

Markets

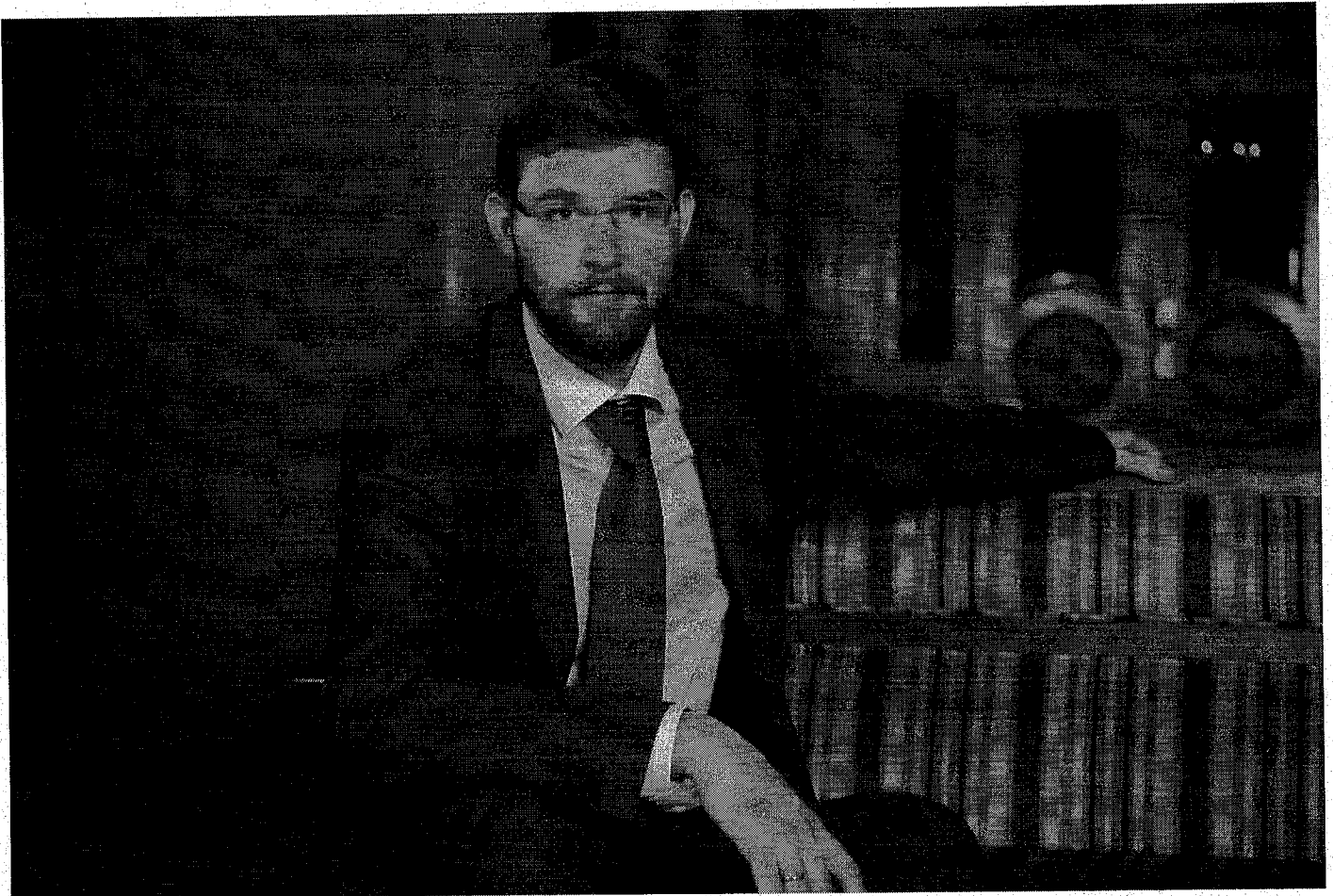
Broker Behind World-Beating Rally Stirs Kazakh Controversy

