

LSEG | Kazatomprom 2021 First-Half Results and Conference Call, August 26, 2021

Cory Kos:

Good afternoon and welcome to Kazatomprom's conference call to discuss the company's 2021 half year operating and financial results. My name is Cory Kos, director of investor relations, and we thank you for taking the time to join us today. Our conversation will begin with a presentation by our CEO, followed by an opportunity for investors to ask questions. If you joined through the Kazatomprom website or through our company page on the London Stock Exchange website, note that there will be slides displayed during the remarks. These webcast slides are also available for download in English and in Russian as PDFs called 2021 Half Year Conference Calls Slides. Note that our press release, Full Version of the Half Year Operating of Financial Review, along with our reviewed, unaudited 2021 half year financial statements are now available on Kazatomprom's website.

Cory Kos:

Participating in today's call, we have Galymzhan Pirmatov, chairman and chief executive officer, Kamila Syzdykova, chief financial officer, and Askar Batyrbaev, chief commercial officer. This call is open to all stakeholders, with the question and answer portion being intended as an opportunity for members of the investment community to ask their questions. Please note that the Q&A session will be conducted in English. The simultaneous translated Russian conference line is in listen only mode and will include a translation of the Q&A. This conference call may include forward-looking statements. These statements include all matters that are not historical facts. By their nature, forward-looking statements involve risks and uncertainty, and there are not guarantees of future performance. The company does not make any representation, warranty, or prediction that the results anticipated by such forward-looking statements will be achieved. So with that, I will hand it over to Galymzhan.

Galymzhan Pirmatov:

Thank you, Cory. And hello everyone. Thank you for joining us today to discuss the uranium and nuclear market environment today in 2021, along with Kazatomprom's 2021 half year operating and financial results, which were released earlier today. As always, before touching on some key half year highlights, we will be providing our corporate view of the global uranium market. Prior to jumping into the details, I think every stakeholder would agree that the extraordinary situation that we find ourselves in today as a global community warrants a bit of discussion. As many countries emerge from isolation with reduced restriction, we're starting to see how the COVID-19 pandemic has changed virtually every aspect of our life. From work, to leisure, to travel, we're all adjusting to the new reality that could be in place for the foreseeable future. I will recognize the changes and the need to adapt in our daily lives.

Galymzhan Pirmatov:

We're also seeing that while we were locked down at home, the pre-pandemic challenges and problems the world was facing prior to COVID-19 did not go away. In fact, the social and environmental issues that have generated so much concern and debate in past have only become more pronounced, in part due to the significant economic effects of the pandemic. Governments and individuals have had to evaluate the problems to try and find near and long-term solutions, with a re-prioritization of targets and increased spending in areas that are expected to have the most significant impact. One of the areas that is perhaps needing the most attention right now is in relation to climate change. With the deepening impact of detrimental events like droughts, forest fires, floods, and hurricanes, it is obvious that the time for idle discussion and counter productive debate has passed, and governments must take action.

Galymzhan Pirmatov:

For decades, experts in the scientific community have warned us that the problems are going to get worse. And it is imperative that we find meaningful ways to reduce the world's reliance on fossil fuel. Non-government environmental organizations, which have on one hand been calling for such a reduction, have at the same time been among those putting up significant barriers to the most impactful solutions, including more widespread acceptance of safe, baseload, carbon free nuclear power. The lack of recognition and support for nuclear as one of the only way to effectively meet our 24 hour energy needs and displace carbon emitting sources has delayed action, but thankfully we're starting to hear more thoughtful conversations emerging, with knowledgeable experts being given a voice in their attempt to increase both formal and informal public discussions about nuclear's role in addressing the climate challenges. With the focus on climate, several international agencies, including the International Energy Agency, have reinforced the message that the pathway to net zero emissions and an improved outlook for the planet must include both a significant increase in renewables, as well as a significant expansion in global nuclear capacity.

