

Transportation  
Kazakhstan  
Credit Update

# Kazakhstan Temir Zholy

## Ratings

Security Class	Current Ratings
Foreign Currency	
Long-Term IDR	BBB-
Senior Unsecured	BBB-

## Outlook

Foreign-Currency Long-Term IDR Negative

## Financial Data

Kazakhstan Temir Zholy		
	31 Dec 08	31 Dec 07
Revenue (KZTm)	483,763.4	423,638.6
Operating EBITDAR (KZTm)	96,851.5	94,678.7
Operating EBITDAR margin (%)	20.0	22.3
Cash flow from operations (KZTm)	92,374.0	110,506.1
Free cash flow (KZTm)	-32,019.4	14,093.8
Net fixed charge cover (x)	28.6	18.9
EBITDA/gross interest expense (x)	10.9	10.4
Gross debt (KZTm)	132,167.7	124,418.4
Cash (KZTm)	64,732.8	97,319.2
Net debt (KZTm)	67,434.9	27,099.2
Gross leverage (x)	1.4	1.3
Net leverage (x)	0.7	0.3

## Analysts

Josef Pospisil, CFA  
+44 20 7682 7339  
josef.pospisil@fitchratings.com

Emmanuel Owusu-Darkwa  
+44 20 7070 5808  
emmanuel.owusu-darkwa@fitchratings.com

## Related Research

- *Fitch Affirms 7 Kazakh Corporates; Off RWN; Assigns Negative Outlooks (June 2009)*
- *Corporate Governance: Russian, Kazakh and Ukrainian Perspective (March 2009)*
- *Kazakhstan Temir Zholy (November 2008)*
- *Parent and Subsidiary Rating Linkage: Fitch's Approach to Rating Entities Within a Corporate Group Structure (June 2007)*

## Rating Rationale

- The ratings of Kazakhstan Temir Zholy (KTZ), a 100% state-owned railway company, are aligned with those of the sovereign, based on Fitch Ratings' *Parent and Subsidiary Rating Linkage* methodology. Accordingly, the Long-Term Foreign Currency IDR was affirmed on 5 June 2009 at 'BBB-', and removed from Rating Watch Negative following affirmation of the sovereign rating. The Negative Outlook reflects the sovereign Outlook and the expected deterioration of KTZ's credit profile.
- Although Fitch has recently revised downwards its expectations of government support for Kazakhstan's leading financial institutions (mostly privately owned), it still expects that the country's infrastructure industries (including railways) will continue to enjoy direct government support which is needed to meet their development plans. The extent of the potential support is smaller than that required by the financial institutions, and well within the announced economy support package (USD15bn).
- Fitch notes that KTZ's financial year-end 2009 (FYE09) gross leverage (1.4x at FYE08) may approach its covenanted level of 2.5x given the devaluation of the tenge in February 2009 (the company's debt is largely US dollar denominated), debt-funded capex, and lower transportation volumes (a 16% yoy decline in Q109). Fitch expects management to revise its capex plans (within the KZT1,200bn programme for 2008-2012) in order to limit an increase in leverage.
- KTZ is expected to remain the monopoly provider of rail infrastructure in Kazakhstan, and maintain a dominant market share in the provision of locomotives and rolling stock upon completion of the rail reforms. Weaker demand and strong political interference in the freight tariff-setting mechanism may result in lower-than-planned tariff increases (and therefore put pressure on KTZ's financial profile). However, this is to an extent compensated for by the agency's expectation that the planned state subsidies for the loss-making passenger arm (currently cross-subsidised by the freight arm) will be fulfilled.

## What Could Trigger a Downgrade?

- A downgrade of the sovereign, evidence of weakening sovereign support, or a substantial increase in leverage due to the debt-funded capex programme or weaker-than-expected cash flow generation.

## Liquidity and Debt Structure

Profitability and cash flow from operations (CFO) remained strong in FY08, and the 38% yoy increase in capex resulted in a relatively small increase in gross debt (6%), as KTZ used up 33% of its cash balance. Fitch expects profits in FY09 to be affected by a significant decline in volumes, and for free cash flow to remain negative. KTZ continued to maintain a significant cash position (including short-term investments) of KZT65bn (USD430m) at FYE08. However, the liquidity (now largely in dollars) is mostly held with domestic banks including Halyk Bank of Kazakhstan ('B+' / Negative) and Kazkommertsbank ('B-' / Negative) whose ratings include the potential for moderate government assistance, and whose credit profiles have markedly deteriorated over the last year. KTZ's short-term debt at FYE08 (KZT4.8bn) comprised only a fraction of gross debt (3.6%). One of KTZ's loans (representing 2.5% of FYE08 gross debt) is guaranteed by the Kazakh government.

