

## Joint-Stock Company “QIZILQUMSEMENT”



Founded	1977
Name of Company	Joint-Stock Company “Qizilqumsement”, JSC “Qizilqumsement”, RSE: QZSM
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### Analysis of operational activities

Qizilqumsement JSC is one of the leading cement producers in Central Asia. The company's share in the local market in 2019 was about 37% with a production capacity of 3.5 million tons of cement, fiber cement products 45 million conventional plates, building lime 56 thousand tons, etc. The company produces the following products:

- Portland GOST 10178-85
- Sulfate Portland O`z DSt 22266-94
- Oilwell Portland-GOST-1581-96
- Building rubble - GOST 8267-97
- Stones concrete wall - GOST 6133-99
- Concrete blocks for basement walls O`z DSt 778-97
- Plates Concrete Sidewalk O`z DSt 712-96

Moreover, company is planning to build another cement line in addition to currently operated three lines and install a new dry method vertical clinker mill that increases company's production capacity to 4.6 million tons and decreases energy consumption by 30%. Construction and renovation are projected to be done by the end of the 2021 at the cost of 112.63 million EUR, most of which will be financed from the company's own funds, and 19.81 million EUR - through a loan from Hamkorbank (HMKB). Construction of new line is scheduled to be completed in 2021. JSC “NATEK-Neftkhimmash” (Russia) is project's supplier and EPC contractor.

Qizilqumsement JSC has a following raw material base: a limestone quarry located at a distance of 7 km from the industrial site of the plant and a shale quarry 10 km from the plant. Limestones and slates are delivered from the faces by heavy-duty mining dump trucks to the crushing department. After crushing, limestone and slates are transported to the plant by a 5.5 km long conveyor belt. The main raw material base as of October 1, 2017 contained industrial reserves of 113.8 million tons of limestone and 96.8 million tons of shale at the Navoi deposit, 30.2 million tons of diabase pyroxenite at the Tillatyag deposit, 6.04 million tons of gypsum at the Karnabskoye field.

### Analysis of financial indicators

In 2019FY, the company's total assets and equity increased by 8.9% and 14.6%, while in 9 months of 2020 - by 28.8% and 25.3% y-o-y, respectively. The 10-year CAGR was 17.1% and 17.7%, while the 3-year CAGR is 15.2% and 20.2%, respectively.

Retained profit and target income comprises a half of the equity whereas another half occupied by charter capital. Furthermore, there was no bank loans as the end of 2019, however in the end of 2020 it is expected than company will get bank loan from Hamkorbank JSCB at amount 19.8 million EUR for construction of new fourth production line.

In 2019, revenue increased by 1.4%, while EBIT decreased 2.11 times, and, accordingly, CAGR for 3 years amounted to 18.4% and 2.1%. It is noteworthy that in 2019, net profit decreased by 19%, while the average annual growth rate for 3 years is 61.5% (CAGR). The significant decrease in EBIT is explained by two main reasons - the fall in cement prices and the change in the tax system (replacement of the excess profits tax with a subsoil tax in 2018). As we could see, the significant decrease in the amount of taxes paid on income was mainly due to the subsoil tax adjustment that is reflected in the COGS accounts.

From October 2019, situation with cement prices significantly changed – due to cancellation of zero-rate VAT and other benefits for importers, local prices increased in July-August 2020 to record 1 million UZS per tone, what is greatly improved the profits of cement producers. For 9M2020 non-audited results are:

- Sales increased to 1.74 trillion UZS (46.2% y-o-y);
- Gross profit increased by 68.5% whereas SG&A declined by 8%;
- EBIT increased 2.82 times up to 551.9 billion UZS;
- Net profit increased 2.56 times and reached 466 billion UZS;

### Equity

The authorized capital of JSC “Qizilqumsement” is equal to 702.6 billion UZS and it is divided among 447,516,900 ordinary shares at the par-value of 1,570 UZS each.

The State Assets Management Agency owned 86.9% of the authorized capital – in beginning of November 2020 these shares were transferred to UzAssets, which is 100% state-owned vehicle to support and stimulate privatization process. The remaining 13.1% is owned by number of local and foreign corporate investors and individuals. The Decree of the President of the Republic of Uzbekistan dated October 27, 2020 "On measures to accelerate the reform of state enterprises and the privatization of state property" states that the state share of the company should be privatized. It is expected that up to 75% of the shares could be sold to strategic investors, and the remainder could be sold through an SPO.

