

## RATING ACTION COMMENTARY

# Fitch Affirms JSC Kazakhstan Temir Zholy at 'BBB-'; Outlook Stable

Wed 11 Dec, 2024 - 05:56 ET

Fitch Ratings - Dubai - 11 Dec 2024: Fitch Ratings has affirmed JSC National Company Kazakhstan Temir Zholy's (KTZ) Long-Term Issuer Default Rating (IDR) at 'BBB-' with a Stable Outlook. A full list of rating actions is below.

The affirmation reflects Fitch's view that extraordinary support from Kazakhstan (BBB/Stable) is 'Extremely likely' for KTZ under its Government Related Entities (GRE) Criteria, given KTZ's close ties with the state and strategic importance in the country's economic development. Combined with KTZ's Standalone Credit Profile (SCP) of 'bb-', this leads to a rating one notch below the sovereign.

## KEY RATING DRIVERS

### Support Score Assessment 'Extremely likely'

We consider that extraordinary support from Kazakhstan to KTZ would be 'Extremely likely' in case of need, reflecting a support score of 35 (out of a maximum 60) under our GRE criteria. This reflects a combination of responsibility to support and incentive to support factors assessment as below.

### Responsibility to Support

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regulated activities, and indirectly through SK representatives on the board of directors. The company's long-term development goals follow national strategic policies and programmes.

The government has announced plans to bring KTZ to IPO in 2025, although details are currently unspecified. In Fitch's view, should the privatisation occur, it is unlikely to materially dilute the state's control over KTZ's operations. However, it may have a moderately positive effect on KTZ's financial profile, as privatisation will likely necessitate changes to the tariff-setting process and financing of strategic investments.

### **Precedents of Support 'Strong'**

KTZ receives sustainable state support via subsidies and subsidised debt. Annual subsidies (KZT38.9 billion, or 2.0% of KTZ's 2023 operating revenue) partially compensate losses in its passenger transport services. The state also provides below-market rate funds to support infrastructure projects and help KTZ's financing. At end-2023, state-related debt amounted to 55% of total debt, as KTZ received more than KZT500 billion over the year. In 2024, we expect KTZ to receive about KZT400 billion of state-related funds as loans, bonds and leases.

### **Incentives to Support**

#### **Preservation of Government Policy Role 'Strong'**

More than 60% of cargo transportation and more than 20% of passenger transportation is via rail in Kazakhstan, and in Fitch's view, KTZ's default could materially undermine economic activity. KTZ is a vital part of the state's development programme, fostering transit and export growth potential, and serving as the nation's transportation backbone, connecting a dispersed population.

### **Contagion Risk 'Strong'**

In our view, a default by KTZ would damage the country's reputation. KTZ and the state

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External financing remains sizeable and consists of bank loans. A default by KTZ could materially impair the government's credibility, leading to an increase in the cost of debt for the state and other state-related entities.

### **Standalone Credit Profile**

We have revised KTZ's Standalone Credit Profile (SCP) to 'bb-' from 'b+', based on Fitch's updated Public Policy Revenue-Supported Entities Criteria. The SCP reflects the combination of a 'Low Midrange' risk profile and a financial profile assessed at the lower end of 'a' category.

### **Risk Profile: 'Low midrange'**

Fitch assesses KTZ's risk profile at 'Low Midrange', reflecting the combination of assessments:

### **Revenue Risk: 'Weaker'**

This assessment reflects 'Midrange' demand and 'Weaker' pricing. The company's position as the monopolistic owner and operator of the country's rail infrastructure supports demand. Its main revenue driver is the sizeable freight operations.

KTZ remains exposed to risks of commodity market-price volatility, fluctuations in FX rates, and macroeconomic and geopolitical developments in neighbouring countries, primarily Russia and China, all of which affect our demand assessment. The lack of rule-based tariff indexation and long-term historical indexation being slightly below inflation constrain our pricing assessment. Regulated freight tariffs significantly increased by 23.7% in 2023 and we expect above-inflation indexation in 2024. The development of more transparent and predictable 'inflation plus' tariff-indexing may prompt a reassessment of revenue risk to 'Midrange'.

