Kazakhstan Privatization Strategy - how to ensure capital market development

Baljeet Kaur Grewal
Managing Director for Strategic Development,
Samruk Kazyna JSC
Kazakhstan is the largest economy in Central Asia and drives 60% of the region’s growth and investments.

2018 Forecasts of GDP Growth (%) & GDP per capita (USD)

- **Russia**
  - GDP growth: 1.5%-2.0%
  - GDP per capita: USD11,947

- **China**
  - GDP growth: 6.5%
  - GDP per capita: USD10,088

- **Azerbaijan**
  - GDP growth: 2.0%
  - GDP per capita: USD4,575

- **Turkey**
  - GDP growth: 4.4%
  - GDP per capita: USD11,114

- **Central Asia peers**
  - GDP growth: 4.6%
  - GDP per capita: USD2,654

- **Kazakhstan**
  - GDP growth: 4.0%
  - GDP per capita: USD9,215

Source: International Monetary Fund, Ministry of National Economy 23 May 2018

---

**Strategy 2050**

“...priority for Kazakhstan to enter the top 30 club of most develop countries in the world.”

“...we need a second wave of large-scale privatization...to maintain high rates of economic growth.”

“...our main criterion for effectiveness is the rate of return from our investments.”

**Strategic Plan 2025**

“...the state will continue to leave the economic sectors, where it is possible to form a competitive environment, through privatization of state-owned enterprises.”

**National Investment Strategy**

“...Privatization with an involvement of strategic foreign investors in competitive industries as well as in regulated markets might entail additional investments from existing and new strategic investors...”
Kazakhstan is resource-drive: higher oil prices, increased infrastructure & fiscal stimulus are key economic drivers

**GDP GROWTH FOR 2018 @ 4.0%**

**MAIN INDUSTRIES**
Oil & gas, uranium, base metals, agriculture, construction, transportation

**TOP EXPORTERS TO KAZAKHSTAN**
Russia, China, EU, CIS, US, Turkey

**TOP IMPORTERS FROM KAZAKHSTAN**
EU, China, Russia, Switzerland, CIS

**TRADE TUROVER**
>USD100B by 2022

**IMPORT**
+26.7% 5Y CAGR USD40.23BLN BY 2022

**EXPORT**
+22.1% 5Y CAGR USD60.15BLN BY 2022

Foreign companies investing strongly in Kazakhstan, FDIs of >USD260 billion

**FDIs averaged at 7% of GDP per annum in the past 10 years, peaking at USD28.88bln in 2012**

**Top 5 FDI by country:** Netherlands (30%), US (9%), China (6%), France (6%), Switzerland (5%).

**Top 5 FDI by sector:** Professional, science & tech (33%), mining & quarrying (29%), manufacturing (13%), wholesale & retail trade (9%), financial services (5%).

Source: National Bank, Ministry of National Economy 23 May 2018
Samruk Kazyna translating shareholder’s expectations into strategic outcomes

2009-2012
Implementation of the anti-recessionary program of Kazakhstan

120 BLN KZT Refinancing of mortgage loans
170 BLN KZT Financing of the suspended construction
488 BLN KZT Stabilization of financial sector by acquiring stocks of Second-Tier Banks to support their liquidity

2008
Foundation of Samruk Kazyna Fund

2012
Approval of the Fund Development Strategy for 2012-2022

2014
The Transformation Program started

2017
Now

2020

Kazakhstan 2050 Strategy aims to position Kazakhstan among the top 30 global economies by 2050. Key aims of the policy include economic reforms

Transform Kazakhstan into a knowledge-based diversified economy driven by the private sector.

Value Add to KZ

- Capital preservation
- Liquidity provider

Phase One
Formation

Phase Two
Crisis mgmt

Phase Three
Stabilization & Transformation

Phase Four
Strategic & Active Investor

- Drive economic development, improve investment return through Transformation & Privatization
- Define new markets, form productive partnerships, create new sources of economic growth
- Create favorable investment climate through privatization and catalytic investments
- Actively seek and develop effective public-private partnerships
Samruk Kazyna is driving the Privatization Program; creating value as a professional & commercially-driven entity

To reap the maximum benefits resulting from Privatization, there is a need for a professional and commercially-driven entity to actively manage the portfolio investments and divestment proceeds, to reinvest into new sectors of economy. **Samruk Kazyna plays this role**
Samruk Kazyna’s role as a primer in Kazakhstan’s Privatization Program

Privatization allows Samruk Kazyna to achieve important strategic goals:

