



Tagging Info

Fitch Affirms 7 Kazakh Corporates; Off RWN; Assigns Negative Outlooks Ratings

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Fitch Ratings-London/Moscow-05 June 2009: Fitch Ratings has today affirmed the Long-term foreign currency Issuer Default Ratings (IDRs), Short-term foreign currency IDRs, Long-term local currency IDRs (where applicable), senior unsecured ratings (where applicable), and national Long-term ratings (where applicable) of seven Kazakh corporates. Fitch has simultaneously removed their ratings from Rating Watch Negative (RWN) and, assigned Negative Outlooks to the companies' Long-term foreign currency IDRs Long-term local currency IDRs (where applicable) and national Long-term ratings (where applicable).

The rating actions reflect today's affirmation of Kazakhstan's Long-term foreign and local currency IDRs at 'BBB-' and BBB, respectively, and its Short-term foreign currency IDR at 'F3'. The agency has removed Kazakhstan's ratings from RWN and assigned Negative Outlooks to its Long-term foreign and local currency IDRs.

The sovereign rating action reflects Fitch's view that the risk of an immediate abrupt deterioration of the sovereign balance sheet has eased, however, the ratings remain under pressure due to the potential costs for the sovereign of coping with the economic slowdown and financial crisis.

The rating actions affecting the seven Kazakh companies are as follows.

KazMunaiGaz National Company (NC KMG)

Long-term foreign currency IDR: affirmed at 'BBB-'; removed from RWN; assigned a Negative Outlook

Long-term local currency IDR: affirmed at 'BBB'; removed from RWN; assigned a Negative Outlook

Short-term foreign currency IDR: affirmed at 'F3'; removed from RWN

Senior unsecured rating: affirmed at 'BBB-'; removed from RWN

NC KMG's ratings are aligned with the sovereign's because it was established as a wholly state-owned enterprise to represent the interests of the government in Kazakhstan's oil and gas industry.

JSC KazMunaiGas Exploration Production (KMG EP)

Long-term foreign currency IDR: affirmed at 'BBB-'; removed from RWN; assigned a Negative Outlook (The rating is constrained by Kazakhstan's sovereign rating.)

Long-term local currency IDR: affirmed at 'BBB-'; removed from RWN; assigned a Negative Outlook

Short-term foreign currency IDR: affirmed at 'F3'; removed from RWN

JSC KazTransOil (KTO)

Long-term foreign currency IDR: affirmed at 'BBB-'; removed from RWN; assigned a Negative Outlook (The rating is constrained by Kazakhstan's sovereign rating.)

Short-term foreign currency IDR: affirmed at 'F3'; removed from RWN

Fitch rates NC KMG's subsidiaries (including KMG EP and KTO) primarily on a standalone basis. Fitch believes that KMG EP's current solid financial profile which is underpinned by strong profitability, its low debt level, ample cash position and moderate capex programme will provide a cushion against the cyclical downturn in the global oil and gas markets and the worldwide economic slowdown. Nevertheless, the ultimate state ownership of KMG EP and the other subsidiaries rated on a standalone basis exposes them to being constrained by the sovereign rating, should it deteriorate further.

The ratings of NC KMG's other subsidiaries - KazTransGas and JSC Intergas Central Asia - are unaffected. They are as follows:

KazTransGas:

Long-term foreign currency IDR: 'BB'; Outlook Stable

Short-term foreign currency IDR: 'B'

Long-term local currency IDR: 'BB'; Outlook Stable

JSC Intergas Central Asia:

Long-term foreign currency IDR: 'BB+'; Outlook Stable

Short-term foreign currency IDR: 'B'

Long-term local currency IDR: 'BB+'; Outlook Stable

Senior unsecured rating: 'BB+'

JSC National Atomic Company Kazatomprom (Kazatomprom)

Long-term foreign currency IDR: affirmed at 'BBB-'; removed from RWN; assigned a Negative Outlook (The rating is constrained by

Kazakhstan's sovereign rating.)

Short-term foreign currency IDR: affirmed at 'F3'; removed from RWN

Kazatomprom is a 100% state-owned uranium operator. Kazatomprom's ratings reflect the company's strong position in the global uranium market, its strategic importance to Kazakhstan and its solid financial profile.