Galymzhan Pirmatov:

In that regard, not [inaudible] the first-hand demand side developments came from two of the world's biggest economies. In China, a new five-year plan continued to show strong support for nuclear energy, calling for a near 40% expansion compared to 2020, pushing capacity to about hundred gigawatts by 2030. The United States, which today produces around 15% of global greenhouse gas emissions, officially rejoined the Paris Agreement, which aims to maintain this century's global temperature rise well below two degrees Celsius above pre-industrial levels, and to pursue actions that will further limit the temperature increase. Alongside the emphasis on climate, stakeholder interests have also become much more focused on ESG. Every industry is working to improve the environmental footprint, social impact, and governance framework of their businesses. And we in uranium and nuclear industry find ourselves in a unique situation. ESG has always been at the center of how we have done business, and with evolving global trends, we are reinforcing operational standards to ensure their ESG efficiency.

Galymzhan Pirmatov:

The environmental benefits of nuclear are obvious. And at the front end, the in-situ leach uranium recovery mining method is the most environmentally friendly way to extract uranium. All of our Kazatomprom's mines employ the ISR mining method, with our uranium operations providing the world with a significant amount of energy, despite a very small operational footprint. Socially, uranium mining provides benefits to both nearby communities, and to the countries in which they operate. In our case, with all operations located in Kazakhstan, the country benefits from having a significant resource speed that underpins our place as the largest producer with the lowest cost mining operations in the world. In terms of governance, international regulations have always been at the forefront in the nuclear sector, requiring government and businesses to open under the strictest oversight in order to ensure long-term viability.

Galymzhan Pirmatov:

As a result of these factors, and in the context of the difficult situations we see around the world today, we have become more and more optimistic in our view that the world is increasingly in need of a carbon-free solution like nuclear power. And with that need comes an increase in the demand for uranium, the commodity at the center of Kazatomprom's value strategy. The market showed some improvements in the first half of 2021, but the transition towards healthier conditions continues to move slowly. The impact of COVID continues to be felt across the industry, with lower primary production resulting from suspended

operations and lower overall output, further grinding down available near term supply. But thus far in 2021, sentiment

Galymzhan Pirmatov:

And have remained cautionary, particularly in light of the presence of new financial players, who the activity have the potential to introduce more transparent price dynamics and additional secondary demand. As many fuel buyers continue to evaluate their needs and are not under pressure, having little in the way of uncontracted requirements in near term, spot price remained around \$30 during the first half of the year, with lower overall volumes contract. Term price also remained stagnant at \$33.75, with lower contracted volume so far in 2021. However, in the case of the term market, which calls for deliveries two or more years out in time, uncontracted requirements continue to grow, and there is mounting pressure for utilities to pay producers an adequate price that support the decision to deploy capital and undertake the mining risk to ensure that future production is available when needed.

Galymzhan Pirmatov:

Today's term price does not support such a decision, and there is an increasing risk than an adequate level of uranium production will simply not be available at the end of the decade and beyond, regardless of the price. This must surely be a concern for the entire market. Moving into our first half results for 2021, safety performance remains strong, though there was a slight increase in the frequency of injuries compared to 2020 when staff levels and site activities were reduced during the second quarter. In terms of protecting people amid the pandemic, 81% of our employees have now received a first vaccine though, with 69% of staff now being fully vaccinated with two doses, which is well ahead of the country as a whole.

Galymzhan Pirmatov:

Among our employees that work on shift and travel from across the country to our production site, more than 87% have received the first dose, and more than 74% are fully vaccinated. We continue to focus on improving and implementing systems that will protect our people. In general, our operational and financial results for the first half of the year were strong. Although our operations continue to perform well and deliver production volume on both a hundred percent and attributable basis that were similar to 2020. Development progress was slightly behind schedule compared to our plan, so we're working to ensure they're on track for the second half. As noted earlier in the year, we are having some difficulty in getting the necessary pipes and some reagents due to pandemic related supply chain challenges. But we have continued to employ mitigation plans that have reduced the risk to acceptable levels, and our guidance remains unchanged at this time.

