KAZAKHTELECOM

Cash Cow at the Price of a Calf

	Ord	Prefs
BUY		
Target price (KZT)	37,756	32,093
Upside potential (%)	28	27

Bloomberg code	KZTK KZ
Reuters code	KZTK.KZ
Price (ordinary ,KZT)	29,100
Potential upside (%)	28%
Price (preferred) (KZT)	25,000
Potential upside (%)	27%
ADR ratio (x)	15:1
Share data	
No. of ordinary shares (mn)	10.9
No. of preferred shares (mn)	0.4
Daily t/o (KZTmn)	29
Free float (%)	23%
Free float (KZTmn)	82,316
Market capitalisation (KZTmn)	330,703
Enterprise value (KZTmn)	102,807
Major shareholder	
Government	51%
BODAM B.V.	17%
Deran Services Limited	10%

FINANCIALS (KZTmn)	2011E	2012E	2013E
Revenue	173,344	188,427	209,649
OIBDA	65,377	70,389	80,314
EBIT	25,874	30,078	34,558
Net income*	17,160	20,179	24,784
EPS (KZT)	1,523	1,791	2,180
CFPS (KZT)	398	1,378	2,612
VALUATION			
P/E (x)	19.3	16.4	13.3
EV/OIBDA (x)	1.7	1.5	1.3
EV/Sales (x)	0.7	0.6	0.5
EV/OpFCF (x)	4.4	24.7	7.0
EFCF yield (%)	1%	5%	9%
RoA (%)	4%	6%	7%
RoE (%)	6%	8%	9%
PERFORMANCE			
1 month (%)	23.9%		
3 month (%)	37.7%		
12 month (%)	49.4%		
52-week high ($)	30,000		
52-week low ($)	16,800		

*Profit does not include K-Cell's contribution

Source: Aton estimates

With this report we initiate coverage of Kazakhtelecom – the largest fixed-line operator in Kazakhstan with an approximately 80% fixed-line market share, 0.9mn broadband subscribers and 1.3mn CDMA users, and the only LTE licence holder in the country. With its extensive local infrastructure network and near-monopoly status, in our view Kazakhtelecom is the domestic telecoms operator best positioned to benefit from the continuing broadband boom in Kazakhstan.

The stock's main current attraction is its cash pile, which makes it a unique one-off investment opportunity. After the sale of a 49% stake in K-Cell – one of the two major mobile operators in the country – in February this year, Kazakhtelecom is now awash with cash. We estimate that at end-1Q12 the company had approximately KZT300bn ($2.2bn) in cash on its balance sheet, roughly equal to its current market capitalisation. We should bear in mind that in 2011 its fixed-line business generated around $476mn in OIBDA and $136mn in net profit, which are essentially being thrown in for free.

Record dividend pay-out. Kazakhtelecom's board recommended on 26 Apr that the AGM approve an extra 1Q12 dividend of KZT18,559/share. Coupled with the regular FY11 KZT1,329/share dividend, the total payment could potentially be as high as KZT19,888/share. At the current price this translates into a hefty 67% dividend yield for common shares, 74% for GDRs and 79% for prefs. The record date for all share classes is 8 May with dividends to paid within 20 days. We believe that given the company's limited capex requirements, the dearth of attractive M&A targets and negligible debt, the 1Q12 one-off special dividend (amounting to 100% of the proceeds of the K-Cell sale or $1.5bn) seems justified. Furthermore, we believe the current blocking shareholders, including the Kazakhstan government and government-linked entities, will support the cash distribution at the AGM. In our view, the dividend opportunity is too attractive to miss, while the potential downside is fairly limited. Indeed, trading at 1.5x current EV/OIBDA FY12E, on our estimates, we deem the stock a bargain and argue in this note that the underlying fixed-line business offers meaningful upside even after the company offloads its cash to shareholders via dividends.

BUY rating for common and preferred shares. According to our calculations, Kazakhtelecom's shares can deliver a 95% 12M return, including the special dividend, amply justifying its **BUY** rating. Our ex-div target price still totals KZT37,756 per common share and KZT32,093 per preferred, offering 28% and 27% upside potential, respectively, on a 12-month horizon. Even after the company makes its substantial dividend pay-out, on our numbers the residual cash balance and the company's anticipated future cash flows more than cover its capex and operating needs in the foreseeable future.

In our view, the combination of the enticing valuation of Kazakhtelecom's stable and cash-flow-rich business and the opportunity to receive a large one-off dividend make it a rarely-available, special-situation opportunity in the CIS telecoms sector.

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Note: Prices as of close 26 April throughout the report

Contents

Investment Summary

"If the numbers tell you it's a real outlier of a mispriced market, grit your teeth and go for it."

Jeremy Grantham, GMO Capital Management

Our bullish case for Kazakhtelecom is based first and foremost on the near-term opportunity to participate in the special dividend that results from the disposal of a 49% stake in K-Cell to TeliaSonera earlier this year. However, this special situation aside, we believe that Kazakhtelecom's investment case has a longer-term future and that the stock is currently significantly undervalued vs its current earnings potential and growth prospects.

Figure 1: Kazakhtelecom investment case SWOT analysis

Bull points:	Bear points:
Dominant 85% market share in the nascent broadband market	Insignificant mobile business, no 3G/LTE network for now
Monopolistic position in fixed-line due to infrastructure constraints in Kazakhstan	Mid-term risk of traditional service revenue erosion
Wide variety of internet technologies in use, high digitisation and limited modernisation capex required	Lacklustre track record in mobile business development
Plenty of room to cut costs (135 lines per employee vs more than 205 for Rostelecom)	Additional capex needed to enhance FTTB/LTE coverage
Wireline – a cyclically safe business – a potential cash cow to fund broadband development	Government reluctance to allow sharp staff reductions
Absence of Local Loop Unbundling, low labour social tax (10%)	Poor stock liquidity and low free float
The only holder of an LTE licence in Kazakhstan	3G to more effectively compete with fixed-line internet access
	A high share (45%) of Kazakhstan's population is rural
Catalysts:	**Risks:**
Extra dividend (67% yield) may foster stock growth	Stock price may correct sharply ex- div, ruining the stock's liquidity
LTE services development	Risk of M&A, inflated capex
Exposure to government modernisation programmes	Macroeconomic, global capital market uncertainty
Room for tariff hikes to support sales and profitability	End of crisis should revitalise competition in the broadband segment
Any improvement in liquidity would aid investor interest in the stock; LSE listing possible	
Kazakhstan economic recovery	
Administrative support with the government as the controlling shareholder	
Potentially softer government approach to staff cuts	

Source: Aton estimates

What is wrong with this stock?

Kazakhtelecom is now trading 40% off its "people's IPO" level in 2004. During the 2007 financial crisis the stock collapsed to only KZT5,000 per share and its performance has been unimpressive throughout 2010-11. The news of K-Cell's sale in late 2011 brought renewed vigour to the name and subsequently the share price has appreciated almost 50%. However, even after these recent gains, the stock is still trading at a FY11 current EV/OIBDA of 1.7x (Aton estimates) and its market cap is roughly equal to its current cash balance.

We believe that there are several reasons for the stock's lacklustre performance in the past few years.

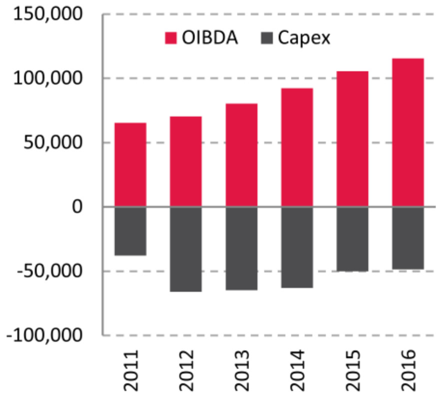
- First, the shares are relatively illiquid, trading sporadically and with volumes rarely exceeding $800K per day. This may change in the medium term prompted by a potential London listing that may coincide with certain core shareholders exiting the stock. A full-scale privatisation has not been mentioned but we believe the government's stance on reducing its stake to below controlling may change in the future, echoing the privatisation trend we have seen across the CIS.
- Kazakhstan's stock market performance has been under pressure from mounting political risk in the region. Ironically, the latter, combined with continuing jitters

in global capital markets, may well be additional reasons for core shareholders to push for the payment of a special dividend.

- We also believe that the stock's potential was overshadowed by an unclear strategy and murky prospects for the K-Cell stake's monetisation, evidenced by the share-price strengthening following the stake's sale announcement.
- We feel poor corporate governance and lack of transparency also contributed to low valuations. While the corporate governance risks are likely to linger in the mid-term, the company has activated its IR function and is making presentations to foreign investors.

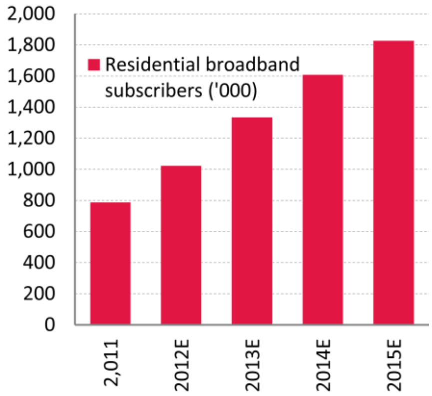
Unique Market Position

Figure 2: OIBDA vs capex (KZTmn)



Source: Company data, Aton estimates

Figure 3:Broadband base to boost



Source: Aton estimates

Classic "cash cow". The historical underdevelopment of Kazakhstan's fixed-line market offers excellent growth opportunities to an incumbent operator. Tariffs are likely to continue rising in the next three years and Kazakhtelecom's revenue may be further boosted by diversification into value-added services such as broadband. Longer term, the traditional fixed-line business is similar in nature to utilities and is largely non-cyclical, with stable cash generating ability and resilience in the face of an economic downturn.