1. Increasing **efficiency** and **competitiveness** of portfolio companies
2. Funding the development of **new** projects and industries
3. Strengthening **transparency** and **corporate governance** standards by going public
4. Sharing **technical expertise** and **know-how** through partnering with **strategic investors**
5. Stimulate **development of capital markets**
Samruk Kazyna will increase value add post Privatization, delivering increase wealth for Kazakhstan & sustainability for future generations

Pre-Privatization
Focus on long-term value creation of its portfolio both legacy investments and investments into new sectors

- Actively manage performance of legacy investments through our representatives in the portfolio companies' Board of Directors
- Develop various sectors of KZ economy and projects of strategic importance
- Value add will be realized through new investors in the company either through private sale or IPO
- Continue to support Government Programs focused on meeting key national agenda

Post-Privatization
Continue to drive value creation of its portfolio; focus to deliver greater performance at a portfolio-level as an active investment

- Takes action to achieve target portfolio structure through buying and selling shares and redistribution of dividends; optimize portfolio performance
- Less dependence on funding from the Government; regular dividends to support national budget
- Management team is committed to grooming talents; structure and KPIs to ensure success
- Act as an independent and commercially-driven entity; use of best practice in all aspects of the Fund; diversity of local and international talents

Value Adding Roles of SK Pre/Post Privatization

Value Creator
Portfolio Optimizer as Active Investor
National Budget Contributor
Talent & People Incubator
Professional Investor
National Program Supporter
Best-in-Class Developer
Privatization Primer
Mission, Vision & Strategic Goals of Samruk Kazyna in executing National programs & Strategic Plans (2018-2028)

**Mission**
Promote national wealth of the Republic of Kazakhstan and long-term sustainability for future generations

**Vision**
Investment holding that delivers strong financial performance, investment returns and portfolio development on par with leading sovereign wealth funds.

**Strategic goals**

1. **Efficiency of companies**
   - Increase profitability of companies

2. **Portfolio management**
   - Streamline portfolio structure

3. **Sustainable development**
   - Income diversification

**Strategic Initiatives**

1. **Financial sustainability**
   - Optimization, synergy of companies
   - Transformation
   - Digitalization, automation

2. **Privatization**
   - Exit from nonstrategic assets

3. **Diversification**
   - Investments in new sectors in KZ
   - International investments
   - Attraction of strategic partners

4. **Corporate Governance and sustainability**
   - Economic growth
   - Effective corporate governance
   - Human capital development
   - Sustainable development initiatives
Temasek & Khazanah contributed significantly to their economies through Privatization of national companies

**Temasek**

Net Portfolio Value increased 3.57 times to SGD275 billion in 2017 vs. SGD77bln in 2002

Temasek's mandate is **purely financial driven**, aims at achieving exceptionally high returns:

- Generated 1Y TSR of 13.4% in FY2017, while long-term TSR since inception was at 15%.
- **Consistent dividend payout of SGD7bln annually** to shareholder in the past 10 years, 19x of interest expense.
- **Dividends** from Temasek (and GIC combined) accounted for the largest component of Government revenue at ~17%, and for budget spending.
- Temasek **pays taxes** on the profits earned, contributing to government revenues and help **fund spending** for public services (defense, education, healthcare and social services).

**Khazanah**

Realizable asset value grew by a CAGR of 8.2% p.a. to RM157.2bln in 2017 vs. RM50.9bln in 2004

The 10Y GLCs transformation program (with privatization) delivered positive financial results for Malaysia during 2004-2015:

- Top 20 largest GLCs market capitalization grew by 2.9x to ~RM400bln in 2015,
- TSR grew by 11.1% p.a.,
- Cumulated net profit grew by 10.2% p.a. to reach RM26.2bln in 2015;
- Dividend payout ratio increased to 58.4% in 2015 vs. 45.35% in 2004.
- G20 made ~RM154bln worth of domestic investments and employed Malaysian workforce of 225,050 people – catalyzing nation building.
Privatization has significant impact on development of stock markets

• A stock market must achieve a critical mass in terms of the number and size of companies listed and the level of daily trading to provide the liquidity and diversification required by investors and to support an infrastructure of intermediaries, advisors, and regulators.

• Privatization of major state-owned entities, combined with efforts to establish a suitable regulatory and legislative framework, can give a stock market the needed boost in size and quality – World Bank, Privatization and Emerging Equity Markets

➢ Deepen and diversify stock market

Historical experiences showed privatizations have increased the number of shareholders in many countries. Privatization is able to attract stable investor base. Allowing foreign investors to take part in privatization is seen to increase the pool of qualified buyers, technology transfer, and privatization proceeds.

➢ Improve liquidity

Liquid and efficient nature of capital markets increase financing opportunities for local firms to fund investments. Stock markets provide investors with a potential exit mechanism, offering liquidity to investors that encourages diversification, generating information about the quality of potential investments.