By Nariman Gizitdinov

October 16, 2017, 5:01 PM EDT

Updated on October 17, 2017, 9:19 AM EDT

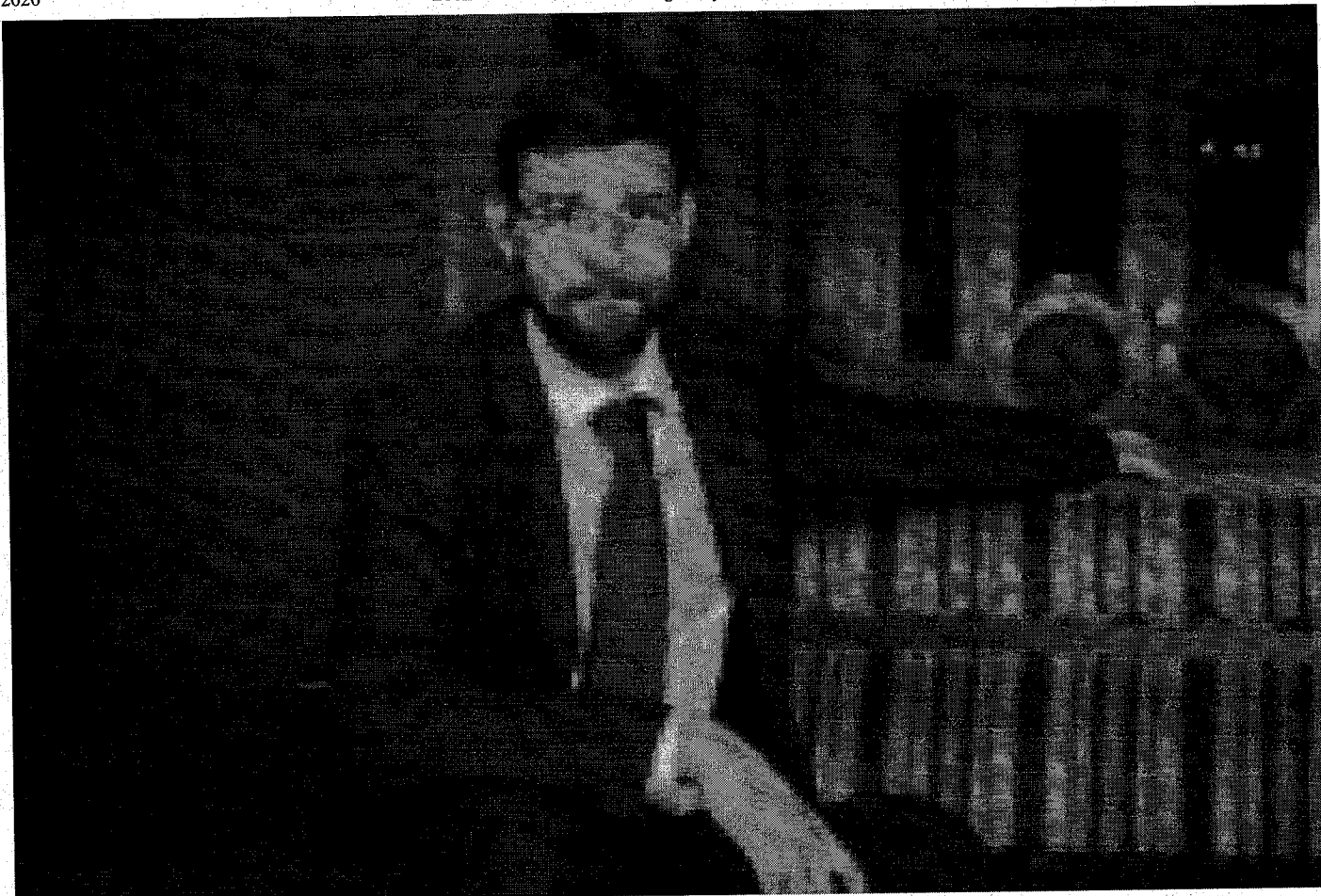
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- ▶ Timur Turlov plans U.S. share sale to silence skeptics
 - ▶ Local-market 'wizard' builds positions funded by repos
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Timur Turlov Source: Freedom Finance

As Kazakh stocks staged a world-beating rally since the end of 2015, few have benefited more than Timur Turlov.