The outlook for Kazakhtelecom's business is therefore bright – we forecast revenue and net profit expanding at a CAGR of 11% and 24%, respectively in the next four years, enhanced by tariff increases and profitability improvements resulting from a higher share of value-added services in its revenue structure. With limited capex needs and its focus on organic expansion, the business should be able to achieve a free cash flow CAGR of over 27% in 2011-15 and gradually pay regular dividends.

The key beneficiary of Kazakhstan's broadband boom due to its near-monopolistic position. Kazakhtelecom controls about 85% of Kazakhstan's residential subscriber base. The latter is largely a natural phenomenon, facilitated by the country's low population density. We estimated the central Asian country's broadband, residential fixed-line penetration in 2011 at 20% vs Russia's 38% (IKS-Consulting estimate) and the European level of around 75% (OECD). We estimate that Kazakhtelecom's data revenue will grow at a CAGR of 24% in 2011-15E, increasing its share in the company's sales mix from 34% in 2011 to 53% in 2015. While opportunities to reduce staff costs are limited in the near future, a rising share of broadband services could further aid margins.

Capex should peak in 2012-14 at 27-35% of sales in order to finance growth in Fibre-to-the-Building (FTTB) and Long Term Evolution (LTE). The potential expansion is, however, limited by the relatively small size of the local population (only 16mn), and the growth phase is likely to be followed by declining capex (to about 13% of revenue by 2018) predominantly destined for maintenance.

We do see additional value in the LTE project. Kazakhtelecom owns the only LTE licence in the country and while a clear strategy for this segment's development has yet to be outlined, we regard the licence as a valuable asset in a blossoming broadband market with limited 3G technology penetration and relatively timid competition in the wireless data market. We expect the project's revenues to contribute 9% to the FY15E sales mix. Kazakhtelecom's nationwide infrastructure network, including 420 code division multiple access (CDMA) base stations puts the company ahead of the competition in the roll-out of wireless data services. We believe that its focus will therefore increasingly shift from the mobile voice market to full-scale, fixed-to-mobile-convergent data service packages which should protect and enhance its core fixed-line business.

Valuation

Ordinary Shares: BUY; 95% return (67% dividend yield, 28% upside potential)

We employed a DCF valuation to derive our target price for Kazakhtelecom. We assume a 14% WACC and 0% terminal growth rate in our DCF model. All our forecasts and target prices are denominated in local currency.

The board has recommended a total dividend of KZT19,888/ share, payable in 2012. In order to arrive at a fair value for the ordinary shares we deduct the theoretical value of the preferred shares.

The final target price is dependent on the total dividend payment that the company is about to pay, though the total return to shareholders should stay at around 95% irrespective.

Figure 4: Target price and FY12E dividend relationship

	Dividend scenario		
	Nominal	**2/3 of K-Cell**	**Proposed**
12-month value (KZT/share)	57,644	57,644	57,644
Return (%)	**95%**	**95%**	**95%**
Dividend /share (KZT)	1,329	15,349	19,888
Dividend yield (%)	5%	52%	67%
Target price (KZT)	**56,316**	**42,296**	**37,756**
Upside potential (%)	91%	43%	28%

Source: Aton estimates

Our target price of KZT37,756 and 67% dividend yield imply a 12-month return of 95% which, in our view, amply justifies our BUY rating for the stock. The implied GDR target price is EUR12.9. We use a 15% preferred-to-common discount to establish the prefs' target price, arriving at KZT32,093/share. This offers notable 27% upside potential from current levels and is further enhanced by the expected 79% dividend yield.

Figure 5: Kazakhtelecom target price sensitivity (RUB)

Terminal	WACC (%)								
growth (%)	**10.0**	**11.0**	**12.0**	**13.0**	**14.0**	**15.0**	**16.0**	**17.0**	**18.0**
-3.0	47,223	42,863	39,115	35,862	**33,016**	30,508	27,881	25,891	24,108
-2.0	49,606	44,787	40,686	37,159	**34,096**	31,414	28,636	26,532	24,655
-1.0	52,423	47,032	42,500	38,641	**35,319**	32,433	29,479	27,244	25,260
0.0	**55,803**	**49,685**	**44,616**	**40,351**	**37,756**	**33,588**	**30,428**	**28,040**	**25,933**
1.0	59,935	52,870	47,117	42,347	**38,332**	34,909	31,504	28,936	26,684
2.0	65,102	56,763	50,119	44,706	**40,215**	36,432	32,733	29,951	27,530
3.0	71,747	61,631	53,789	47,537	**42,441**	38,210	34,152	31,111	28,488

Source: Aton estimates

Currently One of the Cheapest Stocks in the EMEA Telecoms Universe

The stock is currently valued at only 1.6x FY11 OIBDA
Taking into account the substantial cash reserves accumulated on Kazakhtelecom's balance sheet post the K-Cell sale, its EV currently equals only 34% of its market capitalisation which makes it one of the cheapest stocks – if not the cheapest – in the EMEA telecoms universe. The implied valuation metrics are striking – the stock is currently trading at an EV/OIBDA of just 1.5x for FY12E (Aton estimates) vs its EM fixed-line peers' respective 5.0x. On P/E Kazakhtelecom is valued slightly above its peers; however, we would argue that this valuation ratio does not account for the upcoming special dividend and thus inflates the valuation.

Figure 6: Peer group comparison

Company	MktCap ($mn)	EV ($mn)	P/E(x) 2012E	P/E(x) 2013E	P/E(x) 2014E	Current EV/OIBDA (x) 2012E	Current EV/OIBDA (x) 2013E	Current EV/OIBDA (x) 2014E	OIBDA CAGR, 11-14E
Kazakhtelecom	2,236	750	16.4	13.3	10.6	1.5	1.3	1.2	12%
Rostelecom	13,577	20,918	7.9	6.9	6.2	3.6	3.1	2.8	5%
Average DM			9.9	10.0	9.4	5.7	5.3	4.6	-1%
BSkyB	18,345	18,582	13.6	12.4	11.8	7.7	6.9	6.2	8%
Telefonica S.A.	67,048	131,847	8.0	7.6	7.6	4.7	4.5	4.4	-2%
Deutsche Telekom AG	48,583	105,617	13.2	12.7	12.1	4.6	4.5	4.3	-2%
Swisscom AG	19,304	28,079	9.8	10.0	10.1	5.9	5.8	5.4	-1%
Telenor ASA	28,297	32,697	12.6	10.5	9.4	5.7	5.3	4.6	8%
France Telecom	36,413	78,747	7.7	7.9	7.9	4.3	4.4	4.2	-4%
Teliasonera	28,591	38,871	9.9	9.5	9.3	6.9	6.8	6.3	2%
Average EM			11.0	9.6	9.7	5.0	4.6	4.3	2%
Cyfrowy Polsat	1,510	2,163	12.4	11.2	9.7	8.6	7.6	6.3	11%
Telekomunikacja Polska SA	7,022	8,564	20.6	18.7	16.9	5.0	5.2	4.8	-4%
Magyar Telekom	2,581	4,245	11.0	9.6	9.9	4.7	4.4	4.2	1%
Bezeq	4,428	6,660	8.3	8.5	7.8	5.3	5.5	4.9	1%
China Telecom	42,872	57,531	17.2	13.4	10.9	4.4	3.8	3.4	11%
Saudi Telecom	22,612	26,882	9.9	9.6	9.3	5.1	4.6	4.3	2%
Turk Telecom	15,318	17,466	14.7	14.6	13.6	6.0	5.7	5.0	4%
Telecom Egypt	3,754	2,644	8.2	8.1	8.0	3.9	3.8	3.0	-3%
Qtel	8,471	17,442	10.7	9.6	9.3	4.4	3.9	3.4	6%
Zain	11,631	12,476	10.2	9.6	9.2	5.7	5.5	5.0	1%
TIM Part S.A. (PN)	14,361	14,732	14.5	12.2	10.5	4.9	4.4	3.9	10%

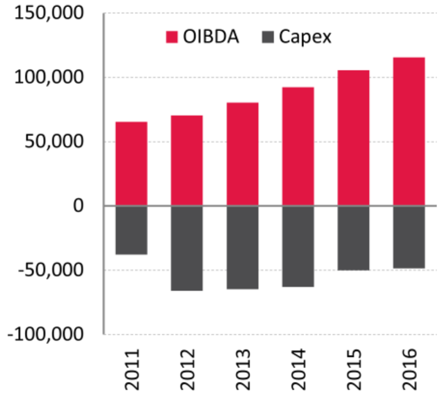
Source: Bloomberg, Aton estimates

2012 Dividend: Very Special

Sale of K-Cell resulted in a large cash surplus
In Dec 2011, Kazakhtelecom reached an agreement to sell its 49% stake in K-Cell to TeliaSonera for no less than $1.52bn. The deal was finalised in Feb 2012 and the final K-Cell valuation implied a FY11 EV/OIBDA of 5.1x, which exceeded its EM peers' 4.6x announcement-date average.

