



Tagging Info

Fitch Affirms Kazakhstan Temir Zholy at 'BBB'; Outlook Negative Ratings

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Fitch Ratings-London-04 November 2008: Fitch Ratings has affirmed Kazakhstan Temir Zholy's (KTZ) Long-term foreign currency Issuer Default rating (IDR) and its senior unsecured rating at 'BBB' respectively. The Outlook for the Long-term IDR is Negative.

KTZ's ratings are aligned with the sovereign's based on Fitch's parent and subsidiary rating linkage methodology. KTZ's ratings reflect the 100% state-owned railway company's strategic importance to Kazakhstan given its vast terrain, land-locked position and underdeveloped road infrastructure. The group contributed 1.8% to Kazakhstan's GDP in 2006. The ratings also reflect state involvement in tariff-setting through the Agency for Regulation of Natural Monopolies.

The ratings take into account the fact that KTZ is expected to remain the monopoly provider of rail infrastructure and maintain a dominant market share (at least 50%) in the provision of locomotives and rolling stock upon completion of a rail reform programme.

Fitch believes KTZ has a solid financial profile. The railway group posted a FY07 EBITDAR margin of 22.3% and gross and net leverage of 1.3x and 0.3x respectively. KTZ compares well with its international peers in this respect against a median EBITDAR margin of 29.3% and net leverage of 4.1x respectively.

The ratings also incorporate the group's 2008-2012 intensive investment programme of KZT1,199.6bn (USD9.9bn), the financing of which relies on expected tariff increases. Fitch notes that political interference in an objective tariff-setting mechanism, resulting in lower-than-planned tariff increases, is likely to put pressure on KTZ's financial profile.

The ratings factor in the agency's expectation that planned state subsidies for KTZ's loss-making passenger division, which is cross-subsidised by the freight division, will be fulfilled. The subsidies are expected to cover the full loss incurred by passenger operations by 2011.

The Negative Outlook reflects that of the sovereign rating, which was assigned on 17 December 2007.

KTZ operates Kazakhstan's rail network and provides freight and passenger services. The freight business accounted for the bulk of the group's revenue (84.8% in 2007) and generated operating profit of KZT58bn (USD473m), whereas the passenger business contributed 12.3% to FY07 revenue and was unprofitable, with an operating loss of KZT16.5bn (USD138m).

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