



Kcell JSC

Fitch Ratings has affirmed Kcell's Long-Term Rating at 'BB+' with a Stable Outlook

Almaty, 5 December 2023. Kcell Joint Stock Company (Kcell or Company) (KASE: KCEL), one of the leading providers of mobile telecommunications services in Kazakhstan, informs that Fitch Ratings has affirmed Kcell JSC's Long-Term Issuer Default Rating at 'BB+' with a Stable Outlook.

The company remains the second largest mobile operator in Kazakhstan with a market share of around 30% at the end of Q2 2023, and Kcell's significant investments in network modernization as well as 5G rollout should support its market position, Fitch analysts said.

At the same time, the rating agency's analysts believe that although Kcell is a subsidiary of the largest telecom operator, Kazakhtelecom (BBB/Stable), it remains an independent public company with a large minority shareholding and the parent's commitment to running Kcell as a separate entity and minimal parental guarantees.

"We project Kcell's EBITDA net leverage to rise to 1.3x in 2023 from -0.04x in 2022 due to substantial capex and 5G spectrum acquisition payments this year, increased debt as well as reinstated dividend payments. We expect leverage to rise further to 2.4x-2.9x in 2024-2026 as the company continues the development of 4G infrastructure alongside the rollout of its 5G network. Net leverage remains below the negative sensitivity of 3.1x," analysts at Fitch Ratings said in a report.

Kcell, for its part, notes that 5G network deployment is a complex and expensive task, and telecom operators need to invest huge funds for the successful implementation of the project. In the first half of the year alone, the company spent over 110 billion tenge on the development of its network and infrastructure, including the deployment of fifth-generation communications and the acquisition of frequencies.

"This year we indeed have entered a serious investment cycle, given the implementation of a large-scale project for the introduction and development of 5G in the country, as noted in the Fitch experts' report. At the same time, thanks to our conservative policy and improved operational performance, cost optimization and overall efficiency, we've been able to maintain a significant financial safety margin and a comfortable level of liquidity. Overall, over the past two years we have invested nearly 100 billion tenge in the development and modernization of our network to ensure that our customers in all segments receive only the highest quality telecommunications and digital services and facilities," said Askhat Uzbekov, Chief Executive Officer and Chairman of the Management Board of Kcell JSC.

Following the purchase of 5G spectrum and the associated capex requirements coupled with 4G infrastructure upgrade needs, Fitch Ratings' analysts forecast capex to rise to 75% of revenue in 2023 from 17% in 2022 and to remain high at 25%-35% in 2024-2025

"High capex needs, together with increased interest payments and reinstated dividend payments, will lead to a negative free cash flow (FCF) generation in our base case. We expect

interest payments to increase as a result of higher debt to fund enlarged capex requirements and higher interest rates. As of 9M23, most of the company's debt had a fixed rate above 18% versus 11%-13% as of end-2022." Fitch said in the report.

In general, the international agency's analysts state that Kcell's rating is based on a sound mobile market position, relatively low leverage and good cash flow generation outside the peak of its investment cycle.

"We recognise that our work and projects to develop our telecommunications network have a direct impact on the quality and convenience of our customers' lives. Therefore, when planning our investment intentions, we prioritise projects that improve the coverage, availability and quality of digital services and facilities. Our annual capital expenditure grows by an average of 30%. These investments are spent on programs to improve the quality of communications, the construction of new base stations and the modernization of existing equipment," concludes Askhat Uzbekov.

Enquiries

Damir Mullahshev

Authorized person for Stock Exchange

investor_relations@kcell.kz

Company Overview

Kcell is a Kazakh provider of digital telecommunications services: mobile communications and converged services of fixed communications (FMC), data transmission and Internet access, financial services, digital services and mobile applications, IT solutions in the field of system integration, the Internet of things, machine-to-machine connectivity, big data collection and processing and cloud computing. Kcell is also a leading mobile operator in Kazakhstan providing the 'smartphone + tariff' service.

Kcell has become the largest digital ecosystem in Kazakhstan with competitive advantages through its value-added services such as mobile financial services, mobile TV, online movies, music, books and magazines, as well as unique solutions for business customers. The company holds leading positions in the B2B market thanks to its strategy of vertical infrastructure solutions and development and implementation of the cutting-edge technologies. The company's 4G/LTE network covers 67.5% of the country's population and provides high quality services.

The company operates under its two brands - Kcell and activ that are widely recognized in our highly competitive telecom market due to the high quality of customer service. Thanks to its clear multi-brand architecture, Kcell increases its business efficiency in the B2C segment through optimal pricing for bundled offerings, customer base profitability management and network quality.