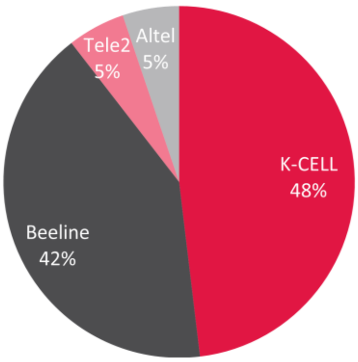
Extraordinary dividends: 100% of the K-Cell stake sale proceeds
In our view, the current stage of Kazakhtelecom's development, characterised by limited capex requirements, negligible debt and a dearth of available M&A options, allows the company to distribute most of its excess cash to shareholders. In light of the above, we believe it is logical that Kazakhtelecom intends to pay out as much as 100% of the proceeds from K-Cell's sale ($1.5bn, as recommended by the board). Assuming their approval at the AGM, the dividends could reach KZT19,888/share (EUR6.8 per GDR) boosting the dividend yield to over 67% based on the current share price. Notably, Kazakhtelecom's gain on the K-Cell stake disposal is tax free.

Figure 7: Capex vs OIBDA



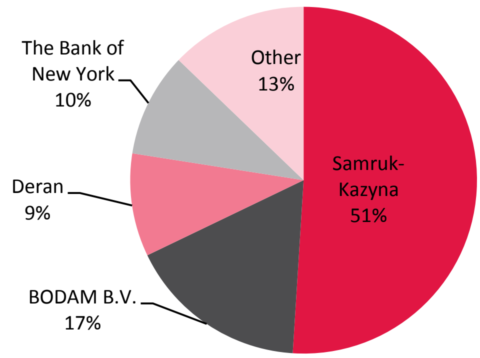
Source: Aton estimates

Figure 8: Mobile market subs. shares (%)



Source: Company data, Aton estimates

Figure 9: Kazakhtelecom's shareholder structure (9M11)



Source: Company data, Aton estimates

Regular FY11E dividend implies approx. 5% yield
Kazakhtelecom's dividend policy stipulates a 17.5% pay-out ratio and the company has typically adhered to this. Importantly, according to the company's charter, the preferred dividend may not be lower than that of the common shares. Based on its recently released 2011 financials , we calculate that the regular dividend from KZT50bn (including K-Cell's contribution) of 2011 net profit should total KZT16.1bn or 32% of comprehensive income.

Answering the Remaining Sceptics

Below we have put together frequently cited concerns regarding the necessity and possibility of a special dividend and provide our views

Sceptics view: The timing for receiving dividends could be different for various classes of shareholders.
Aton's view:

- Although there have been such cases on the Russian stock market, we have found no occurrence of a gap exceeding three months.

Sceptics view: Dividends will be paid only to the holders of local shares, but not to GDR holders.
Aton's view:

- GDRs are fully fungible and can easily be converted into local shares. Therefore there is no legal way to treat GDR holders differently.
- Dividends are expected to be paid out within 20 days of the AGM.

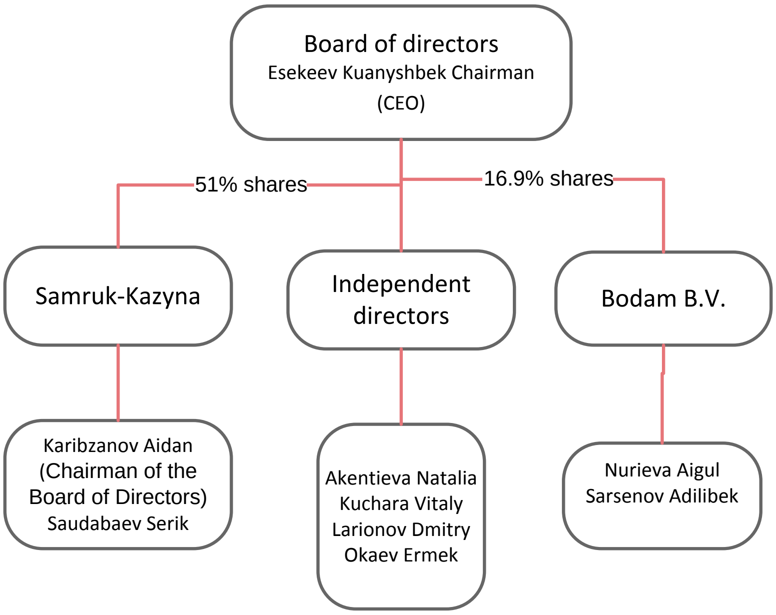
Sceptics view: Dividend restrictions (the pay-out cannot be larger than the previous year's net profit) will prohibit the payment of a large special dividend in 2012 and, at best, the pay-out will be postponed until 2013.
Aton's view:

- According to the company's consolidated IFRS FY11 accounts (which include K-Cell), Kazakhtelecom's retained earnings amounted to KZT271bn, which more than covers the estimated KZT209bn in total dividends.

Sceptics view: The AGM will not approve the announced dividends.
Aton's view:

- The board's decision suggests that Kazakhtelecom's majority shareholders view a special dividend as the optimal deployment of the company's generous cash resources in current circumstances.
- The distribution of dividends to core shareholders (those who have held the shares for at least three years) is tax-free. This provides an additional incentive for the majority shareholders to lobby for a higher dividend pay-out instead of leaving it on the balance sheet. For foreign shareholders in Kazakhstan, dividends are taxed at a flat rate of 15%.

Figure 10: Who runs Kazakhtelecom's board?



Source: Company data

Sceptics view: Instead of dividends, the company will opt to spend the available funds on capex or M&A.
Aton's view:

- The company's current capex plans envisage spending only about KZT55bn ($370mn) in 2012, with the possibility of upping this sum to KZT65bn ($440mn) should the LTE development plan be put into practice. According to our estimates, even more aggressive spending plans than these (KZT66bn) could be financed from the company's core cash flows – our upper capex estimate should account for only 35% of sales and 107% of OIBDA in 2012.

- The company is underleveraged and has significant borrowing capacity should an M&A opportunity arise or capex plans change in favour of speedier and more extensive expansion.
- M&A opportunities are limited. According to management, the company is not interested in acquiring mobile assets on the domestic market at the moment, but is focusing on potential smaller deals in the retail and corporate segments. This is sensible, in our view, as we see no sizable targets for M&A in Kazakhstan with Kazakhtelecom, VimpelCom, K-Cell and Tele2 controlling approximately 85% of the country's telecom market's sales with the balance covered by a number of small niche-operators. Furthermore, expansion of cash-rich Kazakh businesses into neighbouring CIS countries (including Uzbekistan and Kyrgyzstan) is being frowned upon by the government and is not currently an option.

Is There Life After Dividends?

Although we see the potential upcoming special dividend as the stock's main attraction in the near term, we argue that the underlying fixed-line business and the potential development of the company into a full-scale wireless data player offer additional meaningful upside after the company offloads the bulk of its cash to shareholders.

Kazakhtelecom is a classic fixed-line telecoms story with a dominant market share in Kazakhstan – a vast but sparsely populated country of 16mn citizens. The company currently services almost 4mn fixed-line subscribers.

The telecom market in Kazakhstan, in our view, is still in its infancy particularly in terms of voice and internet access, thus offering additional upside potential vs the Russian market which is approaching saturation.

Figure 11: Kazakhstan's telecom market by services (sales)….

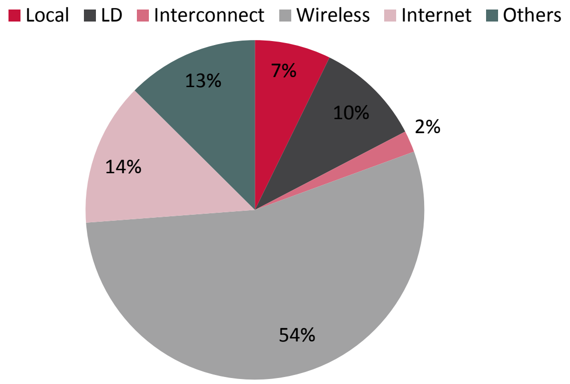
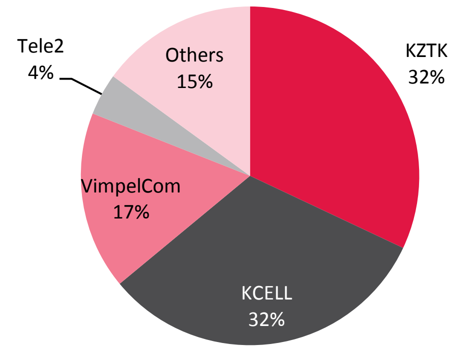


Figure 12: …and company (2010)



Source: The Agency of Statistics of the Republic of Kazakhstan, Company data, Aton estimates

Continuing growth in local tariffs and an expanding broadband market (20% fixed-line penetration in Kazakhstan) should support Kazakhtelecom's development in the short-to-medium term, while LD and interconnect remain risks.

