

Investment Attractiveness of the "Kazakhmys" Corporation in the Stock Market

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Abstract: The Republic of Kazakhstan makes its way towards the new level of development through modernization and strengthening of the industrial sector of economy. The new stage of economic development of the Republic determines the need to attract the necessary amount of investment resources. Therefore, the research topic is the most relevant. Recently, in the Kazakh and foreign economic literature, the word "investment" was considered as a synonym of capital investments, as all the costs of material, labor and financial resources aimed at reproduction of the main assets, both usual, and expanded. Within the centralized planning system the following generally accepted notion was used: "capital investment" - is the money spent on the construction of new and reconstruction, expansion and modernization of operating companies (capital production investments) for housing, public and cultural construction (capital non-production investments). Within the centralized planning system the following generally accepted notion was used: "Investments" - economic resources spent on the construction of new and reconstruction, expansion and modernization of operating enterprises (capital production investments), and also for housing, public and cultural construction (capital non-production investments).

Key words: Investment; Corporation; Stock market; Modernization; Planning system

1. Introduction

Presently, there are various definitions of the notion "investment" that reflect multiplicity of approaches towards its understanding. We will consider some of them.

The most common definition of "investment" is given by the Russian researcher M.I. Rimer. He defines investment as the process of investing capital in objects of entrepreneurial and other types of activity with a view to make profit or to achieve positive social effect [1]. In a market economy, making profit motivates the investment activity.

Another economist, Igoshin N.V. determines investments in the narrowest sense as "free money investing in various forms of financial and material wealth" [2, p.21]. In our view, this definition is limited to the extent that one can invest not only money, but also the material elements (buildings and constructions, equipment, etc.), as well as intellectual values.

The Western economic literature discusses investments as the twofold unity: resources (capital values) and expenditures (costs). This approach is most vividly represented by the American economist J.M. Keynes, who believes that investment is a part of the income for the given period, which was not used for consumption during the current period [3, p.23]. In this regard investments represent another side of the saving process.

Thus, in a market economy the essence of investments is a combination of two aspects of the investment process: capital spending and the results; the comparison of these elements is the basis of the theory of economic evaluation of investments. Investments are made with a view to obtain a certain result (profit); they become useless, if this result is not obtained.

In our view the most interesting and full definition of investment is given by William Sharp. He believes that, "to invest" means "part with the money today in order to get bigger amount of it in the future" [4, p.9]. Furthermore, W. Sharp divides investments into the following components: real investments which usually include an investment in some types of materially tangible assets such as land, equipment and plants; financial investments which represent contracts, written on paper, such as stocks and bonds. Development of the financial investment institutions contributes to the growth of real investment. As a rule, these two forms are complementary and not the competing ones.

Such researchers as Buzova I.A., Makhovikova G.A., Terekhova V.V. (2006), also proceed from dividing investments into the capital and financial ones. In the first case they represent the acquisition of capital goods such as machinery and equipment for enterprises with a view to produce goods for future consumption. This acquisition is called capital investments or investments in capital goods. In the

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second case, investment means the acquisition of assets, such as securities, works of art, deposits in banks or construction foundations, etc., primarily in order to generate financial feedback in the form of profit or capital increase. This type of financial investment is a means of capital saving. [5].

Among the Kazakh researchers one should note the scientific approach of Nugumanov K.B., who believes that in the underdeveloped stock market investments in authorized capital, securities of joint-stock companies are the defining basis of the state economic potential. Investments are viewed as a set of financial resources for further development [6].

Currently, investments present a relatively new term for Kazakhstan. The law "On investments" of the Republic of Kazakhstan states that investments are all kinds of property (except for goods intended for personal consumption), including lease items starting from the date of the lease agreement, as well as the rights to them, invested by the investor to the authorized capital of the legal entity or the increase in fixed assets used for entrepreneurship [7].

The investment process plays an important role in the economy of any country. Investment by and large determines the state's economic growth, employment and constitutes the essential element of the economic development of society. Therefore, the problem of effective implementation of investments deserves serious attention, especially now – given the enlargement of the subjects of market relations and the redistribution of property.

In our view, investment is a process of investing capital in the form of cash, tangible and intangible forms in objects of business or financial instruments with a view to obtain the current income (profit) and to ensure the increase of capital. Investments are the main form of realizing the corporate development strategy.

