

KazMunaiGas EP

Tender offer

- **KazMunaiGas EP (KMG EP) announced a cancellation of admission of GDRs to the Official List and to trading on LSE.**

The company invited shareholders to participate in the tender for cash at price of \$14 per GDR less any applicable Kazakhstan withholding tax. The tender price sets 23.7% premium to the 30-day weighted average GDR price of \$11.32 at December 1, 2017. The company applies to KASE for the GDRs to be admitted to the official list of KASE to provide an option to GDR holders to sell their GDRs free of Kazakhstan withholding tax starting from 20 December 2017. The tender closing date is 22 January 2018. The tender offer is for all GDRs. The company had 70,220,935 common shares as of 30 November 2017, including 2,793,620 treasury shares. The company has 32.2% of common shares in the form of GDRs. If KMG EP receives valid acceptances of the tender offer in respect of c 39.4% of GDRs and 12.8% of common shares (the stake of KMG NC reaches over 75%) the offer becomes unconditional. That means KMG EP can purchase over 53,908,494 GDRs. The market cap of KMG EP at a tender price is \$5.6bn, and the compensation to DR and shareholders will amount \$1.92bn if the offer accepted by all shareholders.

- **The tender offer represents a rational development given privatization plans for KazMunayGas National Company (KMG NC).**

KMG NC controls 58% of common shares in KMG EP and plans to get at least 75% stake as a result of the tender offer. KMG NC, in turn, is 90%-controlled by SWF Samruk-Kazyna (10% stake owned by the National Bank of the Republic of Kazakhstan). The state-controlled oil operator is on the privatization list of SWF Samruk-Kazyna. The consolidation of public company KMG EP with offshore oil production assets and other assets controlled by KMG NC would be beneficiary for the stakeholders as well as for the market sentiment, while the listing of KMG EP on LSE would create a price indication for potential KMG NC privatization deal. The traded KMG EP stock has limited liquidity and trades at 2.0x EV/EBITDA'17 that represents over 50% discount to its peer group (Thomson Reuters as of 20 December 2017). KMG EP reported \$2059mn revenue, \$521mn net income in 9M2017. Net cash reported at \$4bn as of 30 September 2017. The company planned \$378mn capex for 2017. The net cash position of KMG EP is enough to service the offer. We do not rate KMG EP.

Report date:	21 December 2017
Exchanges	LSE / KASE
Rating	Not rated
MCap*, \$ mn	5,286
Free float, %	34%
P/E'17**	7.9
EV/EBITDA'17**	2.0

Description:

KazMunaiGas EP is the largest public exploration & production company in Kazakhstan.

*as of 21/12/2017

** Thomson Reuters consensus

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Important disclosures

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