One of Kazakhtelecom's main advantages lies in its vast infrastructure network and near-monopoly status in the fibre-optic segment. Due to transport capacity shortage, mobile operators have to rely on Kazakhtelecom's lines, thus securing stable revenues for the company for years to come. It will take years and tremendous capex for other operators to establish their own networks.

Market share. As the main player in the local services market, with 94% of fixed lines, Kazakhtelecom dominates every fixed-line segment. It is also the major broadband (FTTB, xDSL) provider in Kazakhstan with an 85% market share in 2011, on our estimates. The company controls about 70% of the voice and fixed-line long-distance (LD) market. Its mobile arm is strong only in selected regions, accounting for about 5% of the country's mobile clientele.

Figure 13: Kazakhtelecom sales mix in 2011…

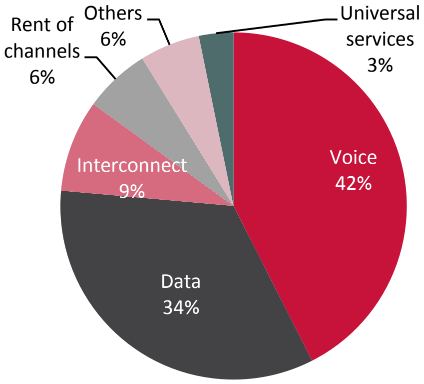
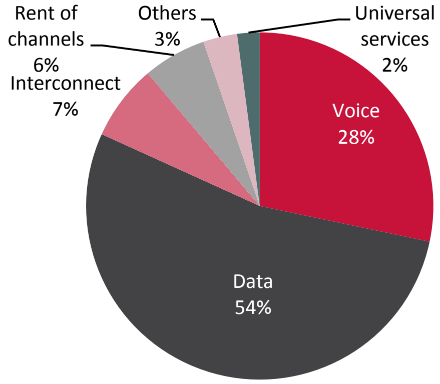


Figure 14:…and in 2015: data to prevail



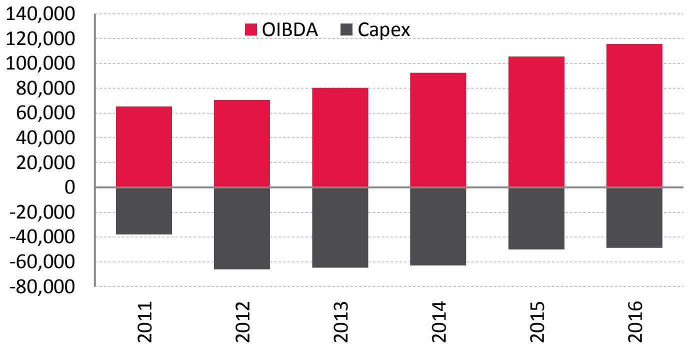
Source: Company data, Aton estimates

Monopolistic position appears natural and relatively sustainable, in our view. Low population density and the vast size of the country make investments in backbone infrastructure uneconomical for alternative operators. The geography of Kazakhstan (seismic zones, low-rise buildings) also reduces the investment attractiveness of FTTB projects, which could be developed by alternative operators.

While Kazakhtelecom cannot be described as an exciting growth story, it should not be seen as a stagnating fixed-line dinosaur, either. We believe that potential losses in traditional service sales will be more than compensated by an upturn in the growth segments such as broadband.

Capex is likely to peak this year and decline to maintenance level by 2015
Kazakhtelecom already has a relatively modern fixed-line network and although the next four years should see a significant rise in capex, the investment cycle is likely to be over by 2015 with the company reaching maturity and offering solid fundamentals and a healthy dividend stream.

Figure 15: Cash cow: OIBDA vs capex (KZTmn)



Source: Company data, Aton estimates

Latest financials snapshot: double-digit sales growth in 2011, profitability improvement and negative net debt. Revenue rose 13.5% YoY in 2011 to KZT173bn thanks to strong data revenue dynamics (+27% YoY; 34% of total revenue). The company also improved its profitability vs last year, with OIBDA margin up 0.6 ppt YoY to 37.7%. Profit from continuing operations (not including the income from K-Cell's operations, as it was sold in Feb 2012) stood at KZT17bn, implying a 10% margin. Net profit, inclusive of K-Cell's income, was KZT50bn (29% margin). Net debt was negative at -KZT5bn and the company received $1.5bn in cash from the sale of its 49% stake in K-Cell on 1 Feb 2012.

Below we consider Kazakhtelecom's core business lines in detail. The analysis is somewhat complicated by the lack of the most recent (or regular) market statistics and changes in Kazakhtelecom's reporting policy, which now aggregates different revenues into a single line.

#1 Data/Broadband

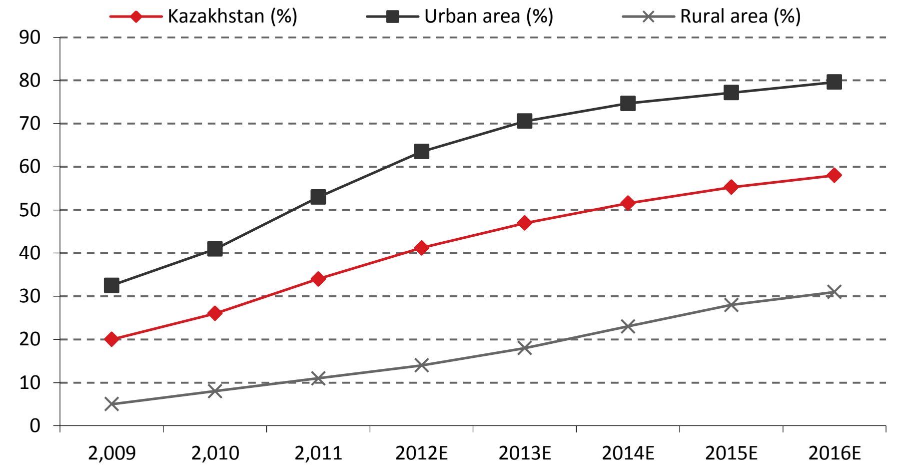
Data is the most important segment for the company. Where possible we have assessed it as follows:

(A) The segment's share in revenue mix (its importance for the company)
(B) Market size and general trend
(C) Kazakhtelecom's market share
(D) Aton's view on the particular segment's development

A) **Share in revenue is increasing.** Fixed-line data services accounted for 34% of Kazakhtelecom's revenue in 2011 and we expect this proportion to rise to 53% in 2015. We estimate that broadband revenue will grow at a CAGR of 24% in 2011-15E.

B) **Market in its infancy but booming.** We put Kazakhstan's 2011 broadband residential fixed-line penetration at 20% vs Russia's 38% (IKS-Consulting) and the European level of around 75% (OECD). Assuming the standard "S"-shape penetration curve, we believe we could see broadband growth acceleration.

Figure 16: Broadband market penetration: in its early growth stage (%)



Source: Aton estimates

Interestingly, the 'average household' in Kazakhstan consists of 4.6 people vs 2.7 in Russia (according to the countries' official statistics committees) potentially suggesting a greater increase per household covered than in Russia.

C) **Market share: essentially undisputed domination.** Kazakhtelecom holds an approximately 85% market share in the residential broadband space. We do not envisage a serious threat to the regional telecom operator's (RTO) position for at least the next three-to-four years given the absence of real competition. The only potential risk is from 3G competitors, though 3G infrastructure is also relatively undeveloped and wireless broadband typically works alongside rather than as a substitute for 3G. Kazakhtelecom's dominance is based on low population density, a large rural population (45%), and a high share of low-rise buildings.

D) Kazakhtelecom was not aggressive in its broadband roll-out in 2011, which may be explained by the commencement of its shift from the then-dominant xDSL to FTTB technology.

In 2001, Kazakhtelecom's broadband subscriber base grew by 30% YoY to 980,000. We forecast that it will reach 2.2mn in 2015

Figure 17: High share of rural population in Kazakhstan

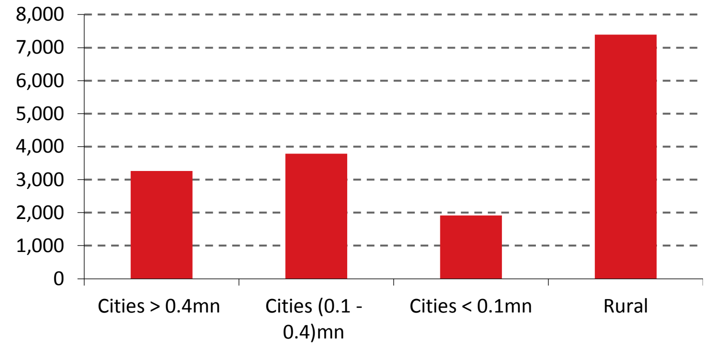
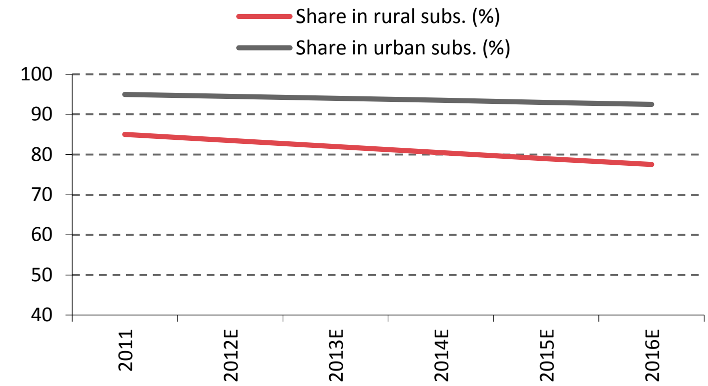


Figure 18: Kazakhtelecom's share in residential broadband subs.



