

IV Investors' Voice

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Timur Kunanbayev is Managing Director and Head of Investment Banking for Central Asia and the Caucasus for J.P. Morgan Chase since 2008. Prior to joining J.P. Morgan in 2007, Timur occupied a number of executive positions in the financial sector in the region. He commands more than 20 years of experience in international finance, with specific focus on corporate finance and venture capital.

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Rashid Gaissin joined KPMG in 2020 as Head of Legal Practice in Kazakhstan and Central Asia. Prior to joining KPMG, he was Co-Managing Partner in a large international law firm, where he led large cross-border transactions, M&A deals, transactions for transnational corporations, industrial companies, and financial institutions. Previously he led the legal practice for Kazakhstan and Eurasia in another Big Four firm and served for 9 years as Managing Partner of a large Central Asian/Kazakh law firm.

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Assel Mukhambekova has recently joined KPMG. Before joining KPMG she worked as a lawyer in several international law and consulting firms and Kazakh banks.

Assel Mukhambekova has extensive experience in providing advisory services to international and Kazakh clients on a wide range of legal issues over 15 years, including banking and corporate finance, corporate and M&A, project and structured finance, foreign investment, employment, antimonopoly, regulatory and other legal issues related to business in Kazakhstan.

Assel Mukhambekova graduated from Kazakh Humanitarian Law University (Almaty) with honors in 2002 and received an LLM degree from Stirling University, UK.

KAZAKHSTAN'S CAPITAL MARKET – IS THERE A POSITIVE OUTLOOK?

by Marina Kahiani
Partner, GRATA International

The recent outbreak of COVID-19 pandemic has not created new issues for Kazakhstan's economy, but it has uncovered the existing ones. Long before the pandemic it was already clear to the Government that "oil era" was coming to an end and new instruments needed to be developed to attract investment to the country. In response to this challenging reality, the Government will need to apply non - resource based means to boost the economy. Creating a strong capital market to attract regional and foreign investors to Kazakhstan is one such non - resource based measure.



Kazakhstan's largest ever privatization of its most valuable state-owned assets, including through initial public offerings (IPOs) of "blue chip" Kazakhstani companies on the stock exchange of the *Astana International Financial Center (AIFC)*, the *Astana International Exchange (AIX)*, the *London or Hong Kong Stock Exchanges*, and establishment of AIFC, intended to become the financial hub for the whole of Central Asia and the *Eurasian Economic Union*, are important steps undertaken by the Government to strengthen Kazakhstan's capital market.

However, the Government's ambitious plans are not always implemented smoothly. Though some success has been already achieved, the main results are yet to come and Kazakhstan's capital market is still in an early stage of development. One of the key indicators of a weak capital market in Kazakhstan is that even large players still prefer to get major financing from the banks, given that attracting money through the stock exchange is challenging with no guarantee of success.

According to the Finance Ministry's *Committee for State Property and Privatization*, 2020 year was supposed to bring IPOs to the market for *Kazakhstan Temir Zholy*, *KazMunaiGas*, *Kazakhtelecom*, *KazPost*, *Air Astana*, *Qazaq Air*, and *Samruk Energy*. However, it is September 2020 already and there is no hope that any of these IPOs will take place this year or even next year. According to public sources, *KazMunaiGas* and *Air Astana* have postponed their IPOs to 2022 and *Kazakhstan Temir Zholy* has postponed its IPO to 2023.

As for *Kazakhtelecom*, it has been decided not to go for an IPO at all and instead sell the shares to Kazakhstan's *Unified Pension Fund* in a private sale and purchase transaction this year. A similar decision – sale to a strategic investor instead of an IPO – was made for *KazPost* (planned in 2021), *Qazaq Air* (planned in 2022), and *Samruk Energy* (planned in 2021).

At the first glance, it may seem that the IPO delays and cancellations are due to the global crisis caused by the COVID pandemic. However, long before the outbreak, most of these IPOs planned for 2017-2018 were moved back to a later period several times. The real reason behind the IPO delays was the companies' lack of preparation for the IPO in terms of compliance with international standards and, as a result, a low appetite for Kazakhstani assets from global investors, along with lack of liquidity in the local market, the absence of strong local investors, including retail investors, and a generally undeveloped capital market.



Notwithstanding bad luck so far with most of the announced Kazakhstani IPOs, the last two years became landmark years for the country's capital market due to another noteworthy initiative of the Government – the AIFC.

Modeled on the DIFC (*Dubai International Financial Center*), AIFC is the new gateway to investing in Kazakhstan and Central Asia. AIFC is intended to alleviate investor doubts about the transparency of the country and the whole region. AIFC has its own law (based on common law principles) and its own court of arbitration (the AIFC court is headed by the former UK Lord Chief Justice, Lord Woolf).

English is the official AIFC language. AIFC provides to its participants tax exemptions (0% capital gain tax and 0% corporate income tax and property tax in certain cases), as well as work permits/visa free regime for foreign employees of the companies registered within AIFC. AIFC has its own stock exchange – the *Astana International Exchange* supported by international partners such as the *Shanghai Stock Exchange*, *Nasdaq*, *Goldman Sachs* and the *China-Kazakhstan Production Capacity Cooperation Fund*, which are shareholders of the *Astana International Exchange*, together with AIFC.

In 2018, *Kazatomprom*, the world's largest uranium producer, had its IPO on the *London Stock Exchange* and *Astana International Exchange*. This was followed by its SPO in 2019. Another successful transaction on the Astana International Exchange was the SPO of *Halyk Bank*, the largest commercial bank in Kazakhstan, in 2019. Other prominent names listed on the Astana International Exchange in 2018-2019 were *Polymetal International*, *Ferro Alloy Resources*, and *Kcell*, to name a few.



Nonetheless, recent success on Kazakhstan's capital market should not be the basis for enthusiasm. There are too few attractive investment instruments, low liquidity, retail investors are not sufficiently active and educated, and the investment legal framework and corporate governance need improvement.

Conclusion

Kazakhstan realizes that it does not have any choice other than developing its economy through non-oil-based sources, such as a strong capital market. The Government is taking aggressive measures to boost the local capital market, such as privatizing state assets and developing the AIFC framework, an institution unprecedented in other CIS countries. It remains to be seen whether such measures will be successful.

Though these steps create unique opportunities for market participants, such opportunities are yet to be realized in practice. Kazakhstan is still at an early stage on its long journey to a well-developed capital market. More effort is needed to create new investment products, develop the retail investors segment, improve corporate governance and the legal investment framework generally, and enhance market infrastructure, as well as other measures. Otherwise there is a risk that the country will not only fail to develop a successful capital market, but will also waste the money and effort already spent.