➢ Confidence in stock market investments

Successful privatization results in strengthening of institutional reliability which broadens confidence in investments.

Source: OECD, World Bank, Asian Development Bank
Privatization provides critical mass to kick-start new stock markets and deepen existing stock markets

According to studies conducted by OECD on the impact of privatizations on the development of stock markets worldwide:

- **Total market value** of privatized firms grew from USD50bln in 1983 to almost USD2.5tln in 1999;
- **Stock market capitalization as a % of GDP** rose from 52% to 82% in 1990-1998;
- **Share trading volume** increased from 29.0% of GDP in 1980 to 79.3% in 1998;
- **Privatized firms are the most valuable companies** in seven out of the 10 largest non-US stock markets.

**Market capitalization to GDP, %**

<table>
<thead>
<tr>
<th>Country</th>
<th>1990</th>
<th>1998</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Brazil</td>
<td></td>
<td></td>
</tr>
<tr>
<td>China</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Germany</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Japan</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Malaysia</td>
<td></td>
<td></td>
</tr>
<tr>
<td>US</td>
<td></td>
<td></td>
</tr>
<tr>
<td>UK</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Australia</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Privatized firms are the most valuable companies, and rank in GLOBAL 2000 Forbes List**

- Germany (1996)
- UK (1987)
- France (1997)
- France (1993)
- France (1991)
- Spain (1989)
- Italy (1995)
- Telstra Australia (1997)
- China (2000)
- France (1991)

✓ IPO listings best method of privatizing large SOEs
✓ Post listings create significant market cap
✓ Presence of big caps offer value proposition to investors

Source: OECD, Bloomberg
Historically, large privatization programs through IPO listings led to rapid development of national stock markets.

**Korea Stock Exchange, shares traded USD mln**
- Korea Electric Power (1994)
- Korea Telecom (1989)
- Korea Tobacco & Ginseng (1999)
- Pohang Iron & Steel (1994)

**Madrid Stock Exchange, shares traded USD mln**
- Aceralia
- ENDESA
- Gas Natural
- Iberia Airlines (2001)
- Indra (1999)
- Red Electrica de España (1999)
- Repsol (1989)
- Tabacalera

**Bursa Malaysia, volume of shares traded mln**
- Malaysia Airlines (1985)
- Malaysia Airports Holdings (1999)
- Telekom Malaysia (1990)
- Tenaga National Berhad (1992)

**Singapore Stock Exchange, shares traded SGD mln**
- Singapore Post (2003)
- Singapore Power (2002)
- Singapore Telecommunications
Samruk-Kazyna embarks on an ambitious privatization drive to reduce the State's role in domestic economy

Samruk Kazyna’s Privatization Roadmap

2018

- Telecommunications
- National air carrier
- The world leader in uranium mining

2019

- Energy
- Mining
- New domestic airline

2020

- National postal services
- Oil and Gas
- Railways

Source: Samruk Kazyna
Critical success factors of capital markets development

1. Robust and liquid market generating sufficient trading volumes to attract investors
2. Wide array of capital market players
3. Big cap companies that offer attractive value proposition to investors
4. Solid structure and regulatory framework governing the market
5. Strong institutional regulation protecting investors
6. Strategic tie-ups with foreign expertise (technology, trading platforms, market players)
Kazakhstan offers immense value to investors: Samruk Kazyna is a ready partner to help tap these opportunities

**Increasing Government Effectiveness**
Kazakhstan is among the top 40% of countries in the world that are considered the most politically stable – World Bank

**Gradual Recovery with Positive Growth in the Long-run**
GDP growth projected at 4.1% p.a. in 2018-2022, supported by recovery in oil prices, higher oil production and growth in non-oil economies.

**Positive FDI inflows with robust upward potential**
Kazakhstan attracted >USD260bln in gross foreign investments, leading other CIS countries.

**Skilled & highly qualified workforce with Relatively Youthful Demographics**
Significant proportion of middle-income working population with modest spending power. Young demographics.

**Stable Domestic Currency**
Stable tenge supported by positive growth dynamics and encouraging external environment.

**Inflationary Pressures Are Easing, Monetary Policy Stimulus**
Inflation is within target. Monetary policy is supportive of economic growth.

**Ranks 1st Globally in Protecting Investors**
Kazakhstan ranks 1st globally in protecting foreign investors & minority shareholders. Ranks 36th the world in terms of Ease of Doing Business 2018.

**Investment-Grade Country**
In 2002, Kazakhstan became the first sovereign among CIS countries to receive an investment-grade credit rating from S&P, at BBB- with a Stable Outlook.

**Young demographics.**
Significant proportion of middle-income working population with modest spending power.
THANK YOU