**KAZAKHSTAN TEMIR ZHOLY**

**Financial Summary**

	31 Dec 2008	31 Dec 2007	31 Dec 2006	31 Dec 2005	31 Dec 2004
	KZTm	KZTm	KZTm	KZTm	KZTm
	Original	Original	Restated	Original	Original
<b>INCOME STATEMENT</b>					
Revenues	483,763.4	423,638.6	382,591.7	285,885.1	245,122.0
Revenue Growth	14.2	10.7	33.8	16.6	18.8
EBIT	50,579.6	42,249.1	45,392.6	-8,434.1	-8,829.0
Interest Expense Net of Interest Income	1,704.3	2,377.3	5,121.6	2,259.9	734.0
Net Income	63,881.7	25,555.2	22,446.0	-17,232.8	-12,057.0
<b>BALANCE SHEET</b>					
Cash and Equivalents	64,732.8	97,319.2	85,969.6	8,455.9	13,570.0
Total Assets	927,001.6	856,340.1	801,046.4	671,636.7	646,576.0
Short-term Debt	4,772.9	4,451.5	4,420.1	41,995.0	9,158.0
Senior Long-Term Debt	127,394.8	119,966.9	128,533.4	23,433.8	24,783.0
Subordinated Debt	0.0	0.0	0.0	0.0	0.0
Total Debt	132,167.7	124,418.4	132,953.5	65,428.8	33,941.0
Common Equity	643,853.5	582,682.1	548,818.4	515,514.3	533,950.0
Off-Balance Sheet Debt	0.0	0.0	0.0	0.0	0.0
Total Adjusted Capitalisation	776,021.2	707,100.5	681,771.9	580,943.1	567,891.0
Total Adjusted Debt	132,167.7	124,418.4	132,953.5	65,428.8	33,941.0
Preferred Stock + Minority Interests	0.0	0.0	0.0	0.0	0.0
<b>CASH FLOW</b>					
Operating EBITDAR (Op. EBITDAR)	96,851.5	94,678.7	91,557.8	37,969.5	22,752.0
Cash Interest Paid, Net of Interest Received	5,116.7	5,352.0	5,610.4	2,594.3	986.0
Cash Tax Paid	5,303.7	1,454.0	4,941.1	6,147.9	5,829.0
Associate Dividends	0.0	0.0	0.0	0.0	0.0
Other Changes before Funds From Operations**	10,992.3	8,427.5	14,996.4	12,259.2	17,983.0
FUNDS FROM OPERATIONS	97,423.4	96,300.2	96,002.7	41,486.5	33,920.0
Working Capital	-5,049.4	14,205.9	926.5	23,672.0	-5,713.0
CASH FLOW FROM OPERATIONS	92,374.0	110,506.1	96,929.2	65,158.5	28,207.0
Non-Operational Cash Flow*	8,007.2	-74.8	0.0	0.0	-451.0
Capital Expenditure	129,845.1	94,092.9	75,400.5	90,608.2	58,302.0
Dividends Paid	2,555.5	2,244.6	0.0	1,147.2	0.0
FREE CASH FLOW	-32,019.4	14,093.8	21,528.7	-26,596.9	-30,546.0
Receipts from Asset Disposals	736.6	1,246.0	481.0	305.0	3,075.0
Business Acquisitions	0.0	0.0	73.2	682.6	0.0
Business Divestments	0.0	167.9	146.2	1,112.2	2,014.0
Exceptional & Other Cash Flow Items	-540.3	-3,219.0	-2,764.5	-1,248.4	6,826.0
NET CASH IN/OUTFLOW	-31,823.1	12,288.7	19,318.2	-27,110.7	-18,631.0
Equity Issuance/(Buyback)	0.0	0.0	0.0	0.0	0.0
FX movement	0.0	0.0	0.0	0.0	0.0
Other Items Affecting Cash Flow**	-8,512.6	7,596.0	-9,329.2	-9,491.2	3,553.0
NET CASH FLOW AVAILABLE FOR FINANCING	-40,335.7	19,884.7	9,989.0	-36,601.9	-15,078.0
CLOSING NET DEBT	67,434.9	27,099.2	46,983.9	56,972.9	20,371.0
<b>PROFITABILITY</b>					
Op. EBITDAR/Revenues (%)	20.0	22.3	23.9	13.3	9.3
EBIT/Revenues (%)	10.5	10.0	11.9	-3.0	-3.6
FFO Return on Adjusted Capital (%)	13.7	14.9	15.2	7.6	6.1
<b>CREDIT RATIOS</b>					
Funds From Operations/Gross Interest Expense (x)	12.0	11.6	13.8	17.4	35.6
FFO Fixed Charge Cover (x)	12.0	11.6	13.8	17.4	35.6
Op. EBITDAR/Net Fixed Charges (x)	56.8	39.8	17.9	16.8	31.0
Adjusted Leverage/FFO (x)	1.2	1.2	1.3	1.5	1.0
Total Adjusted Debt Net of Cash/Op. EBITDAR (x)	0.7	0.3	0.5	1.5	0.9
Total Adjusted (Recourse) Debt/Total Adjusted Capitalisation (%)	17.0	17.6	19.5	11.3	6.0

Off Balance sheet debt reflects 8 times gross rent expense plus off balance sheet debt with full/limited recourse.

\* Includes Analyst Estimate

\*\* Balancing Item