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## Go West

IN THE SECOND OF OUR FEATURES ON **KAZAKHSTAN**, MARK MOBIUS DELVES DEEPER INTO THE INVESTMENT OPPORTUNITIES THAT AWAIT IN THE RESOURCE-RICH CENTRAL ASIAN REPUBLIC

**A**FTER MY TRIP TO MONGOLIA, A visit to Kazakhstan seemed like familiar territory. Both peoples share Asian heritage and inhabit a huge land mass.

Our flight to the former capital Almaty started in Shanghai, and throughout our stay in Kazakhstan, we had the advantage that polluted Shanghai did not have – crisp, clear air. Almaty remains the nation's business capital – a new national capital has been built in the centre of the country at Astana – and we headed straight for the Hyatt Regency hotel.

In the atrium lobby, it was not unusual to hear people who looked Chinese speak Russian. The population of just 15.2 million is made up of Muslim Kazakhs (over 45 per cent) and Russians. In addition there are smaller minorities of Ukrainians, Germans, Uzbeks and Tatars. Kazakh, a Turkic language, is the official tongue, but you hear Russian spoken most of the time. Apparently, there is friction between the now dominant Kazakhs and the formerly favoured

ethnic Russians, but in the business world there seemed to be a congenial relationship with many Russians in top managerial positions.

Despite President Nursultan Nazarbayev promoting relationships with the US, Europe and China, relations with Russia remain tight. The country was the site of Soviet nuclear testing until 1991 and the Baikonur Cosmodrome in central Kazakhstan continues to serve as the launch site for Russian space projects.

Nazarbayev family members are heavily involved in many of the country's businesses, but the president has managed to promote a thriving economy through privatisation programmes and development of the oil and gas fields. Although inflation is running at almost 8 per cent, GDP growth is high. Between 2002 and 2006, annual GDP growth ranged between 9.2 and 10.6 per cent. Foreign reserves are now at US\$22 billion.

One of our first visits on this trip was to the country's largest bank, the recently privatised Bank Turan Alem. The bank personifies the development of this fascinating nation. It's a combination of two



### CAPITAL IDEAS

#### TOP AND ABOVE

Mark Mobius visits Ak Orda Presidential Palace; Astana was unveiled as the nation's capital in 1998



## *Bank Turan Alem personifies the development of this fascinating nation*

banks: Turan Bank, which was the infrastructure bank in Soviet times, and Alem bank, which was the foreign relations bank. Founded in 1925, they were merged in 1997 and then privatised in 1998 for only US\$72 million during the Asian financial crisis. The bank is now worth many more times that with a doubling of assets every two years since privatisation. Shareholders include a number of international organisations such as the IFC, EBRD and FMO. In addition to the local currency, banks deal in US dollars.

With limited population and borders on Siberian Russia in the north, China in the east, Kyrgyzstan, Uzbekistan, and Turkmenistan and the Aral Sea in the south, and with the Caspian Sea (with its rich caviar-producing sturgeon) and European Russia in the west, it is easy to see how the executives at the bank, headed by an ethnic Russian, see opportunities in a number of new areas. It now has operations in China, Kyrgyzstan, Tajikistan, Azerbaijan, Armenia, Turkey, Georgia, Ukraine, Belarus, and, most important of all, Russia. In view of the country's small population, executives of the bank believe that the only meaningful place for the bank to grow is in Russia. Which means acquiring Russian banks.

Kazakhstan is rich in resources with oil and gas being of great interest in these days of high fossil fuel prices. There are also extensive reserves of lead, zinc, uranium, copper, iron ore, manganese, chrome, silver, nickel, titanium, bauxite and gold.

The more established oil fields are mainly in the west of the country, both onshore and

offshore in the Caspian Sea. The largest oil find for more than 20 years – almost the size of the world's biggest, the Ghawar field in Saudi Arabia – is being developed in the Caspian Sea. The first barrels from the Kashagan field is expected to be brought ashore by 2015. It is tipped to become the second largest field in the world. A neighbouring onshore site is producing 271,000 barrels a day, making it already the fifth largest in the world. This oil is now being pumped through existing pipelines running to the Russian Black Sea port of Novorossiysk from where it is exported in tankers.

All the major oil giants have a presence here: British Gas, Shell, Chevron and Texaco ExxonMobil, TotalFinaElf and Agip.

Kazakhstan is on the move and is destined to become increasingly important, not only for its resources but also for its strategic location.

In Almaty, we also met the president and officers of one of the large mining companies. It was a strange meeting since the five key people – with the exception of the chairman, who was in his 50s – were fairly young (in their 20s or 30s). They presented a bright picture initially, as if they were dealing with naive US investors without any clue of what goes on inside a company. It was only after some in-depth questioning that we learned that they had no plan for how to lead the company out of its current financial problems. They have US\$13 million to US\$14 million in outstanding accounts payable (down from US\$23 million at the end of April 2010). They have used cash flow to pay back their suppliers and the debt/equity swap transaction with Simage (US\$6 million of receivables converted into three million new shares at US\$2 per share). Simage is controlled by the CEO of Emir, the most important E&P subsidiary on BMB. Simage bought BMB's receivables without consulting BMB's management beforehand.

The lesson learned here was to be cautious and vigilant and to ask as many questions as you see fit. There are clearly some fine opportunities in Kazakhstan, but like anywhere else, there are also many potential pitfalls. ■



### **ON THE UP CLOCKWISE FROM LEFT**

Oil and gas form the backbone of the Kazakhstan economy; thriving food markets are a good barometer of a country's prosperity; the currency is the tenge