Fitch Downgrades Six Kazakh Corporates on Sovereign Rating Action

Link to Fitch Ratings' Report: Fitch Downgrades Six Kazakh Corporates on Sovereign Rating Action

Fitch Ratings-London-05 May 2016: Fitch Ratings has downgraded the ratings of six Kazakh corporates following its recent downgrade of Kazakhstan (see 'Fitch Downgrades Kazakhstan to 'BBB'; Outlook Stable' dated 29 April 2016). A full list of rating actions is available at www.fitchratings.com or by clicking the link above.

The core rationale for these rating actions is the direct impact of the sovereign downgrade on the ratings of state-owned entities. For each issuer's Key Rating Drivers, Rating Sensitivities and Key Assumptions see our most recent rating action commentaries, referenced below:

KEY RATING DRIVERS
JSC National Company Kazakhstan Engineering (Long-term Foreign Currency IDR downgraded to 'BB+' from 'BBB-'; Outlook Stable)
We continue to view the operational and strategic links between Kazakhstan Engineering (KE) and the state as moderate to strong, which supports the application of the top-down rating approach. The strength of these ties is underpinned by the state control, strategic importance of the company to the government's ambition to expand the country's industrial base and diversify the national economy as well as the tangible financial support from the state that has already been exhibited and pledged. The two-notch differential reflects the lack of debt guarantees provided by the state and the slightly lower priority Kazakhstan Engineering would likely receive compared with key natural resources, utilities or infrastructure companies.

See 'Fitch Affirms Kazakhstan Engineering at 'BBB-'; Outlook Stable' dated 22 October 2015 at www.fitchratings.com for full rating rationale and disclosures.

Kazakhstan Electricity Grid Operating Company (KEGOC; Long-term Foreign

Currency IDR downgraded to 'BBB' from 'BBB+'; Outlook Negative)
KEGOC's ratings are aligned with those of Kazakhstan. The ratings continue to reflect overall strong links with the government, albeit with weakening legal ties. We expect timely support in case of need, including should financial covenants need to be waived or renegotiated.

The Negative Outlook reflects our view of weakening support of KEGOC by its dominant, indirect shareholder - the Republic of Kazakhstan, especially in light of a decline in the share of state-guaranteed debt and high dividend payout policy of no less than 40% (100% in 2015) following its partial IPO. We are likely to downgrade KEGOC by one notch if the guaranteed debt falls below 40% of total (44% at 9M2015).

See 'Fitch Revises Kazakhstan Electricity Grid Operating Company's Outlook to Negative; Affirms at 'BBB+' dated 16 November 2015 at www.fitchratings.com for full rating rationale and disclosures.

JSC Samruk-Energy (Long-term Foreign Currency IDR downgraded to 'BB+' from 'BBB-'; Outlook Stable)
Fitch applies a two-notch differential between the rating of Samruk-Energy and the state. We continue to view the operational and strategic links between Samruk-Energy and ultimately the state as strong, which supports the application of the top-down rating approach. The strength of these ties is underpinned by the company's strategic importance to the Kazakh economy as the company controls about 39.8% of total installed electricity generation capacity and 35.6% of total coal output in the country. The strength of ties is also supported by the state's approval of the company's strategy and capex programme, and by tangible financial support in the form of equity injections, asset contributions, subordinated loans and subsidies.

See 'Fitch Affirms Samruk-Energy at 'BBB-'; Outlook Stable' dated 23 December 2015 at www.fitchratings.com for full rating rationale and disclosures.

JSC Mangistau Electricity Distribution Company (MEDNC; Long-term Foreign Currency IDR downgraded to 'BB' from 'BB+'; Outlook Negative)
MEDNC's ratings are currently notched down three levels from the sovereign's, reflecting moderately strong links between the company and its ultimate parent.

The Negative Outlook reflects our assessment of weakening ties between MEDNC and its ultimate parent, Kazakhstan. This is due to the planned sale of the full 75% stake owned by 100% state-owned JSC Samruk-Energy (BB+/Stable) in MEDNC over the medium term as well as expected material deterioration of the company's credit metrics over 2015-2018 due to debt-funded large capex imposed by the state.

See 'Fitch Affirms Mangistau Electricity Distribution Company at 'BB+'; Outlook Negative' dated 6 August 2015 at www.fitchratings.com for full rating rationale and disclosures.

JSC National Company Kazakhstan Temir Zholy (KTZ; Long-term Foreign Currency IDR downgraded to 'BBB-' from 'BBB'; Outlook Stable)
KTZ is rated one notch lower than the state. Fitch applies a top down approach to KTZ's ratings, reflecting strong strategic and operational ties with the state but also the absence of significant explicit guarantees or cross-default provisions. Fitch believes the state would provide sufficient tangible support for KTZ to repay or service its liabilities, despite rapid deterioration of KTZ's standalone creditworthiness.

The Stable Outlook reflects our view of continued state support and alleviated liquidity pressure. KTZ successfully raised debt funding for the USD350m Eurobond refinancing falling due on the 11 May 2016. The government's support during the refinancing process included allocation of tenge liquidity for the issuance of 10-year KZT50bn local bonds, which also reduces the company's foreign currency risk exposure.

See 'Fitch Affirms KTZ at 'BBB'; Outlook Negative' dated 21 December 2015 at www.fitchratings.com for full rating rationale and disclosures.

JSC National Company KazMunayGas (NC KMG; Long-term Foreign Currency IDR downgraded to 'BBB-' from 'BBB'; Outlook Stable)
We maintain a one-notch difference between Kazakhstan and NC KMG's ratings, given the absence of an explicit state guarantee for a significant portion of NC KMG's debt and based on our expectation that the state will provide sufficient and timely tangible support to NC KMG when needed.

See 'Fitch Affirms National Company KazMunayGas at 'BBB'; Outlook Stable' dated 01 July 2015 at www.fitchratings.com for full rating rationale and disclosures.

JSC KazTransOil (KTO; Long-term FC IDR downgraded to 'BBB-' from 'BBB'; Outlook Stable)
KTO's ratings are capped by those of NC KMG, its majority shareholder, due to the parent's significant influence over KTO's free cash flow (FCF) through dividends. KTO's dividend payout has been relatively high historically, from 66% to 231% in 2011-2014.

See 'Fitch Affirms KazTransOil at 'BBB'; Outlook Stable' dated 08 September 2015 at www.fitchratings.com for full rating rationale and disclosures.

KazTransGas JSC (KTG) and subsidiaries (Long-term Foreign Currency IDR downgraded to 'BB+' from 'BBB-'; Outlook Stable)
KTG's ratings are notched down one level from NC KMG's ratings. KTG, Intergas Central Asia JSC (ICA) and KazTransGas Aimak JSC (KTGA), qualify as material subsidiaries in NC KMG's Eurobonds and are subject to cross-default provisions, but NC KMG does not guarantee their debt.

We view the intra-group links between KTG, ICA and KTGA as strong and hence align the ratings of the two subsidiaries with KTG's. The evidence of strong linkage includes KTG's financial guarantees to KTGA, operational interdependence and a common planning and budgeting process between the companies.

Please see 'Fitch Affirms KazTransGas and Subsidiaries at 'BBB-'; Outlook Stable' dated 20 April 2016 at www.fitchratings.com for full rating rationale and disclosures.

RATING SENSITIVITIES
Please see the relevant RAC for each issuer referenced above.

Contact:
Primary analyst and secondary analyst contact information is included in the attached Rating Action Report.

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Additional information is available on www.fitchratings.com.