Galymzhan Pirmatov:

The picture will become clearer as we finish the third quarter, after which we can review our expectations on 2021 production volume with more confidence. Early in the year, yellowcake purchased uranium from Kazatomprom at market prices, exercising their full 100 million dollar option and taking an additional 64.5 Million. In our annual guidance, we do not assume yellowcake will exercise that option, so when they do, it eases the pressure on other negotiations we have underway, allowing us to be more selective, knowing that we have committed more of our annual production. In terms of our first half financial results, yellowcake sale was a small boost to our overall higher uranium sales, with a higher average realized price also acting as a primary driver behind a 54% increase in revenue, compared to the same time last year.

Galymzhan Pirmatov:

The improvement resulted in a near 30% increase in operating profits. Net profit was down slightly compared to last year due to the one-off gain received in 2020 from the sale of the investment in the joint venture uranium enrichment center, though with that impact removed, adjusted net profit was higher by over 30%. Adjusted EBITDA for the first half was also higher than in 2020. At June 30 our inventory of finished uranium was similar to the inventory level we held at the end of 2020, remaining at the bottom of our comfort zone of about six months of attributable production, which did require some small opportunistic purchases in the market during the first half. We will continue to monitor market conditions, and to keep our inventory level in the target range, we expect to purchase additional material from the spot market during the second half.

Galymzhan Pirmatov:

In terms of first half cost, C1 cash cost remained below \$9 per pound, while all-in sustaining cost rose slightly to \$12.58 cents per pound due to increased capital spending at the mining operation. Recall that the pandemic-related suspension of various site activities through the second quarter of 2020 resulted in a lower level of spending. After the end of the quarter, we also disclosed a few very important developments. First, we completed the payment of dividend in July calculated based on our updated dividend policy. A 52% increase in the dividend payment compared to last year speaks to the company's commitment to maximizing shareholder returns, even in a more challenging economic environment.

Galymzhan Pirmatov:

In July, we also closed the transaction to sell a 49% share of our 100% Ortalyk operation to CGNPC for \$435 million. The completion of the sale were part of a much broader agreement between Kazatomprom and our Chinese partner dating back to 2014, which also included the construction of the fuel fabrication plant at our [inaudible] metallurgical facility. Certification of the production line at that plant are underway as well this year, with the first deliveries of finished fuel bundles to China expected to take place in 2022. Finally, an important development not only for Kazatomprom, but for the entire industry. We announce that we are extending the 20% reduction of our production against subsoil use agreement for an additional year, so 2023.

Galymzhan Pirmatov:

This means that for yet another year, global primary production is expected to be lower by over 5,000 tons than was previously expected. Although we remain confident and have started to see market improvement, we don't want to bring that production back until we have it committed under contract to ensure it doesn't end up in the spot market, further delaying the recover. For the remainder of 2021 we have kept our annual guidance and change, except for the adjustment made to attributable production in all unsustaining cash costs related to the recent sale of a 49% share in Ortalyk. We remain confident that we can deliver on expectation, although that confidence assumes that our supply chain and [inaudible] development challenge can be effectively managed, which is by no means a guarantee.

Galymzhan Pirmatov:

Our ongoing contract negotiations are expected to deliver sales at a similar level to 2020, exceeding attributable production by over 1,000 tons. Notably, we're only halfway through the year, but already we no longer have any near-term material to manage, and we will not be selling uranium into the spot market in 2021. With the [inaudible] to USD exchange rate remaining stable to date in 2021, revenue expectations are trending towards the bottom of the guidance range, but the range remains unchanged. As always, to the extent the exchange rate changes, or if actual uranium prices are higher or lower than the third-party

estimate we use for budgeting purposes last year, revenue would also be higher or lower. We remain on track for costs and CapEx

Galymzhan Pirmatov:

[inaudible], pending our ability to operate and complete projects at normal activity levels throughout the year. Importantly, for the second half and indeed in general, our strategy has not changed. On the corporate governance side we'll constantly work on improving our already high standard, and in May shareholders approved a new composition of the company's board of directors. We welcomed three new representatives appointed by our majority shareholder, Samruk-Kazyna, and importantly we increased the number of independent representatives on the board. We're proud of the fact that our board now includes two females. Kazatomprom supports board-level diversity, which we believe is a big step towards our EAG and sustainable development goals.