The 29-year-old owner of Freedom Finance JSC, Kazakhstan's biggest brokerage, is so active on the main stock exchange that his company's turnover is three times bigger than its closest competitor and profits are soaring. But Turlov isn't just riding the equity market boom fueled in part by a rebound in the commodity exporter's economy -- he helped engineer it.



Timur Turlov Source: *Freedom Finance*

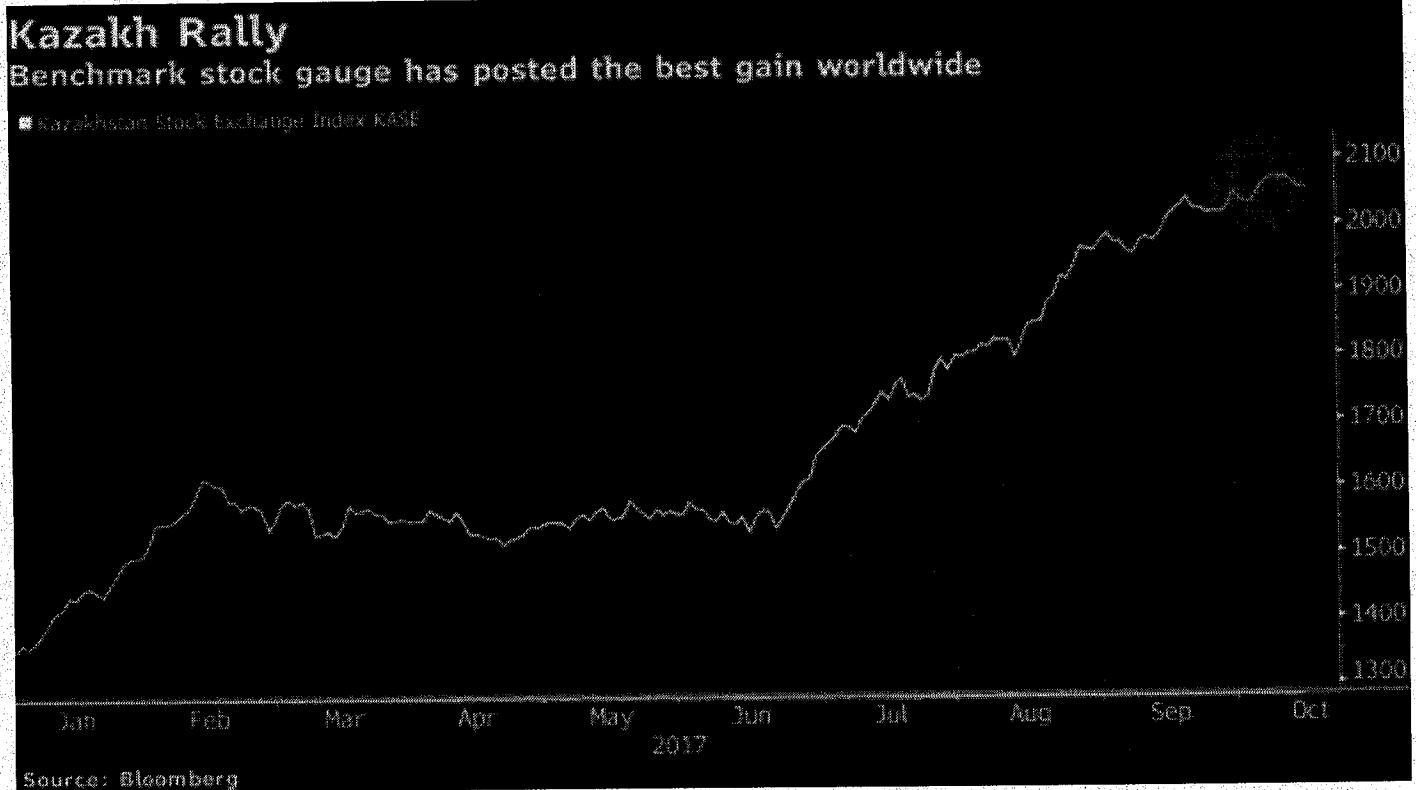
Freedom Finance has been building positions in a handful of Kazakh companies by borrowing money to pay for them, then acting as the market maker for the shares, which have witnessed almost uninterrupted rallies for months. Critics warn his strategy could backfire, potentially saddling Turlov and his customers with considerable losses. Regulators, though, aren't raising any red flags.