Source: Aton estimates

Referencing Rostelecom's and Kazakhtelecom's experience, we would apply the following rule to the incumbent: the lower a city's population, the lower the level of competition and the higher the existing operator's market share. Applying this rule, Kazakhtelecom cannot but benefit from its presence in all of Kazakhstan's cities and rural areas. That said, despite the operator's lion's share of the broadband market, it has not lost much market share to competitors even in cities with large populations.

Figure 19: Fixed-line basis for xDSL looks set to slip

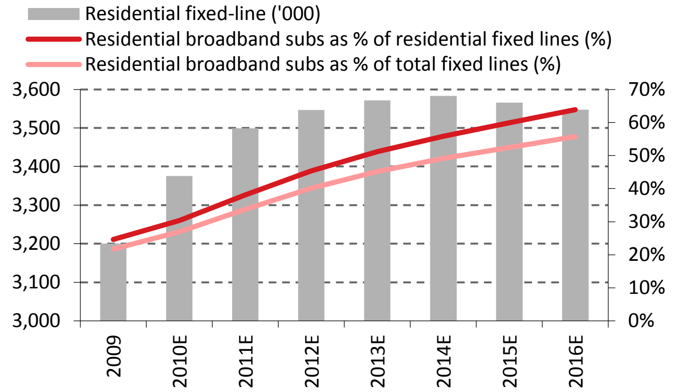
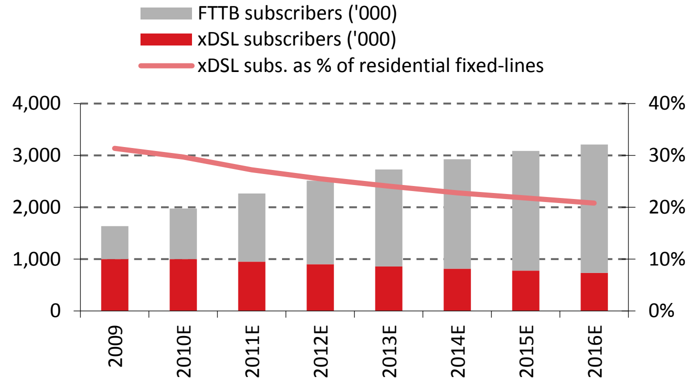


Figure 20: Shift to FTTB since 2010



Source: Aton estimates

Additional support likely from IPTV. Kazakhtelecom's pay-TV clientele rose 80% YoY to 145,000 in 2011, though this figure still represents only 14% of its residential broadband clientele. We believe this suggests potential in the pay-TV segment and work on the assumption that this proportion will expand to 27% in 2015.

Figure 21: Residential broadband ARPU (KZT)

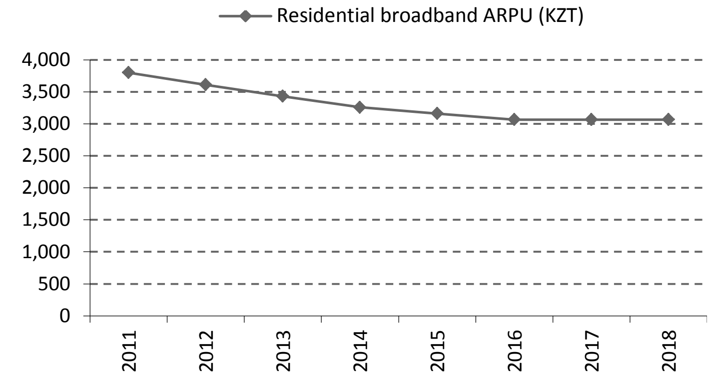
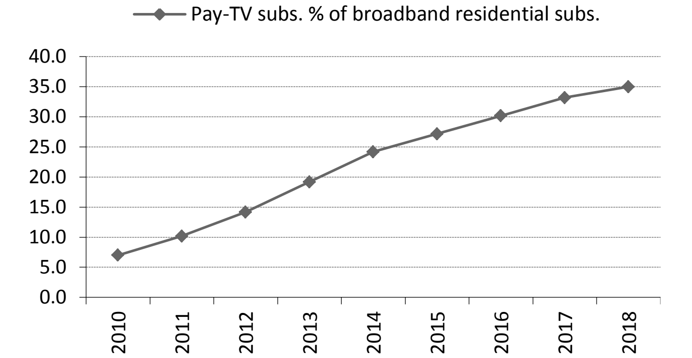
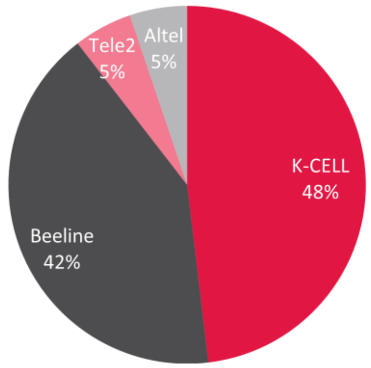


Figure 22: Pay-TV development to add on the growth side



Source: Aton estimates

Figure 23: Mobile market by subs. (%)



Source: Company data, Aton estimates

Several broadband technologies to reach the client
Kazakhtelecom has significant flexibility in terms of broadband technology: from dial-up and xDSL to FTTB and 4G. It can choose the technology that best suits the economic conditions of a particular area. Moreover, LTE technology, supported by Kazakhtelecom's extensive fibre capacity should help it to cover remote, seismic and rural clientele.

Management commented that the operator has started offering FTTB in the most lucrative clientele areas. The older DSLAMs (xDSL) are gradually being transferred from key cities to second-tier towns.

Wireless Broadband/Mobile

We see value in the LTE project. While visibility on the LTE project is presently low, we feel it would be inaccurate to assume that the only LTE licence in Kazakhstan has no value in an environment in which fixed-line broadband penetration is just 20%, 3G has yet to be developed on a large scale and the potential mobile competition is relatively benign for now – the two largest mobile operators account for 90% of the total subscriber base.

Wireless broadband to provide 8% of Kazakhtelecom's value
We anticipate that the wireless division will contribute 9% of sales in 2015. We include in this figure sales from the legacy EVDO business, which Kazakhtelecom is currently developing.

Current CDMA business – base for LTE. Kazakhtelecom's CDMA business consists of three parts:

- CDMA 450: Telephonisation of rural areas, subsidised by the state
- CDMA 800 wireless: Altel's historical "legacy business" – one of the oldest operators in Kazakhstan. At the end of 2011, its wireless subscriber base accounted for 1.3mn.
- EVDO project: launched in 2010 and specialising in broadband wireless access. The total wireless subscriber base stood at 80,000 in 2011. The company is to drop its EVDO capex plans to shift to LTE technology. Ex-EVDO subscribers should constitute the base for the LTE project.

Kazakhtelecom's existing wireless clientele and brand awareness are not the only factors that would facilitate the LTE project's development. The key bottleneck in typical wireless broadband projects is the fibre transport network. For Kazakhtelecom, this should be less of a problem. In addition, Altel's (CDMA) 420 base stations, located nationwide should simplify the LTE network roll-out.

Rationale and tactics in building a mobile franchise
In the global telecoms industry, we are seeing voice and data services shifting to wireless networks; indeed Kazakhstan's mobile business now represents more than 50% of the total telecoms market in revenue terms (according to Kazakhstan's state statistics agency in 2010). Consequently, it would be virtually impossible to maintain a dominant market share without offering such services. For this reason, we see the lack of a wireless division posing some risk to the future development of Kazakhtelecom's fixed-line business.

In our view, any attempt to dominate the mobile voice market would be unsuccessful, but we deem a 12% market share (in subscriber terms) by 2015 achievable. The focus will likely be on wireless data, rather than voice, with the latter offered as a complementary service.

We believe the target should not be mobile market leadership, but rather the ability to offer full-scale, fixed-to-mobile convergent service packages to clients, thereby protecting the core fixed-line business. Mobile services (as a component of a corporate client package) are particularly important for business customers.

Is it too late to build a mobile business for the third time?
The experience of Tele2 (which does not even offer 3G services) in Russia suggests there is still room for a fourth player on the market. Tele2 has continuously nibbled into the Big Three's market share in the regions with its subscriber market share close to doubling from 5.6% in 2009 to 11.0% in 2011.

In our view, Kazakhtelecom's prospects for a mobile franchise are even more favourable than Rostelecom's, given the limited number of key players in the Kazakhstan market.

Partnership with an existing mobile player? Unfortunately Kazakhtelecom's past performance with the 2G NEO (sold to Tele2) and Altel mobile businesses left a lot to be desired. That said, the first asset was predetermined for sale, while the latter operates on the unpopular CDMA standard. Nonetheless, we would welcome Kazakhtelecom's hypothetical cooperation with any of the existing mobile players, which we believe is a possibility given that it has successfully teamed up with TeliaSonera and Tele2 in the past. The Russian market experience also shows that the previously untouchable mobile Big Three and Rostelecom have shown a willingness to share capex and opex in order to generate synergies and maximise their investments.