Galymzhan Pirmatov:

Kazatomprom's management team and board of directors remains committed to prioritizing long-term value in its decision-making, with the marketing and sales team continuing to exercise discipline in our market activities. We are guided by our commitment to the highest standards of health, safety, environmental stewardship and corporate governance. We have maintained our lower than planned production levels, and will now continue to do so through 2023. Our marketing function has signed contracts with several new customers. We are confident that, as the market transitions to more supportive pricing and the renewal of long-term contracting interest, Kazatomprom as a low-cost producer with substantial long-term reserves will be well positioned to benefit and deliver value to our stakeholders.

Galymzhan Pirmatov:

Thanks for your interest and attention. We will now take questions from stakeholders on the call.

Cory Kos:

Thank you, Galymzhan. Just a quick note for everyone listening on the English line, and on the webcast, audio will now be silent for a moment just while our slightly longer Russian translation of the presentation catches up. So in a minute or so we will have the operator rejoin the call to begin the Q&A. So we just ask for your patience on the conference line for just a moment.

Cory Kos:

(silence)

Operator:

We will now begin the question and answer session. Please limit yourself to two questions at a time. If you have additional questions, you are welcome to rejoin the queue. As a reminder, you can also submit questions using the ask a question button on the webcast page. To ask an audio question, please key star then one on your telephone. If you then decide to withdraw that question, simply key star two. Any questions will be answered in the order received, and you will be advised when to ask your question. So as a reminder, please key star then one on your telephone to ask your question. We will now pause for a moment as callers join the queue.

Operator:

(silence)

Operator:

We have our first question, and that's coming from the line of Chintan Khamar from Credit Suisse. Please go ahead, your line is now open.

Chintan Khamar:

Good afternoon. Two questions from me, please. Firstly, on pricing, you mentioned that we've seen a modest rise in the spot price and a stagnant long-term price. In your interactions with utilities, do you feel fuel buyers are becoming increasingly concerned about longer term security of supply? And I guess particularly in the face of your rolling of supply curtailments, have you noticed any changes in your interactions more recently? And then on the second question, there's been some commentary by your peers suggesting that some producers are bidding aggressively for term RFPs that are occurring in the market. Could you shed some light on what type of producers do you think are chasing this business, and does it concern you? Thank you very much.

Galymzhan Pirmatov:

Thank you, Chintan, for great questions. Yes, on both, we do see. It's not a concern, but a lot more attention to a longer term supply. And in terms of our recent interactions, maybe Askar you can give it a little bit more detail, and I'll follow up with the second question.

Askar Batyrbaev:

Yeah. Hi. On the [inaudible] change, we could say that yeah, we see that utilities have changed their attention. They're approaching us more frequently for a longer term view, and mid-term deals. So we see some change in their attitude, but it's not at that level as we wanted to see. Maybe that was the reason for our decision about 2023, to go minus 20% from our contractual [inaudible] contracts. So definitely utilities have changed. They're coming and seeking for the material. We're having open and off-market conversations with them, but their attention and their requests are not that big that it will still shift the market to more long-term talks.

Galymzhan Pirmatov:

And in terms of second question, we can't really say which producers are doing that. But we noticed and seeing that more and more that some of them are bidding more aggressively. And we have feedback obviously from utilities that somebody else got it because of sizeable difference in end pricing. So, that's what we're seeing.

Chintan Khamar:

Thank you very much.

Galymzhan Pirmatov:

Thank you.

Operator:

Thank you. The next question is coming from Anton Fedotov from BofA Securities. Please go ahead, your line is open.