JSC “Qizilqumsement” dividend payment is dynamic and the average level of dividend payment is equal to 33.5% of net profit. One more thing to mention that dividend yield in 2019 was accounted to 29% due to record payments pushed by Government to support budget during the COVID-19 quarantine and Sardoba dam break.

### Dividend payments

Year	Per ordinary	Total	% of net revenue	Quantity of ordinary
2007	5,950	11,834,335,800	11.7%	1,988,964
2008	6,360	12,649,811,040	25.0%	1,988,964
2009	7,780	15,474,139,920	20.0%	1,988,964
2010	6,600	13,127,162,400	20.0%	1,988,964
2011	6,600	13,127,162,400	20.1%	1,988,964
2012	13,900	27,646,599,600	20.1%	1,988,964
2013	28,410	56,506,467,240	25.0%	1,988,964
2014	127	56,834,646,300	32.3%	447,516,900
2015	12	5,370,202,800	52.8%	447,516,900
2016	73	32,668,733,700	50.2%	447,516,900
2017	60	26,851,014,000	53.9%	447,516,900
2018	227	101,586,336,300	30.0%	447,516,900
2019	460	205,857,774,000	75.0%	447,516,900

	2014	2015	2016	2017	2018	2019	9M 2020
<b>Financial indicators (ths. UZS)</b>							
Fixed assets	266,572,025	364,191,961	414,817,810	439,038,730	608,570,152	589,275,894	567,138,462
Inventories	298,019,252	280,224,723	351,071,576	379,414,569	367,378,993	413,055,636	450,052,065
Accounts receivable	57,267,073	177,114,349	120,301,114	73,910,216	141,083,125	83,184,969	82,260,167
Cash	26,694,944	22,241,996	53,530,800	109,830,784	19,330,204	60,883,942	65,693,129
Short-term investments	198,861,431	128,504,318	124,239,896	128,539,896	360,515,893	484,750,053	21,762,943
Total assets	1,001,178,518	1,067,829,584	1,104,914,765	1,209,848,131	1,551,355,271	1,690,016,698	2,077,462,096
Shareholders equity	911,746,629	869,873,993	932,379,705	960,737,608	1,412,940,972	1,619,064,242	1,916,736,074
Total liabilities	89,431,889	197,955,591	172,535,060	249,110,523	138,414,299	70,952,456	160,726,022
Accounts payable	50,540,858	105,590,298	63,122,064	80,732,938	74,509,737	70,952,456	160,726,022
Revenues	919,177,096	814,265,807	1,013,098,028	1,121,230,969	1,660,024,155	1,682,700,162	1,739,905,224
Gross profit	507,706,712	302,564,700	446,239,907	479,155,669	872,291,070	659,113,823	792,998,162
EBIT	384,531,762	121,773,500	281,163,401	303,618,502	631,187,855	299,134,472	551,870,016
Net profit	176,141,501	10,161,609	65,117,117	49,793,841	338,771,834	274,491,210	466,151,822
<b>Financial indicators (ths. USD)</b>							
Fixed assets	\$110,044.59	\$129,606.60	\$128,367.75	\$54,068.34	\$72,973.98	\$61,979.72	\$54,948.83
Inventories	\$123,026.44	\$99,724.81	\$108,641.11	\$46,725.53	\$44,052.62	\$43,444.97	\$43,604.58
Accounts receivable	\$23,640.63	\$63,030.47	\$37,227.87	\$9,102.16	\$16,917.35	\$8,749.35	\$7,970.01
Cash	\$11,020.04	\$7,915.36	\$16,565.41	\$13,525.84	\$2,317.90	\$6,403.74	\$6,364.87
Short-term investments	\$82,092.73	\$45,731.40	\$38,446.75	\$15,829.90	\$43,229.66	\$50,985.75	\$2,108.57
Total assets	\$413,300.25	\$380,013.23	\$341,922.20	\$148,994.79	\$186,023.86	\$177,755.04	\$201,280.87
Shareholders equity	\$376,381.53	\$309,565.90	\$288,530.24	\$118,316.42	\$169,426.52	\$170,292.30	\$185,708.47
Total liabilities	\$36,918.71	\$70,447.33	\$53,391.96	\$30,678.37	\$16,597.33	\$7,462.74	\$15,572.40
Accounts payable	\$20,863.96	\$37,576.89	\$19,533.48	\$9,942.39	\$8,934.50	\$7,462.74	\$15,572.40