#2: Voice Services

Traditional voice services can still generate additional value in Kazakhstan.

Kazakhstan's fixed-line market has historically been underpenetrated (21.5% of the population), which mitigates the risk of voice service erosion. The number of Kazakhtelecom's fixed-lines rose 5% in 2010 and another 4% to 3.9mn in 2011 though we assume that residential fixed-line additions will start slipping by 1% annually after 2015. We believe the number of corporate fixed-lines will keep rising at a low-digit rate driven by ongoing GDP growth in Kazakhstan.

Kazakhtelecom's voice services comprise the following revenue items:

- Local services (intra-city calls) – 18% of the FY11 sales mix on our estimates
- Long-distance calls – 18% of FY11 sales on our numbers
- Mobile voice – 6% of sales

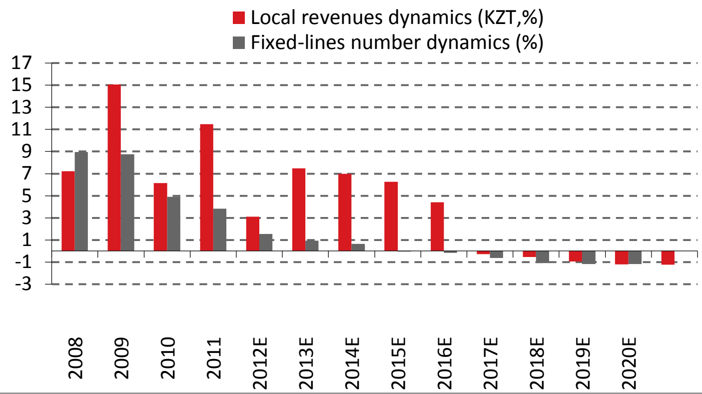
We estimate voice services sales growth at a 0% CAGR in 2011-15E with the share of voice revenue slipping from 43% in 2011 to 29% in 2015E.

2.1 Local Services: The Cash Cow

Local services consist of: (a) fixed monthly fee revenues, which generate around 70% of local sales, (b) variable tariff payments and (c) new connection fees. Around 50% of Kazakhstan's subscribers opt for the unlimited tariff, which diminishes the mobile cannibalisation effect on local sales.

We assume single-digital local tariff growth until 2015. So-called 'tariff rebalancing', as seen in other CIS countries including Russia, is likely to continue. In essence, the scheme seeks to overcome the USSR legacy of artificially low local and overpriced LD tariffs. For example, Kazakhstan's local tariff remains less than half of Rostelecom's tariffs for local services.

Figure 24: Local services growth: sales, fixed-line numbers (%)

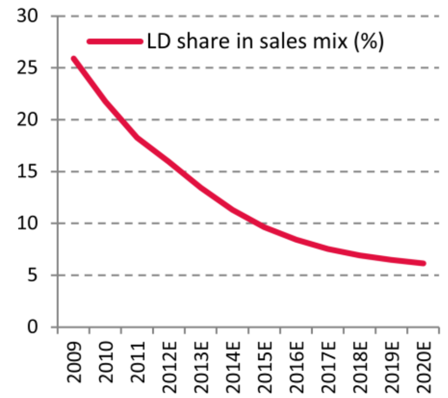


Source: Aton estimates

20% local services tariff hike from May 2012. On 19 Apr Kazakhtelecom announced a 20% monthly fee increase effective May 2012; per-minute charges were unchanged. On our numbers, the local tariff should generate additional top-line growth of 1.4% in 2012 and additional OIBDA growth of 3.6%. Importantly, an increase in tariffs does not imply higher costs, and directly supports profits. Additionally, the company makes active use of packages, comprising local, LD and broadband services to encourage loyalty.

We estimate local service sales growth at a 6% CAGR in 2011-15E, although we see the share of local services sliding from 18% in 2011 to 15% in 2015E.

Figure 25: LD contribution to diminish



Source: Aton estimates

2.2 Long Distance (LD): Under Pressure

The decline in LD services is not unique to Kazakhstan. LD and zonal services are under pressure due to traffic leakage from fixed-line to mobile networks, the increased prevalence of Skype and competition from alternative fixed-line operators (the LD market was liberalised in 2004). In addition, the regulator facilitated an LD tariff reduction, which led to a massive LD tariff cut in 2010 (some client tariff categories were cut by more than 50% in 2010). The tariff slip did allow Kazakhtelecom to benefit from demand elasticity, as callers took advantage of the lower rates and increased traffic.

We estimate LD service sales declining at a 6% CAGR in 2011-15E and the share of LD services in revenue slumping from 18% in 2011 to 10% in 2015E.

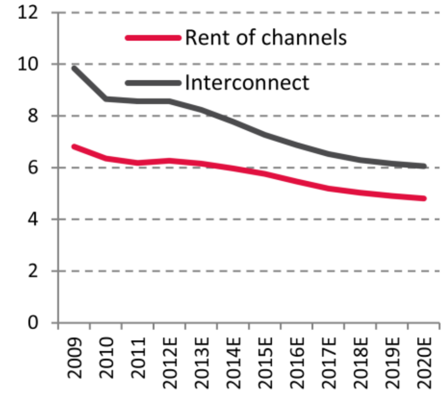
2.3 Mobile (CDMA)

Mobile CDMA is not a core business for Kazakhtelecom and it is inclined to stagnate, in our view. As we discussed in the wireless broadband/ LTE section, the situation could improve with the development of the LTE project and we anticipate that most CDMA clients would migrate to the LTE technology. The company also has a 2G (GSM) spectrum, which is able to offer not only data, but voice services as well.

#3 Operator Business

Kazakhtelecom's operator business consists of the following revenue items:
- Interconnect – 9% in FY11 sales mix
- Channel rental – 6% in FY11 sales mix

Figure 27: Operator business (% of sales)



Source: Company data, Aton estimates

We estimate interconnect sales growth at an 8% CAGR in 2011-15E, and channel rental sales growth at a 9% CAGR in 2011-15. Overall, combined operator sales should slip from 15% in 2011 to 13% in 2015E in Kazakhtelecom's sales mix, on our forecasts.

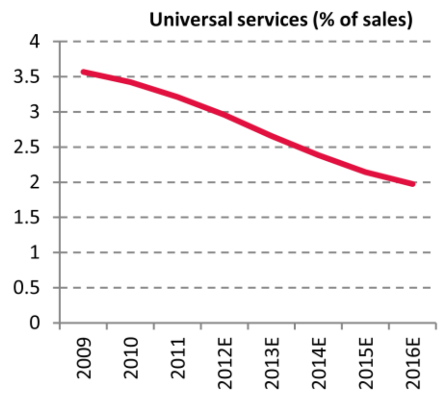
Based on international and Russian trends, we expect data to grow exponentially, supported by 1) broadband penetration growth; 2) increasing demand for data-heavy content, including video services and HDTV.

As is customary in the telecoms business, alternative LD operators that transfer traffic via Kazakhtelecom's network often lease its channels. The LD and channel leasing segments are interrelated, limiting the visibility of segment forecasts. Once alternative providers (28 companies are represented in the operator segment in Kazakhstan) manage to build up their own networks, Kazakhtelecom's operator business will likely come under some pressure. However, Kazakhstan's geography should limit the scale of the risk, in our view.

Interconnect, mobile-to-fixed (M2F) traffic and fixed-to-mobile (F2M) are likely to remain under strain though the company does not disclose sufficiently detailed information to accurately detect a trend.

Universal Services

Figure 28: Universal services: marginal



Source: Company data, Aton estimates

Kazakhtelecom provides certain social functions, which could be considered a potential risk at first glance. The company provides telecom services in remote areas for which it is compensated by the state. The key concerns in terms of universal services are frequently cited as:
- Is the state's reimbursement really material for the P&L?
- Are these services really detrimental to the company's value?
- How long will the provision of social services continue?

We assume no growth in universal services (although their 2011 growth rate was 7% YoY), which sees their contribution to the sales mix dropping from 3% in 2011 to 2% in 2015.

The methodology of expense accrual and cost sharing between socially important and other common telecom services is not made public. Rostelecom's experience shows that the P&L impact from the delivery of universal services (costs less budget compensation) is negligible. One proviso is that Kazakhtelecom could currently be receiving more cash for these services than it is spending, as the allocated expenses usually relate to depreciation amounts.

The focus of universal services should gradually shift from vanilla phone services to internet access. As such, the state is likely to continue to sponsor them. There is a risk that a new wave of social initiatives could require additional capex. However infrastructure required for social services could also be used to provide value-added services and improve the economics of the companies involved. In addition, cheap, low-speed internet access cultivates prospective customers and may promote loyalty and later reduce subscriber acquisition costs. Based on the available information we do not believe the associated risks are great for Kazakhtelecom.

New Growth Opportunities Could Come from the Government

Kazakhstan's government supports modernisation and the introduction of innovative processes in the economy via a wide spectrum of tools, including direct state spending. Similar to Rostelecom, as a state-owned company, Kazakhtelecom could benefit from government programmes. That said, these growth opportunities are difficult to assess and incorporate into our model at this stage.

Profitability

Kazakhtelecom has significant scope for cost cutting (particularly in terms of staff) which theoretically should boost profitability. However we do not currently factor in any potential aggressive staff-cutting initiatives (over and above natural attrition), as personnel reduction would not be welcomed by the government at the current stage of economic development.

