

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

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Overview

- 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.

Rating Action

On 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.

Rationale

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. 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.

Liquidity

On June 30, 2009, the KTZ group had Kazakhstani tenge (KZT) 52.6 billion (about \$351 million), which amply covers upcoming maturities of KZT5.5 billion due in next 12 months.

At the same time, the group will face the repayment of significant financial obligations in 2011 (including a \$450 million Eurobond issue), for which KTZ needs to accumulate cash.

We assess KTZ's stand-alone liquidity to be "weak", however, because its cash reserves are concentrated in several domestic banks, the liquidity and asset quality of which, in our opinion, remain under pressure (see Related Research section).

Outlook

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. 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
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- 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
-
- Halyk Savings Bank Of Kazakhstan Long-Term Rating Lowered To 'B+' As Its Financial Profile Weakens; Outlook Negative, June 11, 2009
-
- Kazkommertsbank (JSC) Ratings Lowered To 'B/C' As Its Financial Profile Weakens; Outlook Negative, June 11, 2009
-
- BTA Bank J.S.C. Downgraded To 'D' On Standstill In Principal Payments; Off CreditWatch Negative, April 24, 2009
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Ratings List

CreditWatch Outlook Action; Ratings Affirmed

	To	From
Kazakhstan Temir Zholy		
Issuer Credit Rating	BB+/Stable/--	BB+/Watch Neg/--
Kazakhstan National Scale	kzAA-	kzAA-/Watch Neg
Kazakhstan Temir Zholy Finance B.V.		
Senior unsecured debt*	BB+	BB+/Watch Neg
Recovery rating	4	4
JSC Kaztemirtrans		
Issuer Credit Rating	BB+/Stable/--	BB+/Watch Neg/--
Kazakhstan National Scale	kzAA-	kzAA-/Watch Neg

*One bond guaranteed by both Kazakhstan Temir Zholy and JSC Kaztemirtrans; one bond guaranteed by Kazakhstan Temir Zholy only.

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