Investments provide dynamic development of a corporation and can help to solve the following tasks:

- Enlargement of one's own entrepreneurship due to the accumulation of financial and material resources;
- Acquisition of new businesses;
- Diversification (development of new business areas).

Investment is the use of financial resources in the form of long-term investment of capital (capital investment). Investment is a process extended in time. Therefore, in order to use financial resources of in the most effective way the corporation develops its own investment policy. This policy is a general guide for action and decision-making, which facilitates the achievement of business objectives. It is through the investment strategy, that the company implements its ability to anticipate the long-term economic trends and to adapt to them.

Diverse and complex problems of improving the investment management demand their solution in the current and future development and intensification of the investment process.

Principles of market economy require relevant organization of investment activities along with rationalization of the investment process. The main difficulty of current economic transformations lies in the limited capabilities of internal state expenses and immaturity of both the financial and the stock market. This hinders their full contribution to financial stability and economic growth. All this makes the author's research problem significantly important with regard to the theory and practice of investment and the investment attractiveness of the corporation.

This study aims at the development of theoretical and practical recommendations with a view to improve the efficiency of corporate investment attractiveness in Kazakhstan.

2. Results of the study

At the present stage of its economic development Kazakhstan is planning to develop its stock market, taking into account the experience of countries with developed market economies.

The main objective of the stock market development is to promote effective development of Kazakhstan's economy, to foster financial stability and economic growth based on active involvement of all subjects of the market economy, primarily the population.

Kazakhstan's economy still remains a raw-oriented economy, which means that raw resource enterprises will be the most attractive for investors in terms of buying stocks.

However, given diversification of the economy with its reorientation to the development of manufacturing, the assessment value of investment attractiveness of the raw resource companies is quite relevant because it forms the basis for assessing all sectors of the national economy and its growth prospects.

The investment program of the world's largest copper mining company - LLC "Kazakhmys" "Corporation" (hereinafter referred to as "Kazakhmys"), is one of the most promising investment projects in Kazakhstan. Its budget is \$6 billion. [8]

"Kazakhmys" is a diversified mining company with a complete production cycle from ore mining to finished products. It is a leading Kazakh company, which has reached the level of international business standards and is currently gaining significance in the global economy. Therefore, the subject of this study is of scientific importance for the development of the world economy.

"Kazakhmys" owns sixteen operating mines, eight concentrators and two copper smelters, one of which is under reconstruction. Copper production is fully integrated starting from ore mining and ending up with final products such as copper cathode and rod. Production is supported by the domestic electric power supply and the extensive railway infrastructure.

At the same time the company carries out research and design works, provides the construction of industrial and civil objects, produces building materials, provides road transportation of cargoes and passengers etc.

During 2013 "Kazakhmys" sold three non-core units. These transactions provided the total income of \$2,179 mln.

The first unit which was sold was the MKM, the copper processing company based in Germany, which is not related to the sectors of mining assets in Central Asia, being within the "Kazakhmys" focus. This transaction was completed in May 2013 and was valued at 42 million EUR, 12 million EUR of which will be paid as deferred payment.

"Kazakhmys", having a 26% share of ENRC metallurgical group, was its largest shareholder. The ENRC Group, whose activities are mainly related to mining of various metals in Kazakhstan, faced up to a drop in stock prices caused by a number of factors. In April 2013, a consortium of three ENRC shareholders was formed by and the Government of Kazakhstan offered to buy those ENRC shares, which do not belong to the members of the consortium, together with the remuneration payment in the form of cash and shares of "Kazakhmys". Upon completion

of this transaction ENRC was re-registered as a private company. The offer regarding the 26% ownership stake in ENRC was accepted. In exchange for a stake "Kazakhmys" received \$875 million USD in net cash and \$77 million from the "Kazakhmys" shares which have been revoked. Repurchased "Kazakhmys" shares, representing 14% of the issued shares have been revoked, which significantly influenced the change in the share register, and presently its main part, which equals to 57%, is in free circulation.

In April 2014 "Kazakhmys" completed a transaction with "Samruk-Energo" regarding selling 50% stake of Ekibastuz HPP-1 for \$1.25 billion, as compared to the actual price of the sold assets which amounts to \$580 million.

