Kazakh National Rail Co. Kazakhstan Temir Zholy 'BB+/kzAA-' Ratings Affirmed; Outlook Stable

Publication date:	18-Apr-2008
Primary Credit Analyst:	Eugene Korovin, Moscow (7) 495-783-4090; evgueni_korovin@standardandpoors.com
Secondary Credit Analyst:	Sergei Gorin, Moscow 7 495 783 4132; sergei_gorin@standardandpoors.com

MOSCOW (Standard & Poor's) April 18, 2008--Standard & Poor's Ratings Services said today that it affirmed its 'BB+' long-term corporate credit and 'kzAA-' Kazakhstan national scale ratings on Kazakh national railroad company Kazakhstan Temir Zholy (KTZ). The outlook is stable.

"The ratings on KTZ reflect the company's high strategic importance to the state and strong government support," said Standard & Poor's credit analyst Eugene Korovin. "The ratings are based on a top-down approach and are two notches lower than the sovereign local currency rating."

The ratings on KTZ are constrained by an opaque regulatory regime in Kazakhstan and the company's obsolete assets and aggressive investment program. The ongoing rail-sector restructuring, the risk of commodities traffic volatility, and competition from oil pipelines also constrain the ratings.

The company's strong market and competitive position in the national transport sector somewhat mitigate these risks. KTZ's vertically integrated business model, which combines monopoly rail infrastructure and profitable freight transport operations, and the company's intermediate financial profile and moderate financial policy also bolster the ratings.

At Dec. 31, 2007, KTZ had $1.034 billion in total debt according to management information.

"We expect KTZ to continue to benefit from solid state support to the sector and financial support for investments in railroad infrastructure," said Mr. Korovin. "One example of such support would be higher operating subsidies to the passenger segment, which would allow higher track access locomotive traction charges for the passenger segment after its potential divestment."

We also expect that KTZ will retain an adequate financial profile within approved financial policy targets, which will underpin KTZ's stand-alone credit quality.

A consistent implementation of the government's tariff policy for KTZ and the sector restructuring plan--including ownership unbundling of the passenger segment from KTZ--together with higher subsidies, could create ratings upside potential in the absence of negative macroeconomic implications.

A positive change in the sovereign rating or outlook would most likely lead to similar movement in the ratings on KTZ, unless there is evidence of a changed relationship with the state, which would likely trigger a revision of our top-down rating approach.

A negative change in the sovereign rating would not automatically result in a similar action on the company, unless the trigger for the sovereign rating change materially impairs KTZ's stand-alone credit quality.

Additional Contact:	Infrastructure Finance Ratings Europe; InfrastructureEurope@standardandpoors.com

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