

Kazakhmys to Shrink by Two-Thirds as It Casts Off Weak Mines (1)

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(Updates with project acquisition in 10th paragraph.)

By Firat Kayakiran

Feb. 27 (Bloomberg) -- Kazakhmys Plc will shrink operations two-thirds by sloughing off its weakest copper mines and keeping those with higher grades and lower costs as the largest Kazakh producer of the metal seeks to staunch two years of losses.

The shares jumped by a record 33 percent in London. Lower-margin operations will be spun off into a private company run by former Chairman Vladimir Kim this year, leaving a rump with 70 percent less output and almost 80 percent fewer workers, Chief Executive Officer Oleg Novachuk said today on a conference call.

The company plans to complete the reorganization this year.

"These changes have the potential to be very positive for the company," Ben Davis, a Liberum Capital Ltd. mining analyst, wrote. "By our rough estimations, company operating margins would double." Davis is reviewing his hold stock rating.

Kazakhmys had already been selling assets to focus on mines with better earnings and to curb losses. The company reported a second straight full-year loss today because of slumping prices.

The London-based producer had a net loss of \$2.03 billion after a loss of \$2.27 billion a year before, according to a statement.

Prices slid 7.6 percent to average \$7,352 a metric ton in 2013.

Investors focused instead on the restructuring potential, with the stock surging the most since its listing in 2005 and trading up 15 percent at 297.4 pence by 11:46 a.m. in London.

Game Changing

In comparison, the "game-changing restructuring proposal" suggests a net present value of 587 pence a share if successful, Fraser Jamieson, a JPMorgan Securities Plc analyst, wrote in a note to investors today as he raised Kazakhmys to overweight.

Copper grades mined by the reorganized Kazakhmys would rise to about 2.4 percent from 0.99 percent last year and costs per pound of output would drop to 130 to 150 cents from 328 cents in 2013, Novachuk said. Production would be 80,000 to 90,000 tons a year, from 294,000 tons, and staff would be 12,000, from 56,000, under plans that will go to shareholders after board approval.

The company will keep the Bozshakol and Aktogay sites that will each bring in about 100,000 tons of copper annually by 2017, Novachuk said. Bozshakol will start up next year, he said.

It also agreed to buy Kazakhstan's Koksay copper project with an estimated 80,000 tons of output a year for \$260 million, Novachuk said. Kazakhmys plans to be a "highly-efficient" producer of 350,000 tons of copper a year after its expansions.

For last year, it reported earnings before interest, taxes, depreciation and amortization fell to \$1.15 billion from \$1.36 billion. It targets output of 285,000 to 295,000 tons this year.

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