"This model can work eternally," Turlov said in an interview from his first-floor office in central Almaty, where he displays a life-size cardboard cut out of U.S. President Donald Trump for visitors to take selfies with. "We can maintain this kind of capital structure in perpetuity. We aren't overloaded with debt."

If he's wrong, the fallout would stymie government efforts to lure international investors after a decade-long banking crisis and pension fund scandals sent them fleeing. Foreigners barely trade shares via the Kazakhstan Stock Exchange Index, preferring to invest in Kazakh stocks listed in London for better transparency.

Household Name

But across Kazakhstan, central Asia's biggest oil exporter, Freedom Finance has become a household name as the market rallied 51 percent this year and even more than that in 2016. Neon signs advertising its services are splashed around central squares and streets and it's the only brokerage with branches in almost every big town in the country of 18 million people.



“Freedom Finance is considered to be a wizard on the local market,” said Daniyar Temirbayev, who decided to buy shares in the initial public offering of Bank Astana in June because the brokerage underwrote it, even as the lender’s auditors cited significant doubts about its ability to continue its business. “Where Freedom Finance is the market maker, stocks gain.”

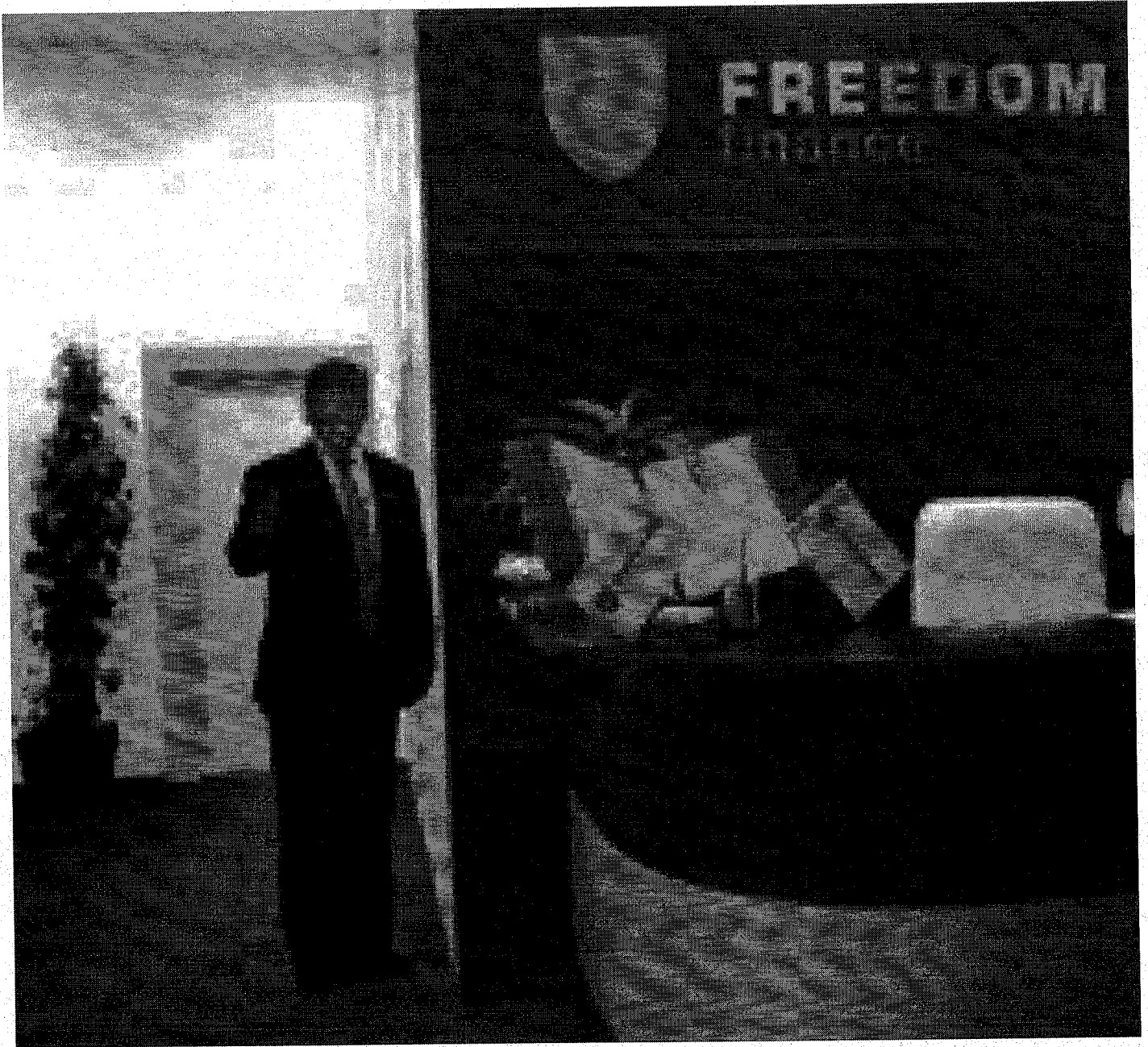
The publicity has paid off for Turlov, who bought a small investment company in Almaty in 2013. Since then, the brokerage has grown rapidly, largely by using equity repurchase operations to build positions in stocks.

