

## Kazakhstan's privatisation programme

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The process of privatisation of state property in Kazakhstan began in the early 1990s after Kazakhstan obtained independence following the break-up of the Soviet Union, where private property was almost non-existent. The privatisation process has continued up to the present, with numerous small, medium and large enterprises having been privatised, pursuant to several programmes. The privatisation drive is aimed at decreasing the state's influence in the economy, as well as fostering business activity and labour productivity and improving the investment climate in Kazakhstan.

In 2011, the Kazakhstan government adopted a 'people's IPO' programme, aimed at providing the citizens of Kazakhstan the ability to buy shares in the country's major enterprises. Ten state-owned companies were initially chosen to participate, but to date only KazTransOil, the Kazakhstan oil transportation company, and KEGOC, the Kazakhstan electricity grid operating company, have conducted IPOs under the programme. The share of state ownership and participation in the economy of Kazakhstan remains substantial. According to the National Report on the State of

Entrepreneurial Activity in Kazakhstan, published in 2016, the share of Kazakhstan's GDP represented by state owned or controlled entities (and entities affiliated with them) was approximately 60 percent.

Kazakhstan's privatisation campaign continued, with the adoption of the Comprehensive Privatisation Plan for 2016-2020, in December 2015, along with a revised list of entities that are planned to be privatised, which currently consists of 780 entities, including 215 entities owned (partially or fully, or directly or indirectly) by the sovereign wealth fund Samruk-Kazyna. Among other things, the plan aims to decrease the share of Kazakhstan's GDP represented by state owned or controlled entities (and entities affiliated with them) to 15 percent of GDP by 2020. The list of entities to be privatised is wide, and includes assets owned by the Republic and by municipalities, as well as assets owned directly or indirectly by Samruk-Kazyna and national management holding companies Baiterek and KazAgro. Entities from almost every major sector of the economy are present in the list, including oil & gas, railway, power, chemicals, aviation, banking and finance, agriculture and communications. Depending on a number of factors, including the strategic importance of the entity for the economy, the valuation of the entity and recommendations of independent advisers, methods of privatisation that may be used include electronic auction, electronic bidding, direct sale, public-private partnership and public offering (IPO or secondary public offering).

According to the current privatisation plan, the shares of the following entities are planned to be privatised by way of an IPO: (i) Kazakhstan Temir Zholy, the national railway company (targeted for 2018-2020); (ii) KazMunayGas, the national operator for exploration, production, refining and transportation of hydrocarbons (targeted for 2018); (iii) KazAtomProm, the national producer and exporter of uranium and uranium products, as well as rare and rare-earth metals (targeted for 2018); (iv) Samruk-Energy, the national energy holding company (targeted for 2019-2020); (v) Tau-Ken Samruk, the national mining company (targeted for 2018-2020); (vi) Kazpost, the national postal service (targeted for 2019-2020); and (vii) Air Astana, the principal airline carrier of Kazakhstan (targeted for 2017).

State authorities are currently reviewing the options for listing locations for the planned privatisation IPOs. Listings could be domestic or international only, or they could involve dual listings in Kazakhstan and on an international stock exchange, such as London or Hong Kong.

It should be noted that the exact timing for an IPO, the stock exchange for listing and the percentage of shares to be floated will ultimately depend on a number of factors, some of which are currently difficult to predict, including among others: macroeconomic factors, such as commodity prices, that may significantly affect the valuation of companies; completion of restructuring and other preparatory stages for the IPO; and recommendations of financial advisers.

### **Domestic IPOs: the AIFC**

One of the most important recent developments in the financial market of Kazakhstan is the establishment of the Astana International Financial Centre (AIFC) in Kazakhstan's capital city Astana. The administration of AIFC was registered in December 2015, but the registration of AIFC's participants is not expected to start until July 2017, with AIFC expected to be fully operational in time for the planned privatisation IPOs, with the AIFC exchange expected to be ready to launch its first trades in equities by September 2017.

