



Fitch Affirms Kazakhstan Temir Zholy at 'BBB-'; Outlook Stable [Ratings](#)

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Fitch Ratings-London/Moscow-15 April 2011: Fitch Ratings has affirmed Kazakhstan Temir Zholy's (KTZ) Long-term Issuer Default Rating (IDR) and senior unsecured rating at 'BBB-'. The Outlook on the IDR is Stable.

KTZ's ratings reflect its 100% indirect state ownership (through JSC National Welfare Fund Samruk-Kazyna, SK) and strategic importance to the Kazakh ('BBB-/Positive/F3) economy, as demonstrated by the fact that KTZ provides 59% of freight and 46% of passenger transportation in the country. Furthermore, KTZ's tariffs are regulated and its investment plans are approved and directly co-funded by the parent (through equity injections and loans). The government also provides direct subsidies for the loss-making passenger transportation business.

In Fitch's view, although KTZ continues to benefit from strong links with Kazakhstan's government, full and timely financial support, which would allow a continued full rating alignment with the sovereign's, is not certain without a significant portion of debt benefiting from explicit government guarantees. Consequently, the Outlook on KTZ's rating remained Stable after the Outlook on Kazakhstan's sovereign rating was revised to Positive on 20 December 2010. Fitch views the standalone credit profile of KTZ as commensurate with the low 'BBB' rating category.

KTZ's credit profile is supported by the expectation that the company will remain the monopoly provider of rail infrastructure in Kazakhstan, and maintain a dominant market share in the provision of freight transportation services upon completion of the rail reforms. Fitch expects that growing transportation volumes (due to expected GDP growth in Kazakhstan) and freight tariff increases (albeit remaining exposed to political influence, in the agency's view) will support KTZ's financial profile. However, the loss-making passenger transportation activity currently remains a concern for Fitch.

Although KTZ's EBITDA margin has historically been slightly below that of its immediate peer, JSC Russian Railways (RZD, 'BBB/Stable/F3'), it has been more stable. Fitch notes that direct personnel expense is less prominent in KTZ's cost structure compared to RZD. However, fuels and lubricants are a significantly larger cost item for KTZ due to its lower electrification.

Fitch notes that KTZ's gross leverage (measured as total debt to EBITDA), of 1.7x at financial year-end 2010 (FYE10), was up on FYE09 (1.6x), but this was partially due to the company's USD700m bond issue in October 2010 to pre-fund its USD450m bond maturity in May 2011. Net leverage is expected to have remained comparable to FY09 (0.9x). Fitch expects KTZ's leverage to trend slightly higher on the back of debt-funded capex, but to remain comfortable for the rating.

Profitability and cash flow from operations (CFO) is expected to have remained strong in FY10. However, the increase in capex contributed to an increase in gross debt (by 76%). Fitch expects free cash flow (before equity contributions and possible disposals) to remain negative for the foreseeable future.

The 2010 bond issue contributed to a strong cash balance of USD1.24bn equivalent (as of 4 April 2011). However, the cash (largely in US dollars) is mostly held with domestic banks, including Halyk Bank of Kazakhstan ('B+/Stable/B') and Kazkommertsbank ('B-/Stable/B') whose ratings include the potential for moderate government assistance, and whose credit profiles remain challenged. FX risk remains a concern for KTZ as its debt is largely unhedged in dollars (87% at FYE10). Interest on KTZ's debt is mostly fixed (87%) at an average rate of 6.1%, reducing its exposure to interest rate fluctuations.

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Additional information is available at www.fitchratings.com.

Applicable criteria, 'Corporate Rating Methodolgy', dated 13 August 2010, is available at www.fitchratings.com.

Applicable Criteria and Related Research:

[Corporate Rating Methodology](#)

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