

Rating Action: Moody's confirms KTZ's and Kaztemirtrans' ratings; outlook stable

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New York, April 27, 2010 -- Moody's Investors Service has today confirmed JSC National Company Kazakhstan Temir Zholy's ("KTZ") Baa3 issuer rating and the Baa3 rating of the senior unsecured eurobonds, amounting to USD800 million, issued by Kazakhstan Temir Zholy Finance B.V., a special purpose financial company, and guaranteed by KTZ and its operating subsidiaries. Simultaneously, Moody's confirmed JSC Kaztemirtrans' ("KTT") Ba1 corporate family rating (CFR), as KTT is a key whole-owned subsidiary of KTZ and managed as integral part of the KTZ group, with the credit quality of KTT challenged by similar risks. The outlook on the ratings is stable. This rating action concludes Moody's review of the ratings for possible downgrade initiated on 8 February 2010. The review reflected Moody's concerns that the KTZ group's financial and liquidity profile may be potentially pressured by its large investment needs and a material debt maturing over the next 18 months, in particular the group's USD450 million bond due May 2011.

Moody's positively notes recently made decisions on the state funding to cover a part of the KTZ group's investment programme and the confirmed commitment of the government's arm JSC National Welfare Fund Samruk-Kazyna ("Samruk"), the sole shareholder of the group, to support the group, in case of need, in timely repaying its USD450 million bond due May 2011. As a result, the agency's concerns, which drove the review, have been alleviated. Moody's expects that a further material negative pressure on the KTZ group would now be contained, which is reflected in the stable outlook on the ratings.

As decided by the appropriate bodies of the Republic of Kazakhstan, in 2010, the KTZ group is to receive from the government KZT30 billion (USD200 million) equity injection and similar amount of low-interest loans to fund two infrastructural projects. The principal amount and interest payments under the loans will be covered by equity injections from the budget of the Republic in coming years. In addition, a state guarantee in the amount of KZT25 billion (USD167 million) has been approved for the KTZ group to facilitate its access to reasonably-priced commercial funding for the investment projects. Together with earlier introduced tariff increases for 2010, preliminarily approved increases for upcoming years and passenger transportation subsidies, the state-related funding decisions are expected to support the company's ability to manage its financial profile commensurate with its current rating, in particular to cap its adjusted Debt/EBITDA below 2.5x and have EBITA/Interest materially above 3x.

The group's liquidity continues to be supported by its sizable preserved cash (KZT55.4 billion, or about USD360 million, as of the beginning of April 2010), including the cash specifically allocated to address the bond maturity in May 2011 under the company's cash accumulation plan. Moody's believes that, in addition to a cash accumulation plan to address its bond maturity, KTZ has other options to further comfort its refinancing profile, based on its good relationship with foreign bank partners and bond issuance experience. However, given the mentioned sizable bond maturity, until no external refinancing arrangements are signed, the liquidity profile remains dependent on the KTZ group's actual capex versus its large programme, its ability to generate operating cash flow in line with its plan and contain a reduction in the preserved cash over the next 15 months. At the same time, Moody's continues to note the risks associated with the weak local banking system in Kazakhstan, where the group has to place its temporary free cash, though the agency understands that KTZ seeks to maintain the part of its cash reserves allocated for the bond repayment with local subsidiaries of stronger foreign banks.

Having noted the risk of a potential pressure on the company's liquidity, at this stage, Moody's takes additional comfort in the commitment of Samruk, which has been confirmed to the agency, to provide support for KTZ in case of need for KTZ to timely address its bond maturity in May 2011.

A material weakening of the sovereign credit quality and/or a material deterioration in the state support is likely to negatively affect the KTZ group's ratings, including those of KTT. KTZ's ratings could also be downgraded if its cash flow generation ability were to deteriorate, with the adjusted leverage reaching 2.5x and EBITA/Interest weakening to 3x. Any evidence that the group is constrained in its access to funding or any material deterioration of the KTZ group's liquidity position could also exercise downward pressure on the ratings.

Moody's considers KTZ and KTT a Government-Related Issuers (GRIs). As such, KTZ's Baa3 ratings incorporate a two-notch uplift from its Baseline Credit Assessment (BCA) of 12 (equivalent to a Ba2 rating) to reflect the likelihood of state support from the Baa2-rated Government of the Republic of Kazakhstan. KTT's Ba1 CFR incorporates a three-notch uplift from its BCA of 14 (equivalent to a B1 rating).

The last rating action on KTZ and KTT was implemented on 8 February 2010 when Moody's placed their ratings on review for possible downgrade.

The principal methodology used in rating KTZ and KTT is The Application of Joint Default Analysis to Government Related Issuers, April 2005 (#92432), which can be found at moodys.com in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory on Moody's website.

Headquartered in Astana, Kazakhstan, KTZ is the 100% state-controlled vertically integrated rail group operating the national rail network of the Republic of Kazakhstan. The sole shareholder of KTZ is the state represented by JSC National Welfare Fund SamrukKazyna. KTZ is the monopoly provider of rail infrastructure services and has the leading position in the railway market in Kazakhstan. KTZ's reported 2009 consolidated revenues are KZT 481.0 billion, or USD3.2 billion. Cargo transportation services, including the infrastructure component, account for about 85% of KTZ's total revenues.

KTT is a 100%-owned subsidiary of KTZ. KTT owns and operates the largest railcar fleet in Kazakhstan, generating its revenues largely from leasing railcars out to the KTZ group. The latter provided about 90% of KTT's 2009 revenues of KZT41.6 billion (approximately USD277.5 million).

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