Currently the only stock exchange in Kazakhstan is the Kazakhstan Stock Exchange (KASE). It was established in 1993 and is located in Almaty. As of 30 January 2017, KASE had 141 listed companies, although a substantial majority of trading on KASE consists of repo and FX trading, with trading in shares and corporate bonds each accounting for less than 1 percent of trading volumes in 2016. Representatives of Samruk Kazyna have stated that the planned privatisation IPOs are planned to be listed on the AIFC and will not be listed in Kazakhstan if the AIFC has not yet been operational at the time of the IPO. However, dual domestic listings on AIFC and KASE may be a possibility.

The AIFC is intended to become a financial hub for the CIS region and Western and Central Asia (similar to the Dubai International Financial Centre for the Middle East, Africa and South Asia). The AIFC is expected to have the following characteristics, which will be attractive to international investors: (i) a legal regime be based on English law principles or the standards of leading international financial centres; (ii) adjudication of disputes by an independent AIFC court (consisting of a trial and appellate court) and the International Arbitration Centre; (iii) a preferential tax regime; (iv) simplified registration, visa and labour regimes for participants and employees of the AIFC; (v) a special, i.e., more liberalised, currency control regime; and (vi) English language as the working language of AIFC and its bodies.

The AIFC's key pillars will be capital markets, asset management, private banking, Islamic finance, financial technologies and 'green' finance. The AIFC will provide a multi-currency trading platform with infrastructure for trading securities (including, derivative instruments) and commodities with access to capital for both local and foreign issuers and investors.

Whether securities traded on the AIFC will be included in the list of assets approved for investment of pension savings (which were approximately US\$20.5bn as of January 2017) in Kazakhstan and the funds of the Kazakhstan National Fund (which were approximately US\$61bn as of December 2016) remains an important question and would affect market liquidity and the number of domestic and international market players that register on the AIFC.

Under a presidential decree adopted in May 2015, the government is to identify five companies of the Samruk-Kazyna group (which are expected to be from among the seven IPO candidates listed above) that are most attractive from investment standpoint for a domestic IPO on the Kazakhstan capital market, with an offering to the public in Kazakhstan of not less than 25 percent of placed shares. The list of such companies is still under discussion and will depend on a number of factors, including the technical capability of AIFC to process the IPO by the time of offering, the availability of a sufficient number of investors, sufficient financial intermediaries (including, dealer-managers) registered as members of AIFC and when the relevant companies will be ready for their IPOs.

### **International IPOs: London v. Hong Kong**

Some of Kazakhstan's planned privatisation IPOs are expected to include international listings. It is currently unclear what destination will be the preferred listing venue, although two likely options are London and Hong Kong.

London has historically been the favoured listing venue for CIS companies, including, in particular, Russian and Kazakhstan companies. According to the London Stock Exchange, there are currently 17 Kazakhstan companies (including non-Kazakhstan companies with assets and operations principally in Kazakhstan) which have their equity securities listed in London. Following the listing of Russian aluminium company Rusal in Hong Kong in 2010, there had been views in the market that Hong Kong could replace London as the listing venue of choice for international IPOs by Russian companies. This view would seem to be applicable to Kazakhstan companies as well, as Kazakhstan is a CIS, Russian-speaking country and is closer geographically to Asia than Russia is.

However, following the Rusal IPO, the expected shift toward Hong Kong away from London never materialised, and London has continued to be the preferred venue for Russian IPOs. This may prove to be the case for Kazakhstan companies as well. Due to the importance of London for Kazakhstan companies to date, such companies are known to investors in the London market, whereas it may be difficult for a Kazakhstan company to gain similar recognition and acceptance among Hong Kong investors, unless it already has strong links to Asia. There are also a number of technical challenges involved in a Hong Kong listing, which may cause Kazakhstan companies to view London as the most straightforward path to an international IPO. On the other hand, Hong Kong investors have shown strong interest in natural resources companies, of which there are many from Kazakhstan.

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