### **Expenditure Risk: 'Midrange'**

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## Liabilities and Liquidity Risk: 'Midrange'

KTZ has good access to domestic and international financing markets, with a credit portfolio comprising a balanced mix of instruments, including local market bonds, loans from local and international banks, and low-cost financing from the parent and other state institutions in the form of bonds, loans, and leases. A portion of the parent financing is sourced from the state budget. The maturity profile is generally smooth, with short-term debt accounting for 11% of the total at end-2023 and a weighted-average life of debt of 8.9 years. For liquidity, KTZ has access to credit lines from banks rated in the 'BBB' category.

## Financial Profile 'a'

According to the Fitch rating case, the financial metrics suggest a financial profile at the lower end of the 'a' category. We expect the primary metric (Fitch net adjusted debt-to-EBITDA) to average 6.5x in 2024-2028 (2023: 5.6x), as a result of a large increase in capex, driven by investments in rolling stock, infrastructure construction and renovation, and to be mitigated by EBITDA improvements.

KTZ's financial profile remains constrained by sizeable debt, exposure to commodity markets, the geopolitical environment of its primary trading partners and limited pricing power. KTZ is moderately exposed to domestic competition in passenger transportation, while its financial profile is supported by a monopolistic position, sizeable operations in freight, and the long and established history of state support.

## Derivation Summary

Fitch views KTZ as a GRE linked to Kazakhstan and consequently views extraordinary support from the state as 'Extremely likely', leading to a top-down notching from the sovereign's rating, as per its GRE Criteria. KTZ's SCP is assessed at 'bb-', four notches below the sovereign rating under Fitch's Public Policy Revenue-Supported Entities Criteria. These assessments result in KTZ's 'BBB-' IDR, one notch down from the sovereign rating.

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considered reference issuers for their respective governments. This leads to higher contagion risk assessments and the equalisation of their IDRs with their sovereign ratings.

## Issuer Profile

KTZ is a national transportation and logistics holding company. Its core operations are centred on its monopolistic position as an integrated railway group, supplemented by management of other transport infrastructure on behalf of the state.

## KEY ASSUMPTIONS

Fitch's rating case is a "through-the-cycle" scenario, which incorporates a combination of revenue, cost and financial risk stresses. It is based on 2019-2023 historical figures and 2024-2028 scenario assumptions:

- Operating revenue growth on average at 10.0% per year, supported by economic growth and increase of regulated tariffs;
- Opex growth on average at 9.0% per year, primarily driven by inflation;
- Average net capex of KZT614.7 billion per year for construction and modernisation of existing lines, renovation of rolling stock;
- Cost of debt on average at 6.3%, driven by mix of foreign- and local-currency market debt, as well as subsidised debt from the government.

## RATING SENSITIVITIES

### Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- A downgrade of Kazakhstan's sovereign rating by more than two notches
- Dilution of linkage with the sovereign resulting in a support score of less than 35 and

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- Tighter integration with the sovereign, resulting in a support score of 45 or more and leading to equalisation of their ratings

- Upward revision of the SCP, due to an improvement in KTZ's Net debt/EBITDA below 6x on sustained basis coupled with improvements in coverage ratios or reassessment of revenue risk to 'Midrange'

## ESG Considerations

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

## PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

KTZ's IDRs are linked to Kazakhstan's IDRs

## References for Substantially Material Source Cited as Key Driver Rating

The principal sources of information used in the analysis are described in the Applicable Criteria.

## RATING ACTIONS

ENTITY / DEBT ⚡	RATING ⚡	PRIOR ⚡
JSC National Company Kazakhstan Temir Zholy	LT IDR    BBB- Rating Outlook Stable  Affirmed	BBB- Rating Outlook Stable

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