In order to gain investment attractiveness one has to show profitability assessment of the corporation to investors. With this regard we will calculate the profitability ratios:

The evaluation of the "Kazakhmys" activity carried out with the use of financial indicators and ratios (Table 1) as of 01/01/14, shows a decrease in assets and increase in liabilities.

Table 1: Financial indicators of LLC « Kazakhmys Corporation»

Names of indicators	As of 01.01.14	As of 01.01.13	Calculation algorithm
Return on equity (ROE)	-53,80%	-32,40%	Net profit Equity
Return on assets (ROA)	-26,35%	-20,31%	Net profit Carrying value of assets
Liquidity ratio (%)	297,17%	354,66%	Current assets Current liabilities
Leverage ratio to equity	1,04	0,6	Liabilities Equity
Financial independence ratio	0,5	0,6	Equity Assets
Solvency ratio	2,0	1,67	Assets Liabilities
Coverage ratio	2,97	3,55	Current assets Current liabilities
The ratio of debt and equity	0,28	0,14	Current liabilities Equity
Investment ratio	0,51	0,37	Total liabilities Total assets
Rate of return	-6,51	-8,04	Total income before tax Volume of sales
Turnover ratio of accounts payable, %	49,4	45,3	Volume of sales Accounts payable

The table is based on the source [9]

The company was created by its founders – the Zhezkazgan Territorial Committee on State Property and the working staff of the State Research and Production Association "Zhezkazgantsvetmet" upon the decision of the constituent assembly and in accordance with the Memorandum of Association. The company is the successor of the State Research and Production Association "Zhezkazgantsvetmet" and the Open Joint Stock Company "Zhezkazgantsvetmet."

The date of registration with regard to the company's renaming is August 11, 1997. Pursuant to

the protocol dated 12 June 1995, 80% of the total shares of the company, which is owned by the state on behalf of the State Committee on State Property Management, was transferred to the «Samsung» corporation (Republic of Korea, Seoul), with the right of ownership, use and management. The shares were transferred without the right of disposal. In May 1996, the management corporation «Samsung» won the tender for the purchase of 40% of the company's shares.

The common and preferred shares of the company were taken on non-listing platform of KASE

on May 13, 1998, the listing procedure for the category "B" was held on December 2, 1998. The shares of "Kazakhmys" are issued in the non-documentary form.

The authorized capital of the Company after its registration was £ 50,000 (hereinafter referred to as pounds) and consisted of 50,000 ordinary shares

with a nominal value of one pound each. After three additional issues of the company's shares the total number of shares authorized for issue, increased to 750 million (Table 2). The total market value of the company's shares is 324 014 million tenge (\$1,780 million).

Table 2: Number of the company's ordinary shares placed at the beginning of 2014

Name of the shareholder	Total shares	
	number	proportion
Cuprum Holding Limited	135 944 325	29,66
Harper Finance Limited	29 706 901	6,48
Number of authorized common shares, pcs.		750 000 000
Number of authorized preference shares, pcs.		-
Number of the placed common shares, pcs.		458 420 180
Number of the placed preference shares, pcs.		-

Source: www.kase.kz

Presently, securities of the company Kazakhmys PLC (hereinafter referred to as the Company), which is a member of "Kazakhmys", are traded at stock exchanges in Kazakhstan, London and Hong Kong. "Kazakhmys" is also on the FTSE 250 list.

Initial public placing of 26% of "Kazakhmys" shares on the London Stock Exchange at a price of 540 pence per each, which raised more than \$1.2 billion, was of great importance for the economy of Kazakhstan and made Kazakhstan one of the 30 leading countries in terms of income.

Below we considered the impact of the "Kazakhmys» stock quotes on the index dynamics of Kazakhstan Stock Exchange (KASE) during 2009-2013.

According to the analytical report of "ASYL INVEST" [10], common shares of "Kazakhmys", included into the representative list of the Kazakhstan Stock Exchange, had the most essential impact on the negative dynamics of KASE index in 2013, due to the reduction in demand for products in the external markets.