Instead, we believe profitability will be supported from the revenue side: (1) via local tariff hikes; (2) a boost to fixed-line broadband services, which are typically more profitable than the traditional business; and (3) LTE development, which we envisage could become profitable in three years.

Figure 29: OIBDA evolution (%)

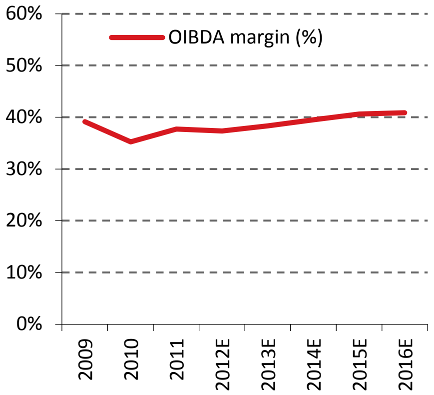
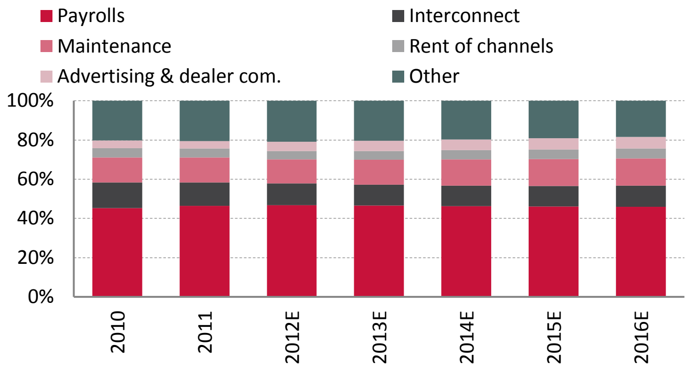


Figure 30: Cash cost structure (%)



Source: Company data, Aton estimates

Payroll: Enormous Cost-Cutting Potential is Untouchable for Now

Payroll accounts for the largest portion of cash costs, comprising 29% of revenues in 2011. We estimate these costs will equal 27% of sales in 2015, with the 2011-15 CAGR at 9.4%.

Kazakhtelecom's fixed lines per employee stood at 135 in 2011 vs Rostelecom's 205. Among its international peers, the lines-per-employee rate fluctuates around 300-500 though we feel that the geographical peculiarities of Kazakhstan necessitate lower lines per employee vs Rostelecom. In any case, we feel there is plenty of scope for growth. The lowest rate in Russia was 174 lines per employee in 2011E at Rostelecom's subsidiary Far East Telecom, which also operates in an area of very low population density.

Figure 31: Lines per employee is low

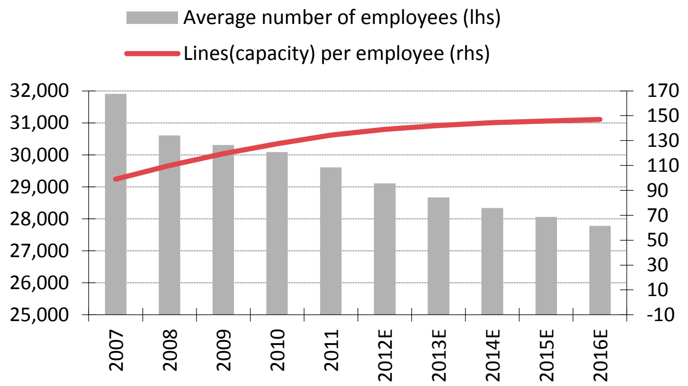
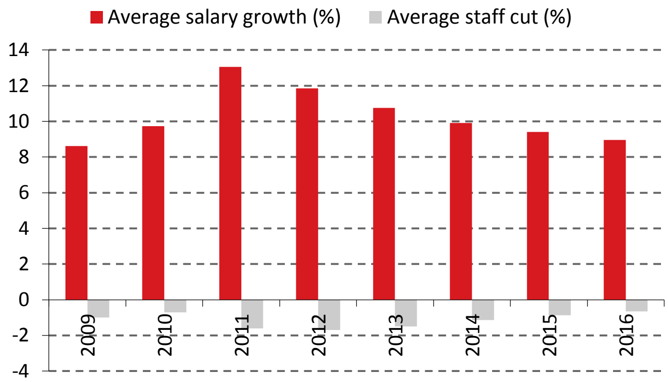


Figure 32: Salary growth set to outpace staff cuts by far



Source: Company data, Aton estimates

The united Kazakhtelecom has historically been overstaffed despite the fact that its network is already relatively modern. Unlike in Russia, we expect resistance from the government to staff cuts. From 2007 to 2010, average personnel numbers were reduced by 26% at Rostelecom, while Kazakhtelecom's reduction was just 3.5%.

We assume Kazakhtelecom's staff will be reduced by a mere 4.7% from 2011 to 2015. For salaries we assume annual growth of 1.5x CPI in the medium term.

Benefits and risks of the labour policy. Sticking to a conservative approach in our payrolls forecast, we still highlight that the risk to our profitability estimates could be on the upside if there is any flexibility on the labour question from government. Kazakhtelecom currently benefits from Kazakhstan's labour-related tax of 11% vs Russia's 34%, which reduces Kazakhtelecom's payroll costs.

Key Trends for Non-Payroll Expenses

What could inflate costs:

- The roll-out of broadband FTTB last-mile infrastructure could increase repair expenses, particularly as a portion of capex-related expenses could be attributed to costs.
- Data traffic costs are likely to grow, the reverse side of the boost to broadband revenue and data traffic. The development of company data centres supports the development of intra-net content. As a result, a portion of the data-heavy content used is intra-net and the traffic does not move out of the region, reducing data costs. Economies of scale following from broadband clientele growth should also translate into lower prices for channel rentals. The importance of data costs is implicitly mirrored in the fact that Kazakhtelecom charges a different broadband tariff for internal and external (out of the country) traffic.
- CPI will affect prices for materials and maintenance
- Advertising costs are poised to surge, assuming intensified marketing in the broadband segment and LTE
- Utility costs will be inflated by tariff hikes, but the effect should be mitigated by the introduction of energy-saving technologies (network digitisation)

What should reduce costs:

- Reaching 100% network digitisation in 2015 should help to keep maintenance and repair expenses under control
- The network's failure rate should also decline following the replacement of copper lines with fibre, additionally curbing maintenance expenses
- Interconnect costs are likely to slip in line with the general voice traffic reduction (mobile cannibalisation)

Capex

Capex to peak in 2012… After several years of the capex/sales ratio being around 20%, we believe Kazakhtelecom's capex will peak at 35% in 2012. The increase will be associated with the acceleration of FTTB technology and LTE's development.

…and then fall after 2015. We think the turning point in capex will come in 2015, by which time the bulk of the LTE and FTTB infrastructure should be built, and maintenance capex can dominate the mix.

We assume 35%, 31% and 27% capex/sales for the next three years, subsequently slipping to 19-14% and then remaining at around 12-13% long term.

Fixed-line broadband capex. Kazakhstan's broadband business has specific quirks. For example, Almaty, the nation's largest city is located in a seismic zone, which by definition prohibits high buildings, and automatically increases capex per subscriber. Almaty accounts for approximately 50% of Kazakhstan's telecoms market.

FTTB capex per subscriber is roughly $300 in Russia for Rostelecom, while for Kazakhstan we assume $500 per subscriber in 2012. Nonetheless, a wider clientele pool should enhance economies of scale and drive this amount down. In its strategy, the company expects to have 500-600,000 FTTB ports in 2015-16. We assume 960,000 ports, which inflates our capex forecast.

Figure 33: Growth capex to slip starting in 2015

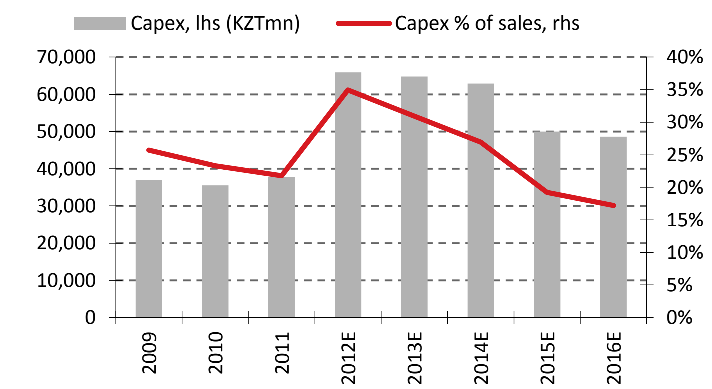
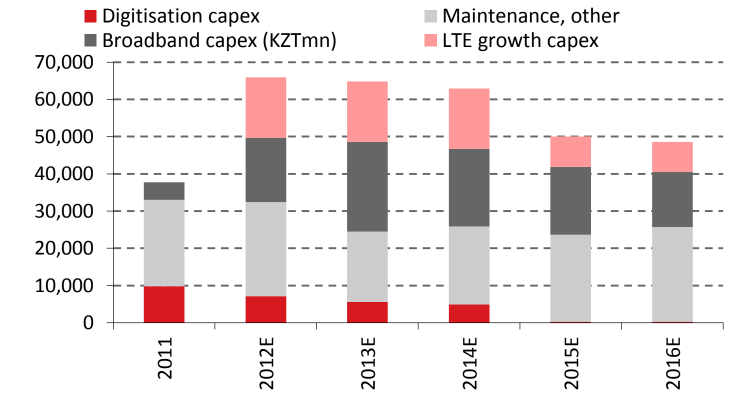