Kazakhstan Temir Zholy (KTZ)

Long-term foreign currency IDR: affirmed at 'BBB-'; removed from RWN; assigned a Negative Outlook

Senior unsecured rating: affirmed at 'BBB-'; removed from RWN

KTZ's ratings are aligned with the sovereign's, given the 100% state-owned railway company's strategic importance to Kazakhstan due to the country's vast terrain, land-locked position and underdeveloped road infrastructure. Fitch notes that KTZ's YE09 leverage (1.3x at YE08) may approach its covenant level of 2.5x given the devaluation of the Kazakh tenge in February 2009 (the company's debt is largely denominated in foreign currencies), debt funded capex and lower transportation volumes. Fitch expects management to revise its capex plans in order to limit an increase in leverage.

Kazakhstan Electricity Grid Operating Company (KEGOC)

Long-term foreign currency IDR: affirmed at 'BBB-'; removed from RWN; assigned a Negative Outlook

Long-term local currency IDR: affirmed at 'BBB'; removed from RWN; assigned a Negative Outlook

Short-term foreign currency IDR: affirmed at 'F3'; removed from RWN

KEGOC's ratings are aligned with the sovereign's given its 100% state ownership, state guarantees for some of its debt, and strong state support resulting from the strategic nature of Kazakhstan's national electricity transmission grid. KEGOC's Negative rating Outlook also has an additional component: Fitch notes that KEGOC has breached a receivable days ratio under a Development Bank of Kazakhstan facility. The company is also expected to breach its 5x debt to EBITDA covenant with the European Bank for Reconstruction and Development later this year as a result of the Kazakh tenge's devaluation in February 2009 (the company's debt is largely USD denominated), weaker cash flow generation and debt-funded capex. Fitch currently expects covenant waivers to be provided and/or liquidity support from the government (approved for 2011-2017) to be fast-tracked. Fitch may place KEGOC's ratings on RWN should one of these measures fail in the near term and its bank lenders and, more importantly for the state-supported rating, the government and industry regulator do not satisfactorily resolve existing issues.

Mangistau Electricity Distribution Network Company (MEDNC)

Long-term foreign currency IDR: affirmed at 'BB'; removed from RWN; assigned a Negative Outlook

Foreign currency senior unsecured rating: affirmed at 'BB'; removed from RWN

Short-term foreign currency IDR: affirmed at 'B'

Long-term local currency IDR: affirmed at 'BB+'; removed from RWN; assigned a Negative Outlook

Local currency senior unsecured rating: affirmed at 'BB+'; removed from RWN

National Long-term Rating: affirmed at 'AA-(kaz)'; removed from RWN; assigned a Negative Outlook

MEDNC's ratings are linked to the sovereign's, but notched down to reflect that little indication has been given by MEDNC's ultimate parent, Samruk, that it will provide timely financial assistance in case of need. The company has a near-monopoly position in electricity transmission and distribution in Mangistau, one of Kazakhstan's strategic oil and gas regions. MEDNC's debt is denominated in Kazakh tenge and its revenues have not been significantly affected by the economic slowdown.

For further information on the sovereign rating action taken by Fitch today, please see the 5 June 2009 comment, entitled 'Fitch Affirms Kazakhstan; Off Rating Watch Negative; Assigns Negative Outlook', which is available on the agency's public website, www.fitchratings.com.

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Note to Editors: Fitch's National ratings provide a relative measure of creditworthiness for rated entities in countries with relatively low international sovereign ratings and where there is demand for such ratings. The best risk within a country is rated 'AAA' and other credits are rated only relative to this risk. National ratings are designed for use mainly by local investors in local markets and are signified by the addition of an identifier for the country concerned, such as 'AAA(kaz)' for National ratings in Kazakhstan. Specific letter grades are not therefore internationally comparable.

Fitch's rating definitions and the terms of use of such ratings are available on the agency's public site, www.fitchratings.com. Published ratings, criteria and methodologies are available from this site, at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance and other relevant policies and procedures are also available from the 'Code of Conduct' section of this site.