Analyzing the dynamics of KASE index with regard to the "Kazakhmys" stock quotes in 2013, one could note the following (Table 3). Analysis of the "Kazakhmys" stocks carried out at the beginning of 2013 showed that the shares on the LSE lost half of their price - from 8 pounds to less than 4 pounds, and the net loss of "Kazakhmys" for 2012 amounted to \$2,270 billion against \$ 930 million profit in 2011 taking into account the ownership stake in ENRC. ENRC financial statements for 2012 returned stock quotes of its major shareholder - "Kazakhmys" - to the level of the crisis-ridden period of 2008-2009. In August 2013 the index of the Kazakhstan Stock Exchange (KASE) increased by more than 2%, adding more than 8% from mid-July. Accordingly, the shares' capitalization value of Kazakhstan Stock Exchange increased during the mentioned period.

In this endeavor such development of the local market became possible due to the "Kazakhmys" shares. Quotes of the company began to recover after a sharp and continuous decrease. During the period from mid-July till August they rose by 14.7% - up to

757.12 tenge, thus the trading volume jumped to 57%. Prices on KASE rose after their rise on LSE, where the "Kazakhmys" shares rose by 11%. The issuer's shares in the domestic market of Kazakhstan bridged the price gap with the stock exchange in London.

The rise of "Kazakhmys" stock quotes was determined both by external (rising prices for copper (main output) - more than 5% per month (Fig. 1) and internal factors, such as the transaction regarding selling its stake in ENRC, as well as the possible sale of Ekibastuz HPP.

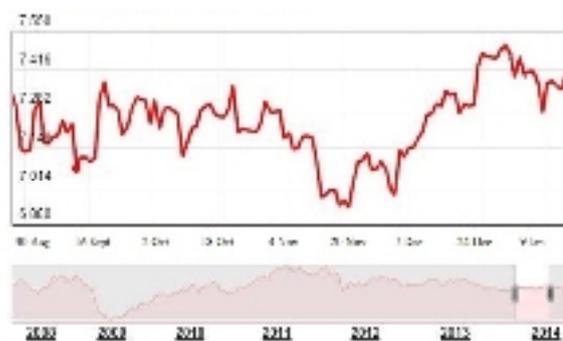


Fig. 1: Copper price dynamics

Source [12]

By the end of 2013, along with the copper price decrease by \$ 6,935.78 per ton (Fig. 2) the "Kazakhmys" stock prices also decreased and amounted to 625 tenge, or 240 pence per 1 ordinary share. This fact was one of the factors which determined decrease in the shares capitalization up to \$28, 409, 1 in December 2013.

In order to clarify the impact of changes in the stock quotes of "Kazakhmys" on the dynamics of the Kazakhstan Stock Exchange index, we considered the dynamics of changes in stock prices and KASE index during the period from 2009 to 2013.

Fig. 2 shows dynamics of the change in stock prices of the "Kazakhmys" company during the period from 2009 to 2013. From January 2009 till March 2010, the stock quotes trend was positive. The "Kazakhmys" stock quotes reached their maximum price of 1630 pence on April 6, 2010, and

after that began to decrease due to the decrease of prices for metal.

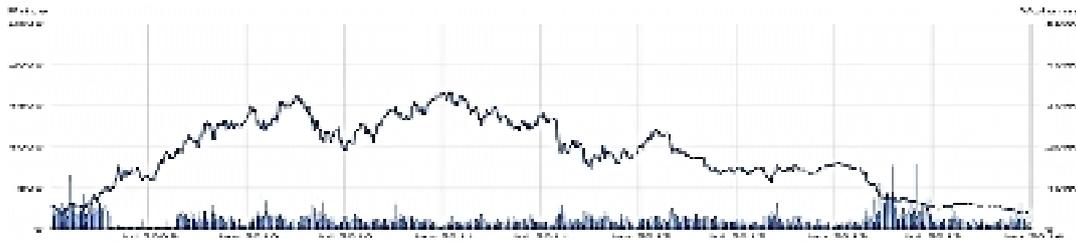


Fig. 2: The "Kazakhmys" stock quotes dynamics during 2009 – 2013
Remark – [11]

On July 1, 2010 the stock price reached its lowest level of 965 pence, after that one could see positive dynamics of the "Kazakhmys" stock price due to the increase in copper prices in mid-2010 up to \$9,740 per ton as compared to \$7,464 per ton in the end of 2009.

Despite the increase in copper prices in 2011 (14 February 2011 - \$10.148 per ton), positive operating results of "Kazakhmys" along with its stock quotes, have been steadily decreasing. As of 03.01.2014 the

price of the "Kazakhmys" common share was 209.8 pence.

