



NATIONAL INVESTMENTS AUTHORITY
UNDER THE PRESIDENT
OF THE KYRGYZ REPUBLIC



Organization for Security and
Co-operation in Europe
Programme Office in Bishkek

OPEN JOINT STOCK COMPANY

«KYZYL-KIYA» TOBACCO-FERMENTATION FACTORY



KYRGYZSTAN



Project Initiator:

Kyzyl-Kiya Tobacco Fermentation Plant OJSC

Brief Project Description:

The project involves the reactivation of Kyzyl-Kiya Tobacco Fermentation Plant OJSC located in Kyzyl-Kiya, Batken Region.

The expected tobacco procurement in the first year is 1,000 tons with a subsequent increase to 1,500 tons. Purchasing tobacco from farmers, the factory will be able to export fermented tobacco to Europe, where tobacco from Kyrgyzstan is valued as a high quality product. Due to reduced tobacco cultivation, the facility has been focused on tobacco fermentation for external organizations since 1996.

Project Initiator Description:

The Project initiator is Kyzyl-Kiya Tobacco Fermentation Plant OJSC. The plant is a facility with 90% government share.

The facility design capacity is 20,000 tons of tobacco per year.

The total plant area is 13.47 hectares, with the following facilities:

- ✓ 7 hectares production area
- ✓ Water intake facility, total area of 1.5 hectares.

Chair of the Board, Kyzyl-Kiya TFP: Abdimitalip Jumabaev

- ✓ Over 30 years of experience in the tobacco industry
- ✓ More than 30 years of experience in tobacco fermentation
- ✓ Management experience

Project Cost: USD \$2,000,000

- ✓ Raw materials - USD \$2,000,000

Investment Required: USD \$2,000,000

Payback Period: 2.3 years

PROJECT DESCRIPTION

The project involves the resumption of «Kyzyl-Kiya Tobacco Fermentation Plant» OJSC, located in Kyzyl-Kiya, Kadamjay district, Batken region.

Stimulation of the farmers of the Batken and Osh regions in the cultivation of tobacco is very important to resume the work of the plant. The Plant plans to buy tobacco from the people for cash in order to build trusting relationships between the Company and the farmers.

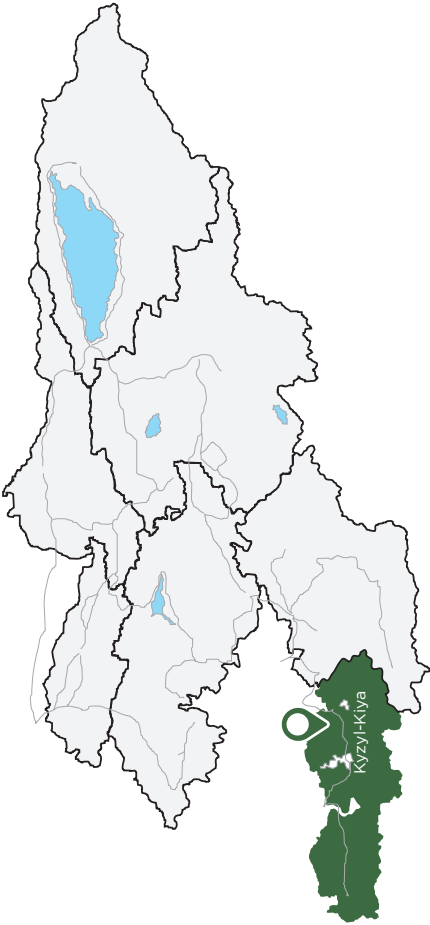
At the moment, it provides tobacco fermentation service for its customers. The anticipated volume of tobacco purchases in the first year is 1,000 tons with a subsequent increase to 1,500 tons. The Company may export fermented tobacco to European countries, where tobacco from Kyrgyzstan is considered a product of excellent quality. Currently, all fermented tobacco is exported illegally to Uzbekistan by farmers.

Due to the lack of funds for the purchase and procurement of tobacco from farmers, the Plant provides only fermentation services.

In addition, the procurement of tobacco in large volumes will allow the plant to export it. The current situation in the fermentation tobacco market is following: there are a lot of small entrepreneurs who export fermentation tobacco to Uzbekistan through contraband.



GEOGRAPHIC LOCATION



PROJECT INITIATOR DESCRIPTION

The Project initiator, the Kyzyl-Kiya Tobacco Fermentation Plant OJSC, is located in Kyzyl-Kiya, Kadamjay district, Batken region. This is an enterprise with 90 percent of the state share. It is on the balance sheet of the State Property Management Fund.

The design capacity of the enterprise is 20,000 tons of fermented tobacco per year. In 2020, the Plant provided tobacco fermentation services in the amount of 1,000 tons.

Considering reduced cultivated areas for tobacco, since 1996 the plant has been focused on providing services for the fermentation of raw tobacco to third-party organizations. This service cost is USD 0.1 (KGS 9.0) per 1 kg of tobacco.

The total area of the plant's territory is 13.47 hectares, which includes:

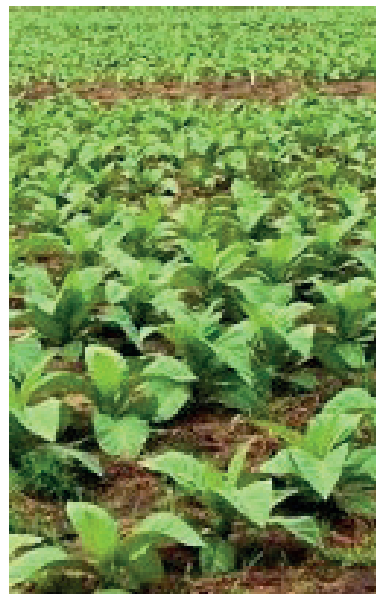
- ✓ Industrial area (7 hectares);
- ✓ Water intake facility (1.5 hectares).

