

Announcement: Moody's: Ratings of Kazakh issuers pressured by tenge devaluation

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Financial institutions are likely to be hardest hit

London, 06 February 2009 -- On 4 February 2009 the National Bank of Kazakhstan devalued the country's national currency, Kazakh tenge, by 18% in order to preserve its foreign currency reserves. While this move is likely to be beneficial for Kazakh exporters, Moody's considers that tenge devaluation would substantially increase the risk profile of most Kazakh financial institutions as well as the debt burden of non-export oriented corporates.

Devaluation also increases already high refinancing risks of the banking sector and will negatively impact the capital of the banks

Although many Kazakh banks hedge their open FX positions with currency derivatives, Moody's believes that the tenge devaluation has led to a substantial rise in the banks' vulnerability to credit risk as approximately 54% of loans by Kazakh banks rated by Moody's and nearly 65% of the liabilities of these banks are denominated in foreign currencies, mainly in US dollars. In Moody's view, the notable weakening of the tenge will have a considerable impact on Kazakh borrowers' ability to repay their foreign currency loans, consequently leading to a material increase in non-performing loans (NPLs) and loan loss provisioning charges by Kazakh banks, thus further worsening their asset quality, profitability and capital adequacy indicators in 2009.

In addition, Moody's notes that the tenge devaluation significantly increases the direct FX debt burden of Kazakh banks. The rating agency also notes that most of the foreign currency liabilities of Kazakh banks are borrowings from international capital markets, of which about USD11 billion (25% of the banks' total foreign debt) payable in 2009, which in addition to corporate FX debt repayments scheduled for 2009 may exhaust banks' liquidity and exert excessive pressure on the national currency or currency reserves. Moody's also notes that, according to National Bank of Kazakhstan data as at end-September 2008, the overall external debt of Kazakhstan's private sector exceeded USD100 billion compared to USD98.5 billion of the banking system total assets.

Moody's Financial Institutions Group rates 17 commercial banks in Kazakhstan with total assets of USD94.6 billion as at YE2008(96% of Banking System's total Assets) and 7 financial institutions of which 5 are considered as Government Related Issuers ("GRIs"). Among the 17 rated commercial banks 8 benefit from the systemic support while the ratings of 3 banks enjoy parental support as subsidiaries of foreign banks.

Most Kazakh financial institutions ratings from Moody's are currently under review for possible downgrade. This review focuses on the assessment of the government support probability for Kazakh banks, as well as deterioration of the banks liquidity position, asset quality and franchise viability. Moody's believes that heightened risks arising from the tenge devaluation would further exert negative pressure on the Kazakh banks' ratings and may lead to the downgrade of a number of banks' ratings.

Non-export-oriented sectors of the real economy are more vulnerable; limited lending from banks is likely to increase refinancing risks amid the erosion of the companies' cash flows

Moody's corporate franchise rates 13 individual companies in Kazakhstan. The ratings are spread across sectors including food, industrial, utility, postal, transportation and oil & gas. Of these 12 companies, 11 are GRIs, whereby shareholdings are held directly or indirectly by the Government. The non-GRI companies are JSC RG Brands, a consumer products company, and Tristan Oil, a speculative grade rated independent Exploration and Production company, which operates within the CIS. Five of the ratings fall directly or indirectly under National Company KazMunayGas JSC ("KMG NC" or "KMG"), which is the national energy company of Kazakhstan, the largest producer of crude oil and the owner of significant interests in the country's largest oil and gas projects including pipeline infrastructure. KMG NC is a 100% government controlled company, through the state fund SamrukKazyna.

Prior to any ratings uplift from implied Sovereign support (which is viewed by Moody's as generally high), all the underlying corporate credit profile are rated sub-investment grade reflecting, among other factors, the vulnerabilities to operating models by operating in Kazakhstan. In total the US dollar-rated debt across the portfolio amounts to nearly USD5 billion, of which approximately 16% is non-oil sector related.

The impact of tenge devaluation primarily affects the relationship between domestic denominated cash flows to service foreign currency debt and any conditionality within documentation that may be triggered in the interim. In the case of the rated corporates, any mismatch in currencies is likely to impact the utility and transportation sectors to a greater degree than the oil & gas sectors, which have a greater degree of natural hedge. Moreover, recent investment in Kazakhstan's utility infrastructure and the replacement of aged transportation equipment has seen a gradual increase in foreign-denominated debt (raised mostly through bonds) within the capital structure of the respective companies, and Moody's would caution that in some cases the volume of future investment financing combined with the depreciation of the tenge might put -- over time -- a degree of negative pressure on credit metrics.

The portfolio of oil and gas businesses, despite carrying a greater percentage of rated US dollar-denominated debt, is cushioned due to US dollar-denominated transactions for oil and gas related trades. In recent years, Kazakhstan's oil and gas portfolio has also maintained a relatively modest level of leverage due to strong cash flows in prior periods. Moody's considers that the cash-flow and credit metrics of oil and gas issuers are more exposed to weaker oil prices than to any depreciation of the tenge. Bond refinancing needs are limited in the intermediate term and liquidity is generally acceptable for corporate issuers in Kazakhstan although some issuers partly rely on short-term.

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