EBITDA, 3M '25 (billion KZT)	38
Net Income, 3M '25 (billion KZT)	19
Net Debt, 3M '25 (billion KZT)	57
P/E, 3M '25 (x)	**7.2x**
P/BV, 3M '25 (x)	**0.52x**
P/S, 3M '25 (x)	**1.3x**
EV/EBITDA, 3M '25 (x)	**3.6x**
ROA (%)	**5.1%**
ROE (%)	**7.4%**
EBIT Margin (%):	**28%**
EBITDA Margin (%):	**44%**
Market cap (billion KZT)	**410**
Shares issued (million units)	**275.3**
Free float (%)	**15%**
52-week min/max (KZT)	**1,425–1,534**
Current price (KZT)	**1,490**
Target Price (KZT)	**2,090**
Upside (%)	**40%**
Investment horizon	**6-12 months**
Planned price update frequency	**Quarterly**

Stock dynamics / exchange/ticker **KASE/KEGC**



Performance (%)	**3 months**	**9 months**	**12 months**
Absolute	0%	3%	-1%
vs KASE	-1%	-2%	-15%

Orazbayev Daniyar, CFA
Investment Analyst
(+7) 727 311 10 94 (988) | orazbayev@ffin.kz

JSC "KEGOC" released a neutral set of results for Q1 2025. The company continues to show revenue growth driven by increasing volumes, but the growth rate has slowed due to a decline in non-core income. Moreover, margin indicators decreased compared to last year. However, the key event is the significant increase in tariffs for all major services starting from April 1 of this year. We view this hike as a very positive factor for KEGOC's valuation. Already from Q2, the company will be able to improve its margin, and the new tariffs will ease the pressure from expected growth in capital expenditures for new projects. As a result, we reflected these important changes in our valuation model. Nevertheless, a significant increase in dividends is unlikely in the next couple of years, as the company is expected to face cash flow pressure due to elevated capex. Additionally, based on actual results, we raised our cost expectations. As a result, the target price for KEGOC shares was increased to KZT 2,090, implying 40% upside. Recommendation — "Buy."

(=) Slower revenue growth. The company's revenue for Q1 2025 increased by 3.4% YoY and by 0.6% QoQ. The modest revenue growth was primarily due to a sharp 44% YoY decline in revenue from balancing electricity sales. On the other hand, revenue from electricity transmission grew by 16% YoY, driven by a 13% YoY increase in volumes (measured in megawatts). The largest revenue component — services for the use of the National Electric Grid (NEG) — increased by only 2.7% YoY, reflecting a slight increase in volumes and tariffs. Two other key revenue lines posted more substantial growth: balancing services (+17% YoY) and dispatching services (+8.6% YoY), largely due to volume growth of 4.9% YoY and 9.7% YoY, respectively. Tariffs remained relatively unchanged over the year, except for balancing tariffs, which rose by 6.4% YoY.

(–) Decline in margin. The company's gross margin fell from 35.6% in 2024 to 30.6% in 2025, as cost of services rose faster than revenue. Cost of services increased by 11% YoY, mainly due to a 37% YoY increase in technological electricity losses and a 171% YoY rise in balancing electricity purchases. The cost of technological losses continues to grow due to the sharp rise in market electricity prices. On the other hand, expenses for electricity purchases to compensate for cross-border flows dropped by 62%. Still, major cost components such as wages and depreciation and amortization also rose by 10% and 13% YoY, respectively. As a result, the company's EBITDA margin declined from 46.6% in 2024 to 43.5%. Net income decreased by 13% YoY to KZT 18.6 billion, or KZT 67.4 per share. KEGOC's net margin dropped from 25% last year to 21%.

Quarterly free cash flow declined by 40% YoY, driven by an 81% YoY increase in capital expenditures, although cash from operations grew by 13%.

Our opinion and valuation model changes. Overall, we consider KEGOC's financial report as neutral. The company's revenue continues to grow, albeit at a slower pace. Margins declined in Q1 due to rising electricity prices, which are factored into the cost of services. However, the main positive development came from the new tariffs. The company officially increased its two key tariffs — for electricity transmission and NEG usage — by 22% starting April 2025. Moreover, another increase of 16–17% is expected from October 2025. This has had the strongest positive impact on the company's valuation. Also noteworthy is the 30% increase in tariffs for balancing services and 22% for dispatching services, both effective October 1. These tariff hikes turned out to be significantly higher than our previous expectations, which had assumed a more modest increase after the tariff application. In the valuation model, we also raised capital expenditure expectations due to accelerating inflation and the substantial increase already seen in Q1. We note that the company is set to significantly ramp up capital investments in the coming years due to new projects, which will likely prevent dividend growth during this period. However, the new tariff levels will help absorb these cash outflows. In the longer term, a significant increase in cash generation for shareholders can be expected. We also updated our cost of services forecast based on actual data and slightly raised the discount rate in the model due to increased investment risk in equities. All of the above adjustments led to an increase in the **target price of KEGOC shares to KZT 2,090**, representing **40% upside. Recommendation – "Buy."**

May 19, 2025

Appendix

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

Changes	Date of valuation 17.03.2025	Date of valuation 19.05.2025	Change, %	Comments
Revenue, 2025, billion KZT	347	401	+16%	Higher rates of tariff growth relative to our previous expectations
Cost of services, 2025, billion KZT	253	277	+9.5%	Higher rates of cost growth compared to our expectations, also due to increasing electricity prices
Capex, 2025-2027, billion KZT	322	450	+40%	Sharp increase in capital expenditures in the 1st quarter and its adjustment due to accelerating inflation

