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Amundi
ASSET MANAGEMENT

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Why attractive to invest in Kazakhstan

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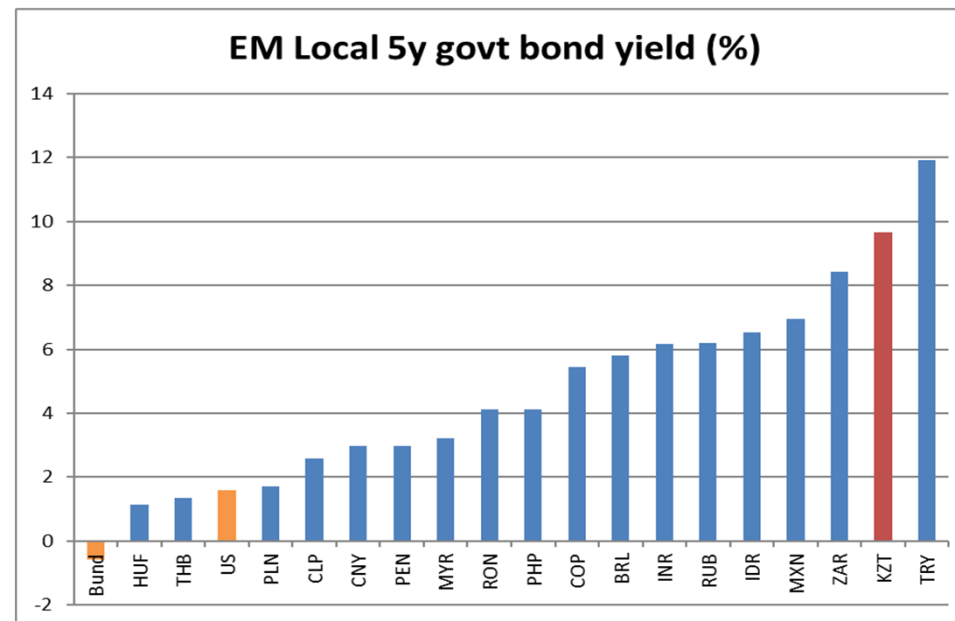
Kazakhstan Investment Backdrop

Very attractive from top-down perspective...

- 4% GDP growth outlook for 2020, underpinned by reform efforts and policy buffers, means Kazakhstan is the top story in the CIS equity space.
- GDP growth is driven by strong investments (~25% of GDP), robust domestic demand and reform programmes,
- Supported by solid external buffers, fiscal stimulus and recovery in business and consumer confidence
- Efforts to improve business climate, ongoing sensible investment strategy and pension reform benefits combine to maintain a positive growth outlook for the medium term.
- Inflation within 4-6% corridor, which itself will be reduced further to 3-5% from 2020.
- Tenge stabilising, and now supported by balanced NBK outlook. FX reserves are 2nd highest in region.
- Smooth Political transition also removed overhang.
- Potential for upward sovereign ratings revisions:
 - S&P: BBB-
 - Moody's: Baa3 (positive outlook)
 - Fitch: BBB (stable outlook)

EM Debt key points

- An attractive diversification to existing EM benchmarks, especially given its IG status
- A Russia proxy but without Sanction risk
- KZT assets also enjoy lower beta vs other benchmark peers
- Kazakhstan local bond as attractive diversification vs peers



Source: J.P.Morgan, Amundi

Current GBI-EM weights

- Prospects of Index inclusion with weights between 17 – 18 bps

Country Indices	GBI-EM Div		GBI-EM Global Div	
	Baa2/BBB/BBB		Baa2/BBB+/BBB	
	Nov 22	Est. Nov 29	Nov 22	Est. Nov 29
	wgt. (%)	wgt. (%)	wgt. (%)	wgt. (%)
Argentina	0.15	-	0.07	-
Brazil	9.60	10.00	9.64	10.00
Chile	-	-	2.80	2.71
China	-	-	-	-
Colombia Global	0.39	0.39	-	-
Colombia	-	-	6.43	6.19
Czech Republic	7.88	8.01	3.91	3.81
Dominican Republic	0.38	0.39	0.19	0.18
Hungary	8.54	8.54	4.23	4.06
India	-	-	-	-
Indonesia	-	-	10.09	10.00
Malaysia	10.15	10.00	6.22	6.18
Mexico	9.90	10.00	9.93	10.00
Peru	7.62	7.38	3.78	3.51
Philippines	0.60	0.61	0.30	0.29
Poland	9.86	10.00	8.67	8.91
Romania	5.65	5.75	2.80	2.73
Russia	10.22	10.00	8.60	8.77
South Africa	10.38	10.00	8.77	8.99
Thailand	-	-	9.28	9.45
Turkey	8.33	8.57	4.13	4.07
Uruguay	0.36	0.36	0.18	0.17

Source: J.P.Morgan

Kazakhstan and Frontier Equity

Accessibility and breadth of market remain hurdles

- Kazakhstan is attractive from an equity perspective, with MSCI Kazakhstan having delivered over 26% YTD.
- Despite this, the market still looks cheap on a 2020e P/E of 5.2x, P/B 1.1x while delivering a ROE of 24% and DY of 7.7%
- However, with only 2 stocks in MSCI FM (Halyk Bank and NAC Kazatomprom) breadth is perceived to be an issue. Furthermore, these are London listed (GDR) names.
- There are 7 names in the local index, although the largest of these, KAZ Minerals and KCell are also London listed.
- The GDR names of NAC Kazatomprom and Halyk Bank, trade more than \$1m ADV. Of the local names, if one excludes Halyk Bank, the remaining Kcell, Kazakhtelecom, Kazakhstan Electricity Grid, KazTransOil and Bank CenterCredit have very low daily liquidity, with the most liquid trading a few hundred thousand USD per day.
- This prevents significant participation in smaller names.
- Sectoral opportunities are also narrow, with listed equities concentrated in Financial, Materials and Energy sectors.
- With the more liquid names being traded out of London, even the welcome increase in accessibility to the local markets with recently appointed local custodians, the narrow scope of the market means that in many cases the costs/effort outweigh the opportunity.
- *However*, if Kazakhstan proceeds with the privatisation programme approved by the government in 2016, with the state selling stakes in 170 companies in the near future, this can dramatically improve the picture and is much awaited by investors.
- Particularly, the privatisation of six major companies currently owned by the sovereign fund Samruk-Kazyna (Kazatomprom, Air Astana, Kazakhtelecom, KazMunaiGas, Kazpost and Samruk-Energy) which are expected to be done via public offering.

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