The plant currently employs 23 people.



SUSTAINABLE COMPETITIVE ADVANTAGES OF THE ENTERPRISE AND PROJECT

- ✓ Tobacco processing. Currently, the Plant provides only tobacco fermentation services. With a maximum capacity of 20,000 tons, the Company ferments 1,000 tons of tobacco per year. The preparation and subsequent fermentation of tobacco will allow the Company to independently export tobacco and receive impressive profits.
- ✓ Long-term experience. The plant was launched back in the USSR and now the same standards and fermentation technology are used in the processing of tobacco. In addition, until 1996 the Plant exported tobacco to Russia.
- ✓ High growth potential. In 2021, only 625 tons of tobacco were harvested across the entire territory of the Kyrgyz Republic (by the end of 2021, the gross harvest is expected to reach 1,000 tons), with the peak harvest of 3,300 tons in 2000. Cooperation with farmers, support and promotion of tobacco cultivation will allow to increase fermentation and subsequent export of tobacco.



FORECAST FINANCIAL PERFORMANCE INDICATORS

Indicators in kind, tons	2022	2023	2024	2025	2026
Tobacco, accepted	1000	1200	1300	1400	1500
Fermented tobacco, produced	800	960	1040	1120	1200

Financial indicators, USD	2 022	2023	2024	2025	2026
Sales	4 000 000	4 800 000	5 200 000	5 600 000	6 000 000
EBITDA	583 059	746 315	859 040	979 539	1 107 812

- ✓ IRR 28.18%
- ✓ Project payback period 2.33 years. Discounted payback period 2.99 years

FUNDING SOURCES AND USE OF FUNDS

Funding sources	Amount, USD
Financial investor	2 000 000

Total: 2 000 000

Use of funds	Amount, USD
Purchase of raw materials	2 000 000

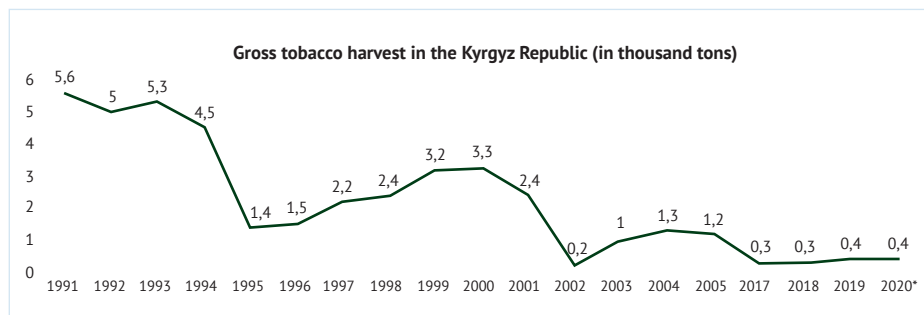
Total: 2 000 000

BRIEF OVERVIEW OF TOBACCO MARKET IN KYRGYZSTAN

The soil and climate of certain regions of Kyrgyzstan, in particular on the South of the country, make it possible to cultivate highly aromatic oriental varieties of tobacco, which are used as natural flavorings in the manufacture of cigarettes. Considering the requirements for the quality, the world demand for these varieties of tobacco is very high.

The economic and geographical conditions and technical base of tobacco growing in Kyrgyzstan allow cultivation and production of at least 30 thousand tons of highly aromatic tobacco per year. Recently, the country has produced only about 2 thousand tons of tobacco, although in 1985-1986 this indicator reached 75-76 thousand tons/year.

Considering planned economy mode, tobacco growing occupied 2.5 percent of all arable and 5 percent of irrigated land. On average, tobacco provided 17-20 percent of cash receipts from the sale of all agricultural products, including 37-40 percent of crop production, in Osh region, which included the current Jalal-Abad and Batken regions. In this regard, the potential of the tobacco industry is quite large. It is necessary to revive and develop the tobacco industry in Kyrgyzstan.



TOBACCO EXPORT POTENTIAL

In 2019, according to the World Bank data, Kyrgyzstan exported USD 1.96 million worth of unprocessed tobacco in the amount of 922 tons.

The main importing countries of Kyrgyz tobacco were the USA, Russia, Greece, Italy and Tajikistan.

Export of unprocessed tobacco in 2019 USA	Amount, thousand USD	Volume, kg	Average price, USD / kg
USA	908,9	236 072,0	3,85
Russia	466,7	371 745,0	1,26
Greece	362,6	163 328,0	2,22
Italy	183,7	81 274,0	2,26
Tajikistan	37,5	69 445,0	0,54
Belgium	0,0	9,0	1,11
Hungary	0,0	2,0	0
Turkey	0,0	2,0	0
Serbia	0,0	1,0	0
Azerbaijan	0,0	1,0	0
Total	1 959,4	921 879,0	

Despite the fact that the largest volume of raw tobacco exports was delivered to Russia, in monetary terms, the United States became the largest importer of Kyrgyz tobacco.

In 2018, Bulgaria, Russia, Greece, Hungary and Kazakhstan entered the TOP-5 countries imported Kyrgyz tobacco.

INVESTMENT PROPOSAL

LEGAL MECHANISM

✓ Open joint stock company

FUNDING TYPE

✓ Direct investment in capital

AMOUNT

✓ USD 2,000,000

TERM

✓ 5-7 years

NUMBER OF TRANCHES

✓ Tranche No.1 – purchase of raw materials

COLLATERAL

✓ 100% of the Company's share

