MOODY'S INVESTORS SERVICE

CREDIT OPINION
3 August 2017

Update

Rate this Research

RATINGS

Kaztemirtrans, JSC

Domicile	Kazakhstan
Long Term Rating	Ba1
Type	LT Corporate Family Ratings - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

Contacts

Julia Pribytkova 7-495-228-6071
VP-Senior Analyst
julia.pribytkova@moodys.com

Victoria Maisuradze 7-495-228-6067
Associate Managing Director
victoria.maisuradze@moodys.com

Kaztemirtrans, JSC

Update following sovereign action, outlook changed to stable

Summary

To determine the rating of KTT, we apply our rating methodology for government-related issuers (GRIs). According to this methodology, the rating is driven by a combination of (1) KTT's baseline credit assessment (BCA) of b2; (2) the Baa3 rating of the Kazakhstan government, with stable outlook; (3) the high default dependence between the group and the government; and (4) the strong probability of state support in the event of financial distress.

KTT's BCA of b2 reflects: 1) the fact that the company is functioning as integral part of Kazakhstan's national integrated railway business, KTZ (BCA of b1); 2) our assessment of high default dependence between KTT and the Kazakhstan government mirrors our assumption for KTZ, based on our view that there is a high correlation between the financial profiles of the government and KTZ, including KTT, as (1) KTT's business is focused on the Republic of Kazakhstan; and (2) the company's credit profile is dependent on the operating framework, including tariff regulation, set by the government.

KTT's rating incorporates our assumption that the company would benefit from strong government support in the event of need, which takes into account (1) the fact that KTT is the owner of virtually all freight railcars in the KTZ group and therefore is essential for the group's business; and (2) our assessment of a high probability of state support available for KTZ. At the same time, we note that, because it is part of KTZ, KTT's access to the state support is not direct. This indirectness of the state support has resulted in a lower probability of support being incorporated into KTT's Ba1 final rating compared with that incorporated into KTZ's Baa3 issuer rating.

Credit Strengths

- integral part of Kazakhstan's national railway business, Kazakhstan Temir Zholy (KTZ, BCA of b1, final rating of Baa3/stable), and resulting from this strategic importance for the state and strong government support
- liquidity supported by a relatively long-term debt maturity profile
- strong credit linkages with the sovereign

Credit Challenges

- an increase in leverage and a decline in cash flow generation as a result of a change in the operating model

- exposure to foreign-currency risk, as more than 85% of KTT's debt is denominated in foreign currency
- exposure to the weakened operating environment of Kazakhstan

Rating Outlook

The stable outlook on the ratings is in line with the outlook on the sovereign rating of Kazakhstan.

Factors that Could Lead to an Upgrade

- a material improvement in the standalone creditworthiness
- positive developments at the sovereign rating level and at parent KTZ

Factors that Could Lead to a Downgrade

- a downgrade of Kazakhstan's sovereign rating
- continued deterioration of the financial metrics compared with the benchmarks established by us for the current BCA
- a weakening in the liquidity profile

Key Indicators

Exhibit 1

KEY INDICATORS [1]

Kaztemirtrans, JSC -Private

	12/31/2016	12/31/2015	12/31/2014	12/31/2013	12/31/2012
Revenue (USD Billion)	$0.2	$0.4	$0.6	$0.7	$0.6
Operating Margin	5.4%	7.6%	13.1%	22.7%	37.9%
FFO / Debt	-0.9%	0.8%	4.7%	6.7%	8.3%
EBITA / Avg. Assets	2.1%	2.5%	4.4%	5.9%	8.6%
Debt / EBITDA	20.3x	21.6x	8.3x	7.7x	7.3x
EBIT / Interest Expense	0.3x	0.4x	0.8x	1.3x	1.9x

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Source: Moody's Financial Metrics™

Corporate Profile

Headquartered in Astana, Kazakhstan, JSC Kaztemirtrans (KTT) is a 100% owned subsidiary of the Kazakhstani state-owned rail transportation company JSC National Company Kazakhstan Temir Zholy (KTZ, Baa3 stable). KTT is the owner and operator of the largest freight railcar fleet in Kazakhstan. In 2016, the group generated revenue of around KZT81.3 billion (approximately $244 million), and adjusted EBITDA of approximately KZT30.3 billion (approximately $91 million). Kazakhstan intends to privatise up to 49% of KTT in the medium term, KTZ will retain control over the company.

Detailed Credit Considerations

Strategic importance for the state and market leadership

Railway is the key freight transportation industry in Kazakhstan, a country that is characterised by substantial size, a landlocked position and widespread natural resources. In 2014, railway transportation represented 44% of total freight transportation turnover in Kazakhstan, including pipelines.

