

## National Railway Companies Kazakhstan Temir Zholy And Kaztemirtrans Affirmed At 'BB+/kzAA-'; Off Watch; Outlook Stable

**Publication date:** 16-Sep-2009  
**Primary Credit Analyst:** Sergei Gorin, Moscow 7 495 783 4132;  
[sergei\\_gorin@standardandpoors.com](mailto:sergei_gorin@standardandpoors.com)  
**Secondary Credit Analysts:** Boris Kopeykin, Moscow (7) 495-783-4062;  
[boris\\_kopeykin@standardandpoors.com](mailto:boris_kopeykin@standardandpoors.com)  
Lidia Polakovic, London (44) 20-7176-3985;  
[lidia\\_polakovic@standardandpoors.com](mailto:lidia_polakovic@standardandpoors.com)

- We expect a "very high" probability of timely and sufficient extraordinary financial support from the state for Kazakhstan Temir Zholy
- (KTZ), Kaztemirtrans' (KTT's) 100% parent and Kazakhstan's national railway company.
- We take a consolidated view of the KTZ group and equalize the long-term rating on KTT with that on KTZ. Because KTT is a strategic core subsidiary of KTZ, it is closely integrated with KTZ's freight operations and derives the bulk of its revenues from KTZ.
- We are affirming our 'BB+' long-term corporate credit and 'kzAA-' Kazakhstan national scale ratings on KTZ and KTT and removing them from CreditWatch with negative implications.
- The stable outlook reflects the outlook on Kazakhstan.

MOSCOW (Standard & Poor's) Sept. 16, 2009--Standard & Poor's Ratings Services affirmed its 'BB+' long-term corporate credit and 'kzAA-' Kazakhstan national scale ratings on both Kazakhstan Temir Zholy (KTZ) and its 100% subsidiary JSC

Kaztemirtrans (KTT). At the same time, the ratings on KTZ and KTT were removed from CreditWatch with negative implications, where they were placed on June 16, 2009. The outlooks on both KTZ and KTT are stable. Before the CreditWatch placement, the outlooks were stable.

The 'BB+' rating on the senior unsecured bonds issued by Kazakhstan Temir Zholy Finance B.V. was affirmed and removed from CreditWatch with negative implications, and the '4' recovery rating is unchanged.

"The affirmation and removal from CreditWatch reflects our expectations of a "very high" probability of timely and sufficient extraordinary financial support from the state for KTZ, KTT's 100% parent and Kazakhstan's national railway company," said Standard & Poor's credit analyst Sergei Gorin.

This is based on our assessment of KTZ's:

- "Very important" role in Kazakhstan's economy as a national railroad company, playing a key role in Kazakhstan's national transport sector; and
- "Very strong" link with the Kazakh government, illustrated by the state's ongoing support, which includes state subsidies to the passenger transportation segment and guarantees on some of KTZ'S debt, as well as government cofinancing of the investment burden in rail infrastructure

- and 100% ownership with no privatization risk in the short to medium term.

At the same time, there is a degree of uncertainty of how exactly the mechanisms of government support would operate in Kazakhstan's economic environment. This uncertainty is reflected in our one-notch deviation from our

standard correlation for entities with a "very high" likelihood of extraordinary support (see table 4 in General Criteria: Enhanced Methodology And Assumptions For Rating Government-Related Entities, June 29, 2009).

KTZ's stand-alone credit profile reflects our view of the company's "fair" business risk profile and "significant" financial risk profile. In our view, the stand-alone credit profile is constrained by the company's obsolete assets and aggressive investment program and Kazakhstan's opaque regulatory regime. Ongoing rail-sector restructuring, the risk of commodity traffic volatility, and competition from oil pipelines further constrain the company's

stand-alone credit profile.

These risks are mitigated by the company'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; and strong ongoing government financial support.

The stable outlook reflects that on the sovereign.

"A positive track-record of government support to government-related entities could buoy the ratings on KTZ in the future," said Mr. Gorin.

A stronger-than-expected operational and financial performance, together with successful cash accumulation for the upcoming maturities and a strengthening of the banking sector could create upside potential for the ratings.

If in our view KTZ's liquidity position deteriorates or if there are indications of lower state support, we could lower our assessment of the company's stand-alone credit profile and/or lower the corporate credit ratings

on the company.

#### RELATED RESEARCH

- General Criteria: Enhanced Methodology And Assumptions For Rating Government-Related Entities, June 29, 2009
- 
- Criteria Methodology: Business Risk/Financial Risk Matrix Expanded, May 27, 2009
- 
- Criteria Guidelines For Recovery Ratings On Global Industrials Issuers' Speculative-Grade Debt, Aug. 10, 2009
- 
- Kazakhstan BICRA Revised Downward To Group 9 From Group 8 On Rising Economic And Industry Risks, July 29, 2009
- 

#### **Additional Contact:**

Infrastructure Finance Ratings Europe;

[InfrastructureEurope@standardandpoors.com](mailto:InfrastructureEurope@standardandpoors.com)

Ratings information is available to RatingsDirect subscribers at [www.ratingsdirect.com](http://www.ratingsdirect.com). It can also be found on Standard & Poor's public Web

site at [www.standardandpoors.com](http://www.standardandpoors.com); select your preferred country or region, then Ratings in the left navigation bar, followed by Find a Rating. 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.