In the stock market and primarily on the stock exchange the shares of the same company can have different rates during the same time frame, despite of the fact that the actual funds of this company are being developed without any fluctuations.

Table 3 shows the dynamics of changes in the Kazakhstan Stock Exchange index value as of the initial dates from 2009 to 2014.

Table 3: Dynamics of KASE index value during 2009 – 2013

Date	Opening price	Maximum price	Minimum price	Closing price
05.01.2009	903,55	931,25	881,08	892,34
05.01.2010	1768,26	1809,19	1768,26	1801,41
05.01.2011	1718,09	1718,09	1695,00	1701,37
04.01.2012	1117,34	1141,21	1117,18	1141,21
03.01.2013	979,11	1000,74	979,11	991,64
06.01.2014	918,01	918,01	893,77	916,55

Note: the above data was taken from the source www.kase.kz

According to the table one could note that the KASE index value reached its maximum on January 5, 2010, and its minimum - on January 5, 2009. These tables however include spot data; therefore the updated information can be seen in Fig. 3. According to the KASE its index value reached maximum in January 2010, amounting to \$1,947,720,000,

followed by decrease of the values and then again by the increase starting from July 2010. In February 2011, the index value has reached its maximum of \$1,915,570,000 and after that - the steady tendency to decrease in values up to January 1, 2014.

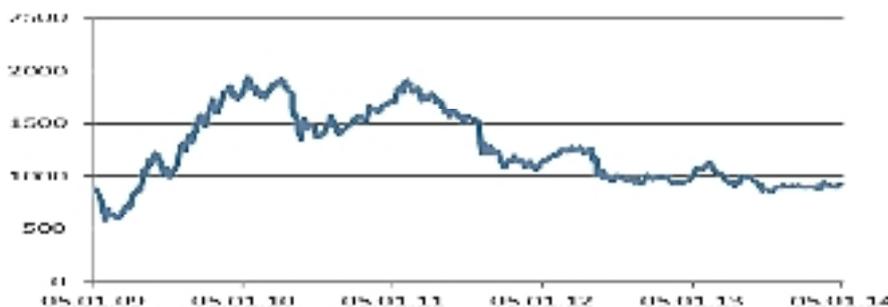


Fig. 3: Dynamics of KASE index value for 2009 – 2013

Note: the above data was taken from the source www.kase.kz

The analysis of the "Kazakhmys" stock quotes dynamics and KASE index values during the period 2009 - 2013 showed that a positive change in the share price of the company leads to the increase of the KASE index value, the negative change implies the decrease. In other words, there is a direct

relationship between the "Kazakhmys" stock quotes and KASE index values.

3. Conclusions

The securities of LLC "Kazakhmys "Corporation" have significant impact not only on the stock market of Kazakhstan and Kazakh economy, but also on the world economy in general.

The peculiarity of "Kazakhmys" is that it is the locomotive of the economic development of Kazakhstan, because it purchases more than 60% of domestic goods and services, thus assisting local producers in gaining access to funding and expands its capabilities. In addition, "Kazakhmys" is one of the largest employers and taxpayers in Kazakhstan, while the company's revenues amount to only about two percent of gross domestic product.

The "Kazakhmys" activities are of interest for foreign investors this is important for the development of Kazakh economy and its further integration into the global economy.

It should be noted that presently the main problem of Kazakhstan's stock market is a lack of good issuers. Having organized shares trade on the Kazakhstan Stock Exchange in the on-line mode and being a good issuer, "Kazakhmys" promotes the development of the country's stock market, favors the growth and establishment of the solid framework for investments in the national wealth of Kazakhstan.

Recommendations of analysts, rating agencies: according to "BTA Securities" data published on February 28, 2014, the growth potential of the market price of the "Kazakhmys" shares is 25%. In addition, "BTA Securities" expects that business optimization from the part of "Kazakhmys" management team, carried out through restructuring of assets by allocating a number of assets with the weakest profitability and limited growth potential for the legal entity that will be separated from the public Kazakhmys PLC, can significantly promote the rise of "Kazakhmys" stock quotes in the mid-term perspective, and therefore they are recommended for purchase. The investment strategy for the 1st half of 2014 published on January 31, 2014 views common shares of "Kazakhmys" as the main favorite of "BTA Securities" for 2014. [13]

The positive impact of restructuring on the rise in stock prices is confirmed by the specialists from JSC «Halyk Finance», with regard to neutral financial results of 2013 and plans of "Kazakhmys" to allocate a group of assets located in Zhezkazgansky and Central regions into a separate company. Against this background the company's shares in London rose by 39%. The transfer of assets located in Zhezkazgansky and Central regions will allow the company to save annually about \$390 million on capital investment in production support and to significantly reduce cash expenditures. However, one should consider the purchase of the Koksai deposit with cautious optimism.