KTZ, a parent company of KTT, is the monopoly provider of rail infrastructure services in Kazakhstan and holds the leading position in the country's railway market in terms of railcar fleet, while KTT is the owner of virtually all freight railcars in the KTZ group. With a fleet of 59,685 freight railcars as of year-end 2014, representing around 50% of the Kazakhstan total, KTT's market position is likely to remain unrivalled for the foreseeable future.

As independent operators do not have access to the national railway network, private participation in the Kazakhstan railway transportation industry is currently limited to ownership, leasing and operation of railcars and containers. Private operators have a total market share of around 50% in terms of railcar fleet. Many private operators are part of industrial groups and largely service their cargo turnover.

Continued deterioration of credit metrics despite a return to the leasing model

Until 2013 KTT mainly leased its railcars, previously purchased from KTZ, back to KTZ (this service contributed 92% of 2011 revenue, 76% of 2012 revenue). Starting from 2013, KTT began to act as operator of part of its railcar fleet. In 2013 and 2014 operator services contributed 67% and 76% of KTT's total revenue, respectively.

Following change in the business model, KTT incurred higher operating costs, including increased empty run costs, while its tariffs remained regulated due to the “dominant operator status with more than 30% market share”. As a result, KTT's EBITDA margin nearly halved in 2014 compared with 2012, driving a decrease in cash flow generation and deterioration of other metrics.

We understand that KTT has reverted to its business model of a leasing company for KTZ. In 2017, the government of Kazakhstan adopted a change in the regulatory regime for KTZ/KTT which allowed KTT to raise its tariffs. In addition, KTT was able to reduce its empty -run costs and costs associated with idle fleet. As a result, KTT expects a material improvement in profitability and cash flow generation in 2017 compared with 2016.

High foreign-currency denominated debt puts pressure on credit metrics

In 2016, KTT's debt/EBITDA slightly improved to 20.0x from 22.0x as of end-2015, while EBIT interest coverage declined to 0.3x from 0.4x as a result of decreased profitability (all metrics are Moody's-adjusted). The 25% tenge devaluation in 2015 put pressure on the metrics, which was to an extent mitigated by a reduction in debt as KTT-guaranteed $350 million bond was repaid in May 2016.

Liquidity Analysis

We note that KTT's liquidity profile has weakened as a result of negative FFO generation in 2015-16, and a dramatic decline in cash reserves (as of end-2016, KTT had approximately KZT1.0 billion (approximately $3 million) in cash and cash equivalents, down from approximately KZT12.0 billion at end-2015). We understand that KTT functions as an integral part of KTZ and will benefit from parental support. In June 2017 KTZ transferred funds to KTT for the repayment of KTT's KZT60.0 billion loan from JSC National Welfare Fund Samruk Kazyna (Samruk Kazyna).

Rating Methodology and Scorecard Factors

Exhibit 2

Rating Factors

Kaztemirtrans, JSC -Private

Surface Transportation and Logistics Industry Grid [1][2]	Current FY 12/31/2016		Moody's 12-18 Month Forward View As of 5/10/2017 [3]	
Factor 1 : Business Profile (15%)	**Measure**	**Score**	**Measure**	**Score**
a) Business Profile	Ba	Ba	Ba	Ba
Factor 2 : Scale (20%)				
a) Revenue (USD Billion)	$0.2	Ca	$0.2	Ca
Factor 3 : Profitability, Cash Flow, and Returns (20%)				
a) Operating Margin	5.4%	Ba	5%	Ba
b) FFO / Debt	-0.9%	Ca	0%	Caa
c) EBITA / Avg. Assets	2.1%	B	2%	B
Factor 4 : Leverage and Coverage (30%)				
a) Debt / EBITDA	20.3x	Ca	20x	Ca
b) EBIT / Interest Expense	0.3x	Ca	0.5x	Caa
Factor 5 : Financial Policy (15%)				
a) Financial Policy	Ba	Ba	Ba	Ba
Rating:				
a) Indicated Rating from Grid		Caa1		B3
b) Actual Rating Assigned				Ba1
Government-Related Issuer	**Factor**			
a) Baseline Credit Assessment	b2			
b) Government Local Currency Rating	Baa3			
c) Default Dependence	High			
d) Support	Strong			
e) Final Rating Outcome	Ba1			

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] As of 12/31/2016;
[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Financial Metrics™

Ratings

Exhibit 3

Category	Moody's Rating
KAZTEMIRTRANS, JSC	
Outlook	Stable
Corporate Family Rating	Ba1
PARENT: NATIONAL COMPANY KAZAKHSTAN TEMIR ZHOLY JSC	
Outlook	Stable
Issuer Rating	Baa3
Senior Unsecured	Baa3

Source: Moody's Investors Service

REPORT NUMBER 1085027

MOODY'S
INVESTORS SERVICE