Anton Fedotov:

Good afternoon and thank you for representation. I have a question with regards to your asset structure. You just sold 49% in [inaudible] asset to a Chinese company. Do you have any plans any other asset sales, or maybe [inaudible] to a current stake in your current assets, going forward? Thank you.

Galymzhan Pirmatov:

Thank you, Anton. No, we don't have any plans for any further assets sales, or adding or doing more consolidation in our existing assets. If you remember this sale is the part of the agreement that Kazatomprom signed back in 2014. It's related to our fuel fabrication projects, so it goes hand-in-hand with that project. And we finally completed the sale. End of last year the fuel fabrication plant was commissioned, and this year it's basically assembling first fuel bundle as part of the certification process. And we expect the first delivery of fuel bundles next year. So that is part of that project, that agreement. We don't have any current plans to sell any more assets or to buy more shares in existing projects.

Anton Fedotov:

Thank you.

Galymzhan Pirmatov:

Thank you.

Operator:

Thank you. The next question is coming from Anna Antonova from JP Morgan. Please go ahead, your line is open.

Anna Antonova:

Good afternoon. Thank you for the presentation. One question from our side. In light of your guidance of [inaudible] uranium production next year in 2023, is it fair to assume that your mining CapEx on 100% basis next year, and then 2023, should roughly be the same as it is for this year? Could you please shed some light on this? Thank you.

Galymzhan Pirmatov:

Yeah. Thank you, Anna. Two comments. First about 2023 CapEx plan. It will depend on what we decide for 2024. If we decide to change the production plan for 2024, that may drive CapEx for 2023 higher as we will have to prepare for, potentially, a different number of tons we want to produce. In terms of '22, more or less the same except we are seeing some of the pressure coming from COVID-related supply chain bottlenecks and some, maybe, increase in cost base different from our recent experience. We are following it. It's not significant in any meaningful way, but on a CapEx side and on some of the OPEC side we are already seeing that the experience will be different from our recent few years.

Anna Antonova:

Understood. Thank you very much. Maybe a quick follow-up question. Do you expect any changes to taxation regime in the near term for uranium industry in Kazakhstan given the wider press comments of government officials about hiking royalty rates for other mining sectors in the country?

Galymzhan Pirmatov:

Thank you. No, we don't expect, as of today, any changes in terms of taxation.

Anna Antonova:

Thank you.

Galymzhan Pirmatov:

Thank you.

Operator:

Thank you. And just to remind you of everybody, if you would like to ask a question today, please key star, then one on your telephone. Star, then one for a telephone question. Thank you.

Operator:

If there are no further questions on this line then we might pass on the question and answer session to my colleague, [Roxelana]. Please go ahead, Roxelana.

Roxelana:

Thank you, Operator. There are no questions on the [Kazakh] line. I will now hand over to the management team for the [inaudible] question.

Cory Kos:

Thank you, Operator. We have just a couple of questions in so far from webcast participants. So I will act as moderator for the final part of today's call.

Cory Kos:

So we have an investor asking a question. What percentage in revenue income do you foresee your new fuel fabrication plant in the upcoming years? So perhaps we could ask Galymzhan to take that question?

Galymzhan Pirmatov:

Thank you, Cory. Maybe we'll get back with the answer to that question. In general, as you know, revenue may be sizable, but in terms of margins that business is different from our mining business. So it has quite a bit of a expensive input items and with the enriched uranium, so Kamila will get back with the detailed answer to that question.

Cory Kos:

Perfect. Thanks. So I guess I can hand back to you to close. We have no more questions right now on the line. But as always with our investor audience or anybody that wishes to ask any questions, please do reach out. Our contact information is on our website, and we're happy to have a conversation.

Cory Kos:

So I'll hand back to you for a brief summary to close the call Galymzhan.

Galymzhan Pirmatov:

Yeah. Thank you everyone for your interest and time. It seems like we have less and less questions. I hope that means that you have more and more understanding of our business and in our approach. So please be safe and look forward to speaking to you soon.