Along with positive forecasts, analysts from JSC «Jazz Capital» warn against investments in stocks related to resource and especially mining sector. [14]

Additionally, the stock prices of "Kazakhmys" may also be affected by the fact that China's economy

faces slowdown in growth, and China is the major consumer of industrial metals. Fitch Ratings, the international rating agency downgraded the price of copper against the background of slowdown in demand growth in China and the weak recovery of the European markets. It is expected that in 2014, the decrease of copper quotes might amount to \$7,000 per ton.

Thus, the "Kazakhmys" stocks might become much more expensive or, on the contrary, fall in price, according to the recommendations and forecasts of analysts and rating agencies.

The assessment of the industry and its development prospects is an important aspect of investment attractiveness for investors.

The peculiar feature of the mining industry of Kazakhstan is its status: it is a major sector of the national economy. The basic mining companies in Kazakhstan, in particular, JSC "Kazakhmys" Corporation", "Eurasian Industrial Association," Mittal Steel Temirtau "(Ispat Karmet), "Kazzinc" constitute a single production complex. This complex comprises enterprise mining and metallurgical processing enterprises, as well as power and heat generation enterprises, along with the developed infrastructure providing financial, marketing, selling, foreign trade, and research services.

The strategic objectives of the mineral resource industry are:

- Introduction of new technologies of search works;

- Providing the rational and integrated use and reproduction of mineral resources for the active development of all sectors of industry with the achievement of the 50% in replacement of the main types of minerals (the ratio of the identified reserves to the gotten ones) in 2014 [15];

- Fundamental strengthening of raw material deposits through the introduction of new competitive objects by allocating the perspective areas, along with the search and exploration of new deposits;

- Creation of favorable conditions for attracting investments in exploration of scarce mineral resources (amendment of sectoral legislation, classification and categorization of mineral resources, stage-by-stage approach to exploration etc.), as well as improving the infrastructure of geological industry, envisaged by the Concept of the geological industry development of Kazakhstan up to 2030;

- Active involvement of JSC "National Company "Kazgeology" in promoting development of the country's mineral resource base. The main strategic goal of this company's concept is the reproduction of the mineral resource base of the Republic of Kazakhstan;

- Raising effectiveness of the use of mineral resources of the Republic of Kazakhstan through close partnership with JSC "NGK" Tau-Ken Samruk.

Most non-recoverable metals, the so-called free metals were recently (during the Soviet period) extracted. Today the demand for them on the world

market is growing. These metals form the basis of high, high-end technologies in electronics, aerospace, automobile and other industries.

The scale of economic benefits of their extraction and processing are so vivid that NC KPMS RK is studying the question of creating the new sub-sectors – the sub-sector of rare and traced metals with the participation of government structures. There are about 20 enterprises in Kazakhstan which earlier produced rare and trace metals. Such enterprises should be revived with participation of development institutions.

The main advantage of Kazah metallurgy is its own resource base. It should be stressed that the raw materials deposits in Kazakhstan are really large, but they not always competitive, due to the low content of the target metal, refractory nature of ore, as well as territorial, transport and other restrictions.

At the moment, more than 80% of raw of the iron and steel industry (mostly low, which means the energy-intensive processes) is exported without processing into the high-tech products of the fourth or fifth generation, and this predetermines high dependence of the industry on the world situation. [16]

In order to provide raw material supply of metallurgical production Kazakhstan is planning to develop Kachar Mining and Processing Plant (Kostanay region) and to increase its production capacity of crude ore to 15 million tons per year along with simultaneous stabilization of its extraction production at Sarbaisky quarry. Reconstruction of Sokolovsky quarry should allow retaining its capacity for crude ore extraction at 3 million tons per year.