Freedom Broker estimates

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

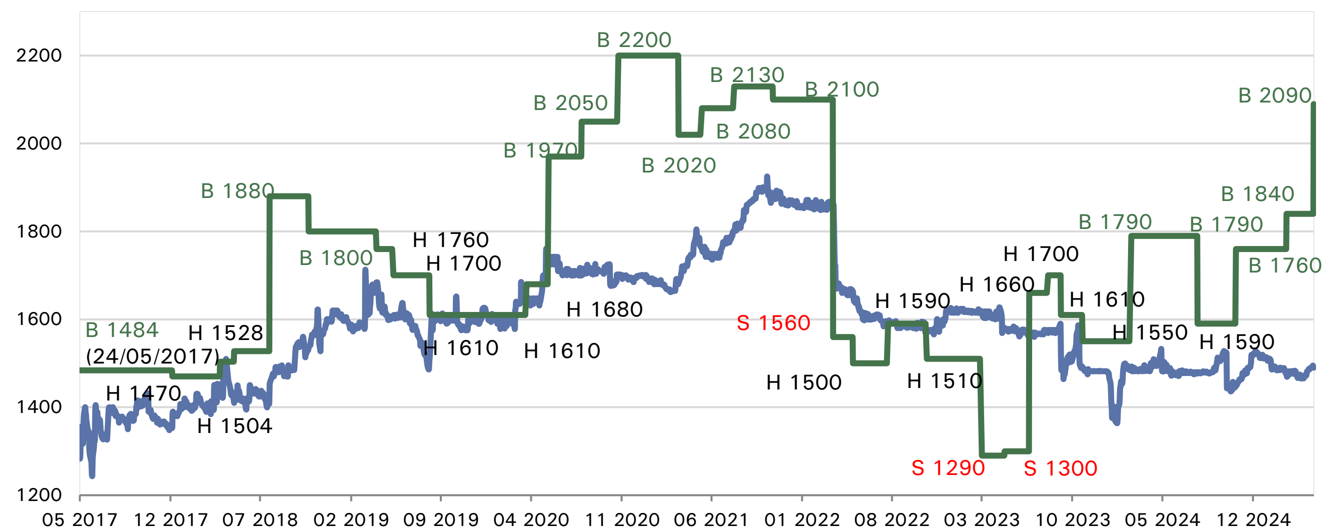


Illustration 3. P/E and EV/EBITDA multiples according to Freedom Broker estimates

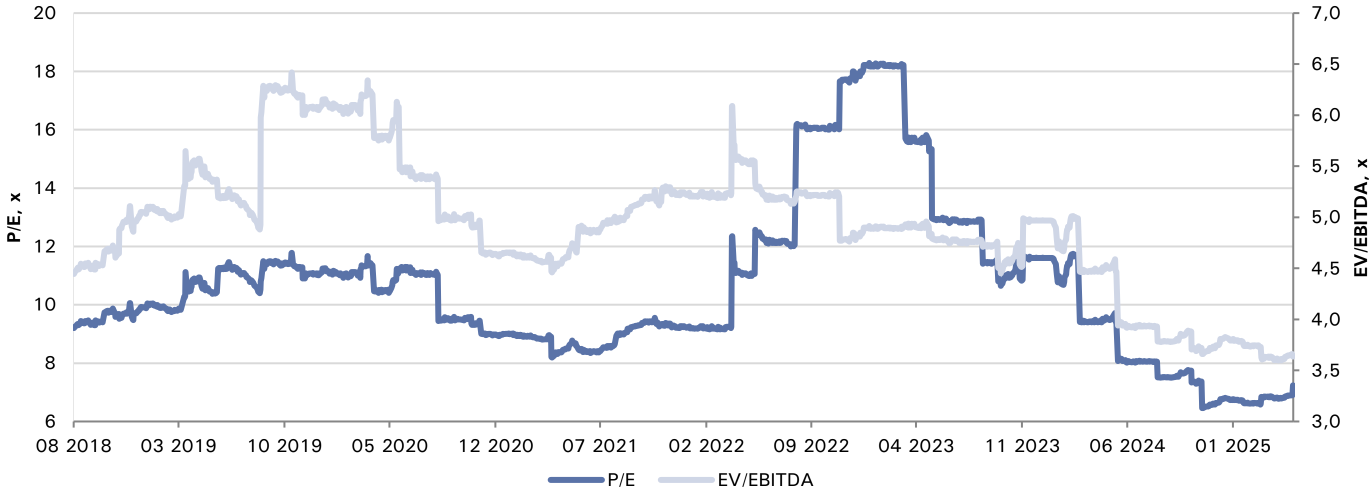


Illustration 4. Current Rating Percentage from Freedom Broker for KASE securities

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

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
- The author(s) or their family member(s) of this report are not aware of any conflicts of interest that could influence the content or publication of this report.
- The author(s) or a member of his/her family of this report do not have a sufficient amount of the Issuer's securities in their personal portfolio to have a significant impact on the quotes in the event of their sale.
- The order of subordination of the author(s) and his/her/their remuneration does not lead to a conflict of interest
- The Company and its related person do not hold 1% or more of the total issued share capital of the Issuer
- The Company and its related person do not act as a corporate broker for the Issuer.
- The Issuer does not have a significant stake in the Company's share
- 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.