

# Railway Operator Kazakhstan Temir Zholy Rating Affirmed At 'BBB-' On Continued Monopoly Position; Outlook Stable

Publication date: 31-Jan-2011 10:27:48 EST

---

## [View Analyst Contact Information](#)

- We believe that national railway operator Kazakhstan Temir Zholy (KTZ) will retain its monopoly position in Kazakhstan's rail freight market and that its financial metrics remain in line with those of peers.
- KTZ's aggressive capital expenditure plan and its large deposits in banks that we rate in the 'B' category or we do not rate continue to weigh heavily on its financial risk profile.
- We are affirming our 'BBB-' long-term rating on KTZ, while keeping our
- assessment of its stand-alone credit profile unchanged at 'b+'.
- The stable outlook reflects our opinion that KTZ's financial risk profile
- is unlikely to improve in the near term and that the "very high"
- likelihood of timely and sufficient extraordinary support from the
- Republic of Kazakhstan for KTZ is a stabilizing factor for its credit
- profile.

TEL AVIV (Standard & Poor's) Jan. 31, 2011--Standard & Poor's Ratings Services today said it affirmed its 'BBB-' long-term foreign currency corporate credit rating on Kazakhstan Temir Zholy (KTZ), Kazakhstan's national railway operator. The outlook is stable.

"The affirmation reflects our opinion that KTZ will retain its monopoly position in Kazakhstan's railway sector in the near to medium term," said Standard & Poor's credit analyst Etai Rappel.

We think KTZ will continue to transport a sizable, albeit smaller, portion of the Kazakh freight market, despite recent improvements in Kazakhstan's pipeline network, given the economy is commodity oriented. We understand KTZ is also investing in modernizing its fleet and infrastructure, while improving efficiency. The integrated and interdependent operating structure of KTZ and its subsidiaries, and the cross-default provisions and cross-guarantees between them leads us to take a consolidated view of KTZ as a group.

KTZ's "fair" business risk profile, in our view, continues to reflect its 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 rising tariffs; and strong, ongoing government support. The government support manifests itself, in our opinion, in the favorable, albeit not entirely transparent regulatory regime; high and sustained tariff increases; and financial contributions that help to enable KTZ's implementation of its capital expansion program. Our view of KTZ's business risk also factors in its currently aging operating assets. Still, we believe these assets will gradually improve as a result of investments.

We consider KTZ to be a government-related entity (GRE). In accordance with our criteria for GREs, we base our view of a "very high" likelihood of timely and sufficient extraordinary support from the Kazakh government (Republic of

Kazakhstan; foreign currency BBB/Stable/A-3, local currency BBB+/Stable/A-2, Kazakhstan national kzAAA/--/--) on our assessment of KTZ's:

- "Very important" role in Kazakhstan's economy as a national railroad company. KTZ plays a key role in Kazakhstan's national transport sector, for exports as well as transit; and
- "Very strong" link with the Kazakh government, which fully owns KTZ
- indirectly via sovereign wealth fund Samruk-Kazyna, and provides ongoing support and monitoring. We foresee no privatization risk in the short to medium term.

We view KTZ's financial risk profile as "aggressive." KTZ has indicated it intends to make large investments in capital expansion. In our opinion, this spending may have a negative effect on KTZ's financial ratios in the short term, although we expect these metrics to remain sound and return to higher levels in the next few years. We note that as part of its capital spending program, KTZ successfully tapped the market for \$700 million in October 2010. KTZ's capital expansion is discretionary and relies, among others, on further government contributions. If these are not forthcoming, KTZ could be obliged to curtail planned capital expenditure. It might also face a squeeze on its liquidity.

KTZ maintains large deposits in banks in Kazakhstan, which we understand it intends to use, among others, to repay debt, namely the \$450 million bond due in May 2011.

"The stable outlook on KTZ balances the risk it faces from its ongoing aggressive capital expenditure program with, in our opinion, a "very high" likelihood of receiving extraordinary government support," said Mr. Rappel.

Any change in our view of the likelihood of this support would likely result in a negative impact on the rating.

A weakening in KTZ's SACP, which may stem from greater deterioration than we currently expect in its financial risk, may also lead to a negative rating action. We will continue to monitor KTZ's funding strategy relative to its 2011 debt maturities and, in particular, the extent to which it relies on state support to supplement existing reserves and meet debt repayments.

We see limited scope for a positive rating action at this time, in the absence of an improvement in our assessment of KTZ's financial risk profile.

#### RELATED CRITERIA AND RESEARCH

- [Principles Of Corporate And Government Ratings](#), June 26, 2007
- 
- [Use Of CreditWatch And Outlooks](#), Sept. 14, 2009
- 
- [Stand-Alone Credit Profiles: One Component Of A Rating](#), Oct. 1, 2010
- 
- [Rating Government-Related Entities: Methodology And Assumptions](#), Dec. 9, 2010
- 
- [Criteria Methodology: Business Risk/Financial Risk Matrix Expanded](#), May 27, 2009
- 

Complete ratings information is available to RatingsDirect subscribers on the

Global Credit Portal at [www.globalcreditportal.com](http://www.globalcreditportal.com) and RatingsDirect subscribers at [www.ratingsdirect.com](http://www.ratingsdirect.com). All ratings affected by this rating action can be found on Standard & Poor's public Web site at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow (7) 495-783-4011.

Primary Credit Analyst: Etai Rappel, Tel Aviv +972-3-753-9718;  
[etai\\_rappel@standardandpoors.com](mailto:etai_rappel@standardandpoors.com)

Secondary Contact: Karim Nassif, Dubai +971 (0) 4 372 7152;  
[karim\\_nassif@standardandpoors.com](mailto:karim_nassif@standardandpoors.com)

Additional Contact: Infrastructure Finance Ratings Europe;  
[InfrastructureEurope@standardandpoors.com](mailto:InfrastructureEurope@standardandpoors.com)