KTZ And KTT Outlooks Revised To Positive; 'BB+' Ratings Affirmed; KTZ SACP Revised To 'b+'

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- From May 2011, Kazakh-based rail group Kazakhstan Temir Zholy (KTZ) is
- likely to reduce its reliance on cash held in lower-rated banks.
- We are revising our outlook on both KTZ and 100%-owned rolling stock
- subsidiary JSC Kaztemirtrans (KTT) to positive from stable.
- We are affirming our 'BB+' long-term corporate credit and 'kzAA-'
- Kazakhstan national scale ratings on KTZ and KTT.
- The positive outlook reflects our view of the KTZ group's increased free
- cash flow generation and our assessment of a continuing "very high"
- likelihood of support for KTZ from the Republic of Kazakhstan.

LONDON (Standard & Poor's) Sept. 24, 2010--Standard & Poor's Ratings Services said today that it revised its outlook to positive from stable on Kazakhstan Temir Zholy (KTZ), Kazakhstan's national railway group and rail network owner, and 100%-owned rolling stock subsidiary JSC Kaztemirtrans (KTT).

At the same time, we affirmed the 'BB+' long-term corporate credit and 'kzAA-' Kazakhstan national scale ratings on KTZ and KTT.

In addition, we revised the stand-alone credit profile (SACP) on KTZ, to 'b+' from 'bb'.

"The outlook revision reflects our view of the positive operational and financial evolution of the KTZ group, although the ratings remain constrained in the short term by the group's reliance on lower-rated banks holding most of its cash position," said Standard & Poor's credit analyst Vincent Allilaire. "The affirmation of the corporate credit ratings reflects our opinion that there continues to be a "very high" likelihood that the Republic of Kazakhstan (foreign currency rating BBB-/Stable/A-3) would provide timely and sufficient extraordinary financial support to KTZ in the event of financial distress.

"The ratings on KTT reflect the credit quality of KTZ because of the economic integration and interdependency between the two entities, and cross-default clauses and cross-guarantees linking the entities. As a consequence, we take a consolidated view of the KTZ group."

The revision of KTZ's stand-alone credit profile reflects our view that, although the group's business risk profile remains fair, we assess its financial risk profile as aggressive. In our view, KTZ's SACP is constrained by the group's exposure, for about two-thirds of its cash holdings, to two local banks that we rate in the 'B' category.

The fair business risk profile continues to reflect the KTZ group's vertically integrated business model, which combines monopoly rail infrastructure and profitable freight transport operations; a strong market and competitive position in the national transport sector; increasing profitability and cash flow from operations underpinned by higher tariffs; and strong ongoing government support.

In our view, increased free cash flow generation from operations at the group level and the gradual implementation of the capex program, should allow the KTZ group, on a consolidated basis, to maintain a moderate financial profile throughout the investment phase. We also believe that the likelihood of support from the state will continue to be "very high."

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