Figure 34: Completion of FTTB network, LTE to reduce capex

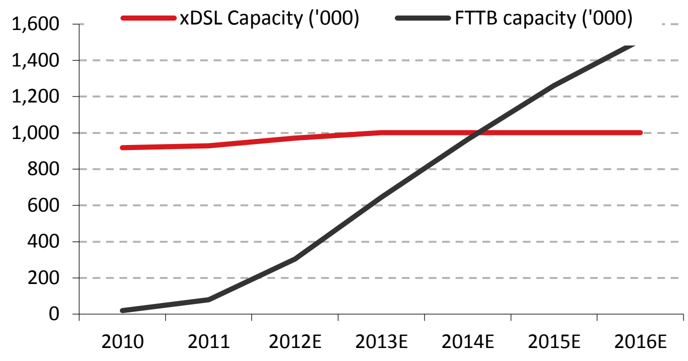


Source: Aton estimates

FTTB economics are highly vulnerable to assumptions on capex per households passed, as well as the services take-up rate and profitability. Given Kazakhtelecom's dominant position on the broadband market, we believe the take-up rate should be higher than in Russia, which should in turn gradually improve the economics of FTTB.

The old xDSL equipment will be shifted to remote and rural areas and residential FTTB capacity should gradually meet xDSL standards, in our view. We do not assume significant DSLAM purchases after 2011.

Figure 35: **FTTB capacity on track to catch up with xDSL ('000 ports)**



Source: Aton estimates

LTE capex. Kazakhtelecom tentatively planned to spend KZT65bn on LTE over the next 10 years ($440mn). In our model we assume the same amount of LTE growth capex for the next four years.

Digitisation capex. Kazakhtelecom has a modern network with a 93% digitisation level in 2011, which requires limited capex. We assume the digitisation level will rise to 100% though we note that this is not required for a full service offering.

Figure 36: Macroeconomic assumptions

	2008	2009	2010	2011	2012E	2013E	2014E	2015E	2016E
GDP, YoY (%)	3.0	1.2	7.0	6.5	5.6	5.9	6.1	6.3	6.4
CPI, YoY (%)	17.0	7.3	7.1	8.9	7.9	7.2	6.6	6.3	6.0
KZT/$ exchange rate, eop	120.0	148.4	147.4	148.5	148.0	148.0	148.0	148.0	148.0
Average annual exchange rate (KZT/$)	120.3	147.8	147.4	146.7	148.0	148.0	148.0	148.0	148.0
VAT (%)	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0
Unified social tax (%)	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0
Net income tax (%)	30	20	20	20.0	20.0	20.0	20.0	20.0	20.0

Source: The Agency of Statistics of the Republic of Kazakhstan, Aton estimates

Figure 37: Kazakhtelecom P&L (KZTmn)

	2010	2011	2012E	2013E	2014E	2015E
Revenues	152,732	173,344	188,427	209,649	233,754	259,809
Operating expense	-135,526	-147,470	-158,350	-175,090	-192,475	-209,890
incl. D&A	-36,623	-39,503	-40,311	-45,756	-51,078	-55,783
Operating profit	17,205	25,874	30,078	34,558	41,279	49,919
OIBDA	**53,828**	**65,377**	**70,389**	**80,314**	**92,357**	**105,702**
Growth (%)	-4	21	8	14	15	14
OIBDA margin (%)	**35.2**	**37.7**	**37.4**	**38.3**	**39.5**	**40.7**
Growth (ppts)	-3.9	2.5	-0.4	1.0	1.2	1.2
Interest expense, net	-7,251	-5,959	-4,601	-3,578	-2,402	-1,008
Finance gain (loss)	559	-161	-203	0	0	0
Other	1,249	1,504	0	0	0	0
EBT	11,762	21,258	25,275	30,980	38,877	48,911
Income tax expense	-4,974	-4,098	-5,095	-6,196	-7,775	-9,782
Effective tax (%)	44	19	20	20	20	20
Profit for the year	**6,788**	**17,160**	**20,179**	**24,784**	**31,101**	**39,129**
Margin (%)	4	10	11	12	13	15
Gain from sale assets (discontinued)	0	0	166,423	0	0	0
Gain (loss) on financial investments	26,883	33,024	2,752	0	0	0
Forex, other	-7	-6	0	0	0	0
Minority interests	548	-17	-18	-18	-19	-19
Comprehensive income	34,212	50,161	189,336	24,766	31,083	39,110
Margin (%)	22	29	100	12	14	15

Source: Company data, Aton estimates

Figure 38: Kazakhtelecom balance sheet (KZTmn)

	2010	2011	2012E	2013E	2014E	2015E
Cash & cash equivalents	58,023	87,716	61,139	39,565	30,962	46,859
Other financial assets	380	536	536	536	536	536
Inventories	5,155	4,258	4,628	5,149	5,741	6,381
Receivables	11,181	16,019	17,412	19,373	21,601	24,009
Assets for sale/ other	5,957	65,519	9,679	9,679	9,679	9,679
Total current assets	80,696	174,047	93,394	74,302	68,519	87,464
PPE& Intangibles	229,100	238,255	263,848	282,878	294,729	288,946
Investments in an associate	53,786	0	0	0	0	0
Other non-current assets	6,980	9,395	9,395	9,395	9,395	9,395
Total non-current assets	289,866	247,650	273,243	292,273	304,124	298,341
Total assets	**370,562**	**421,696**	**366,638**	**366,575**	**372,642**	**385,805**
Accounts payable	17,718	15,851	17,330	18,988	20,759	22,625
Short-term loans	16,493	21,777	17,086	11,391	5,695	0
Other current liabilities	9,572	10,677	10,677	10,677	10,677	10,677
Current liabilities	43,782	48,305	45,093	41,056	37,132	33,302
Shareholders' equity	238,592	282,902	248,142	269,203	296,280	330,359
Long-term loans	66,324	68,345	51,258	34,172	17,086	0
Other long-term liabilities	21,864	22,144	22,144	22,144	22,144	22,144
Total equity & liabilities	**370,562**	**421,696**	**366,638**	**366,575**	**372,642**	**385,805**

Source: Company data, Aton estimates

Figure 39: Kazakhtelecom cash flows (KZTmn)

	2010	2011	2012E	2013E	2014E	2015E
OIBDA	53,828	65,377	70,389	80,314	92,357	105,702
Taxes	-4,974	-4,098	-5,095	-6,196	-7,775	-9,782
Interest expense, net	-7,251	-5,959	-4,601	-3,578	-2,402	-1,008
Working capital change	6,804	-5,807	-286	-824	-1,049	-1,182
Dividends paid	-4,660	-5,830	-224,114	-3,723	-4,024	-5,051
Other	7,674	5,337	0	0	0	0
Operating cash flows	**51,422**	**49,020**	**-163,707**	**65,993**	**77,106**	**88,680**
Capex	-35,572	-37,744	-65,904	-64,787	-62,928	-50,001
Acquisitions	0	0	0	0	0	0
Dividends from associates	23,027	28,420	0	0	0	0
Assets sale	10,958	0	224,812	0	0	0
Other	-608	-1,852	0	0	0	0
Investing cash flows	**-2,195**	**-11,176**	**158,908**	**-64,787**	**-62,928**	**-50,001**
Net borrowings/(repayments)	-12,913	-8,215	-21,777	-22,782	-22,782	-22,782
Other financing cash flows	0	0	0	0	0	0
Financing cash flows	**-12,913**	**-8,215**	**-21,777**	**-22,782**	**-22,782**	**-22,782**
Exchange rates effect on cash	-21	64	0	0	0	0
Net cash inflows/outflows	36,293	29,692	-26,576	-21,575	-8,603	15,897
Cash BoP	21,731	58,023	87,716	61,139	39,565	30,962
Cash EoP	58,023	87,716	61,139	39,565	30,962	46,859

Source: Company data, Aton estimates

Figure 40: Kazakhtelecom DCF (KZTmn)

	2012	2013E	2014E	2015E	2016E	2017E
EBIT	30,078	34,558	41,279	49,919	55,888	61,766
NOPLAT	24,062	27,646	33,023	39,935	44,710	49,413
D&A	40,311	45,756	51,078	55,783	59,891	63,689
Capex	-65,904	-64,787	-62,928	-50,001	-48,581	-42,581
WC change	-286	-824	-1,049	-1,182	-802	-787
FCF	-1,817	7,792	20,125	44,536	55,218	69,733
WACC (%)	14.0	14.0	14.0	14.0	14.0	14.0
Discount factor	0.0	0.9	0.8	0.7	0.6	0.5
Terminal growth (%)	0					
PV of terminal value	189,989					
Terminal value as % of NPV	48					
EV (NPV)	398,882					
Net debt at YE 12E	6,670					
Cost of equity (%)	16.4					
Time adjustment	1.1					
Target equity value in 12 month	412,577					
DCF-based TP per share (KZT)	37,756					

Source: Company data, Aton estimates

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