Promising regions for the extraction of lead and zinc are located in the Central (Zhairem), Eastern and Southern Kazakhstan. As regards bauxites, northern Kazakhstan is the leading region, and as regards industrial development – the Taldyk-Aschisaysk deposit in the Aktyubinsk region. There are promising deposits of non-bauxite raw

aluminum (alunites, nepheline syenites) located in the Central (Bosaga, Koshek, Aktaylak) and Northern (Kubasadyrsk) Kazakhstan.

The sub-Caspian, North-Kazakh, Kokshetau, Torgai, Mugojar and Zaisan provinces having titanium deposits require exploration, some of these provinces may be of industrial interest. As regards rare earth elements, the Top Espe (East Kazakhstan region) deposit requires exploration works, this deposit refers to the world class large, complex rare-metal-rare earth facility. [17]

In Kazakhstan the mining industry, ferrous and non-ferrous metallurgy and other industries are being dynamically developed.

The Strategic Development Plan of the Republic of Kazakhstan up to 2020 envisages the following activities: the search and assessment work with a view to provide growth of reserves with a two-fold increase of production and export of steel products by 2015.

The mining industry, being one of the basic sectors, plays an important role in the economic and social sphere of any state. Therefore, the mining and metallurgical complex is identified as priority sectors of the Kazakhstan's economy and in the future it should become one of the main directions of the world's global economic development.

According to the Statistics Agency of the Republic of Kazakhstan, Ministry of Industry and New Technologies of Kazakhstan and the Ministry of Economy and Budget Planning, in 2013 industrial enterprises of Kazakhstan produced goods amounting to 2.149,1 billion tenge in current prices, which is 24% higher than in 2012.

The mineral resource complex of the Republic is able to provide the necessary raw materials for priority sectors of the economy, and to serve as a "locomotive" for the Kazakhstan's sustainable development.

Fig. 4 shows the results of the SWOT-analysis of metallurgical industry.

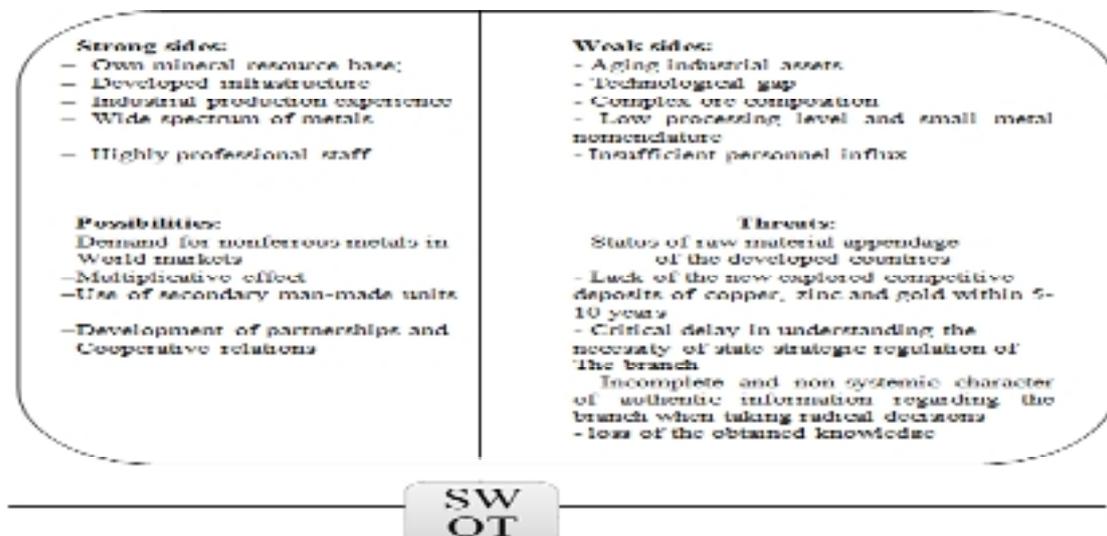


Fig. 4: SWOT-analysis of the metallurgical industry of Kazakhstan

Note: Compiled by the author

With regard to the analysis of the macro environment the article shows that the development of the industrial policy of Kazakhstan creates all the prerequisites for stimulating the interest of foreign investors in the mining and processing complex as well as in the development of all levels of mineral resources' processing in Kazakhstan.

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