AVESTA INVESTMENT GROUP

September 2024

Research Alert
"Uzbek Commodity Exchange" JSC

UZBEK COMMODITY EXCHANGE

Uzbekistan Commodity Exchange JSC (URTS) is one of the most popular and actively traded securities in Uzbekistan. For a long time, the drivers for investors' interest were high growth rates, exposure to the entire economy of the country through the structure of traded commodities, high dividend payout ratio, and future expansion plans to include electricity and natural gas trading. Simultaneously, the question of competition with potential new players and the government's desire to support the company in the long-term perspective were major risk **considerations for most investors.** The Cabinet of Ministers' Resolution No. 570, dated September 12, 2024, probably **became the answer to these questions.**

The document introduced new requirements for licensing activities on commodity exchanges. These requirements include increasing the share capital requirements of such exchanges, enhancing transparency in their operations, and setting licensing standards. The resolution also outlines a roadmap for the development of the commodity sector, detailing mechanisms to achieve set objectives, particularly aimed at boosting turnover on the exchanges.

A key point highlighted is the necessity to raise the **minimum share capital of commodity exchanges** to 100bln UZS effective from November 1, 2024, and further to 200bln UZS from July 1, 2025. This initiative aims to protect the financial interests of business entities engaged in exchange trading – exchanges should improve their ability to provide settlement guarantees and act as a central counterparty. Additionally, a **mandatory annual audit** by one of the Big 4 companies has been enforced for commodity exchanges.

For URTS, a possible scenario might involve **capitalizing their retained earnings to increase the authorized capital amount by issuing so-called "bonus shares,"** which will be distributed among the existing shareholders – each shareholder could potentially receive 4 free shares for every existing share. The Company's share capital currently stands at 47.2bln UZS, with retained earnings of 206.2bln UZS by 1H2024. Using these funds, URTS can increase the capital amount up to 236bln UZS (47.2*5), accompanied by an additional 5% (146 UZS) dividend payment to individuals due to an existing dividend tax exemption.

This **may affect annual dividends**, which will be paid using the retained profits accumulated by the end of the year. However, we **believe that share prices may respond positively** – past trends in the Uzbek capital market suggest that post-split, prices typically rise, as exemplified by URTS's own bonus shares issue of 1:2 in August 2020, resulting in a 20% price increase. Another example is the 1:2 issue of HMKB in August 2023, leading to a 7.4% price increase, followed by a 1:1 issue in February 2024, resulting in a 5.7% price increase.

Detailed requirements and conditions for obtaining a license for commodity exchanges have been published. To obtain the license, the commodity exchange should have a system of guarantees for the execution of concluded exchange transactions, favorable conditions for online monitoring of exchange activities by responsible parties, high-speed internet, a modern information processing center, and a system for storing information on each

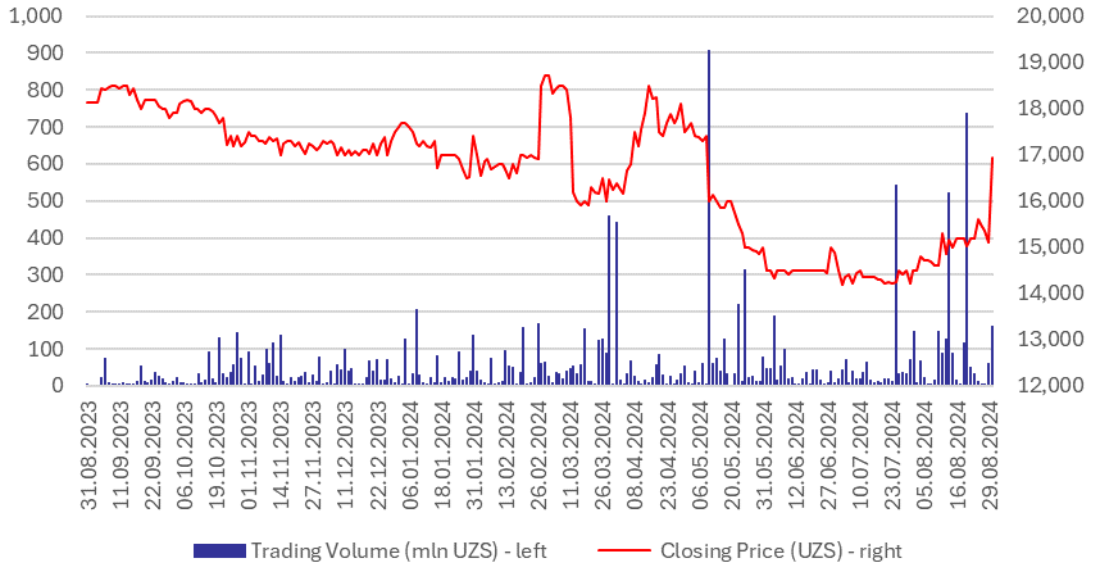
transaction carried out through the exchange in the form of electronic protocols for three years. One crucial requirement remains the share capital of a minimum of 100bln UZS by November 1, 2024, and 200bln UZS by July 1, 2025, formed in cash at the time of application for obtaining a license.

Furthermore, measures have been introduced to mitigate competitive pressures within the industry and avoid price manipulation for commodities. For instance, **prices of highly liquid products sold directly by manufacturers should not fall below the average price for the same product sold on the exchange**. This measure complicates the process of direct sales for manufacturers and could potentially encourage them to conduct sales exclusively through the commodity exchange. The roadmap mentions analyzing initial prices for comparable products on the exchange and through direct sales. Upon identifying differences in direct sales, these disparities should be eliminated.

Other outlined measures encompass defining product quality, enhancing exchange turnover, improving the derivative market, and implementing a dedicated platform on the Uzex agro portal for farmers to digitally market agricultural produce.

Additionally, **the significant growth opportunity indicated in the document** is the launch of local access for international trading of non-deliverable forward contracts at a special platform of the URTS. If this idea is correct, the URTS may try to establish a bridge to the international market with corresponding FX conversion guarantees for local players to hedge their price risks at the international markets. This might be required initially for copper, natural gas, uranium, and other standardized export products. This may be a significant additional business stream for the Company.

URTS Share Price and Volume Dynamics



CONTACTS

Avesta Investment Group

Postal address: Uzbekistan, 100015, Tashkent city, Shahrisabz str., 22
Tel: +998 (71) 207-9070
E-mail: info@avestagroup.com
Web: http://www.avestagroup.com

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