Revenues	\$397,077.98	\$316,419.72	\$341,236.37	\$218,125.07	\$205,727.34	\$190,106.40	\$174,794.93
Gross profit	\$219,325.69	\$117,575.17	\$150,304.59	\$93,215.28	\$108,103.32	\$74,464.70	\$79,666.44
EBIT	\$166,114.99	\$47,320.59	\$94,702.76	\$59,066.16	\$78,223.32	\$33,795.31	\$55,442.15
Net profit	\$76,091.88	\$3,948.75	\$21,933.05	\$9,686.93	\$41,984.10	\$31,011.19	\$46,830.70
<b>Charter capital</b>							
Nominal value	1,000	1,570	1,570	1,570	1,570	1,570	1,570
Number of shares	447,516,900	447,516,900	447,516,900	447,516,900	447,516,900	447,516,900	447,516,900
Dividends, UZS	127	12	73	60	227	460	
Div yield, %	13%	1%	5%	4%	14%	29%	
<b>Ratios</b>							
Return on Assets, ROA, %	17.59%	0.95%	5.89%	4.12%	21.84%	16.24%	22.44%
Return on Equity, ROE, %	19.32%	1.17%	6.98%	5.18%	23.98%	16.95%	24.32%
Return on Sales, ROS, %	19.16%	1.25%	6.43%	4.44%	20.41%	16.31%	26.79%
Cash ratio	0.34	0.12	0.45	1.21	0.26	0.86	0.41
Quick ratio	3.55	1.76	2.52	3.44	6.99	8.86	1.06
Current ratio	7.30	3.27	5.50	7.63	11.94	14.71	3.87
EBIT margin, %	41.83%	14.96%	27.75%	27.08%	38.02%	17.78%	31.72%
Equity/liabilities	10.19	4.39	5.40	3.86	10.21	22.82	11.93
Equity/assets	0.91	0.81	0.84	0.79	0.91	0.96	0.92
Effective price, UZS	1,000	1,570	1,570	1,570	1,495	1,604	2,350
Mcap, 000'UZS	447,516,900	702,601,533	702,601,533	702,601,533	669,037,766	717,817,108	1,051,664,715
EPS, UZS	393.6	22.7	145.5	111.3	757.0	613.4	1,041.6
BPS, UZS	2,037	1,944	2,083	2,147	3,157	3,618	4,283
SPS, UZS	2,054	1,820	2,264	2,505	3,709	3,760	3,888
P/E	2.54	69.14	10.79	14.11	1.97	2.62	2.26
P/B	0.49	0.81	0.75	0.73	0.47	0.44	0.55
P/S	0.49	0.86	0.69	0.63	0.40	0.43	0.60
EV (balance method), 000'UZS	142,297,811	365,950,751	406,775,440	373,497,915	214,681,932	101,230,657	803,482,621
EV/EBIT (balance method)	0.37	3.01	1.45	1.23	0.34	0.34	1.46
Tax/Pre-tax profit	0.56	0.92	0.77	0.83	0.48	0.20	0.21
DSCR = FCFF/Debt	2.72	0.01	2.06	2.36	5.94	4.53	
<b>Exchange rate of UZS to USD (UZS) – CB RU</b>							
Average weekly FX rate (UZS to USD)	2,314.85	2,573.37	2,968.90	5,140.31	8,069.05	8,851.36	9,953.98
FX rate, end of period (UZS to USD)	2,422.40	2,809.98	3,231.48	8,120.07	8,339.55	9,507.56	10,321.21

## Equity Valuation

The current share price gives sufficient perspectives for investors - according to our conservative estimates price range could be very volatile between 3 and 8 kUZS. The estimate was made using the DCF method with the following assumptions:

- The total capacity will grow to 4.6 million tons in 4Q2021;
- Production capacity use could be stable at 85%;
- The price of cement was projected at 650 thousand UZS for 2021 and will grow by 10%. Discount to current prices is based on possible oversupply and changes in import rules;
- The loan will be received in the 4th quarter of 2020 for a total amount of 19.81 million EUR at 8% per annum, for a period of 5 years with 1-year grace period;
- Gross margin was projected at 45% in 2020 and 40% in the next forecast years.

As mentioned above, the estimate was made in accordance with a conservative approach, in which the price of cement was estimated at 650 thousand UZS for 2021. The optimistic forecast for cement prices in 2021 is 750+ thousand UZS, where the value of equity per share will be 7,537 UZS.

## Contacts

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