It works like this: Freedom Finance puts shares it owns up as collateral in order to borrow short-term money from lenders, which could be banks, other brokerages or even individuals. It then uses that cash to buy more stocks. The shares Freedom Finance owns have jumped in price, giving it even greater scope to borrow when the repos expire.

Market Maker

By contrast, neither of Freedom Finance's two main competitors had repos outstanding as of the end of last year.

About half of Freedom Finance's portfolio is in two companies: State-run utility Kazakhstan Electricity Grid Operating Co., or Kegoc, and mining company BAST JSC, which went public in an initial public offering that Freedom Finance underwrote in 2015.



Trump cutout in Freedom Finance's offices. *Photographer: Nariman Gizitdinov/Bloomberg*

The brokerage acts as a market maker for both stocks, meaning that it will step in to ensure there's a buyer for every seller and vice versa. This year alone, BAST has rallied 59 percent while Kegoc is up 18 percent, following on a 63 percent jump in 2016.

The risk of all this is that if lenders decide to redeem the facilities rather than roll them over, Freedom Finance will be forced to sell stock, potentially spurring a selloff.

“It’s not prudent,” said Bahit Jolaman, a Berlin-based principal at investment-management firm Paragon and former Citigroup Inc. equities analyst who gives seminars on technical analysis to local traders. “The problem may become particularly acute in an unforeseen event or in times of market stress. This, in turn, could trigger a chain reaction on a much larger scale that will impact others players.”

Centras Securities, a Kazakh asset-management firm, has a sell recommendation on Kegoc, saying it’s trading at “speculatively high” levels. Rival market maker, BCC Invest, put the stock under review in August, having previously called it overvalued.

“The Kazakhstan stock market is pretty shallow,” said Charles Robertson, an analyst at Renaissance Capital. “It’s an illiquid market that can move a lot on not very much money and by one player. Prices can move quickly and hard.”

Trader Envy

Turlov’s strategy isn’t raising eyebrows at the Kazakhstan Stock Exchange. Andrey Tsalyuk, the deputy chief executive officer of the bourse, said Turlov has attracted attention only because he’s been so successful as a market maker.

“When a market maker does its job well -- that is, creates a market for a security -- a question always arises: is it manipulating the market?” Tsalyuk said.

While Turlov is aware of the criticism, he’s not deterred. In 2015 he bought a company with a listing on the New York Stock Exchange’s American index, renamed it Freedom Holding Corp. and had it take over his brokerage assets in Kazakhstan and Russia.

The next step, he says, will be to sell new shares in the company to raise Freedom Finance’s profile.

“This will remove the questions of many of our skeptics,” Turlov said. “This is more of a reputational step for us than to address any need to raise capital.”

– *With assistance by Paul Abelsky*