

# MOODY'S

## INVESTORS SERVICE

### Rating Action: Moody's changes outlook on Eastcomtrans's B3 rating to positive; affirms ratings

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Global Credit Research - 10 Jul 2014

#### **\$100 million of rated debt affected**

London, 10 July 2014 -- Moody's Investors Service has today changed to positive from stable the outlook on Eastcomtrans LLP's B3 corporate family rating (CFR), B3-PD probability of default rating (PDR), B3.kz national scale rating (NSR) and the B3 senior secured rating assigned to the company's \$100 million five-year notes, with a loss given default (LGD) assessment of LGD3/49%. Concurrently, Moody's has affirmed these ratings.

#### RATINGS RATIONALE

Today's outlook change reflects the potential for an upgrade of Eastcomtrans's ratings over the next 12-18 months, if the company (1) continues to diversify its customer base and renews its contracts with its key customer, Tengizchevroil (TCO), which expire in December 2015; (2) maintains strong operating and financial performance; and (3) retains high fleet utilisation rates, with the bulk of its fleet under contract at all times.

The B3 CFR primarily reflects Eastcomtrans's (1) small size, with modest revenues of \$168 million for 2013; (2) persistent high customer concentration risk, as more than 50% of its revenues are provided by a single customer, TCO; (3) increasing remarketing risk as lease contracts with TCO approach expiration in December 2015; (4) highly concentrated ownership (although the related risks are mitigated by International Finance Corporation (IFC; Aaa stable) holding a 6.67% stake in Eastcomtrans); and (5) overall exposure to an emerging market operating environment, with a less developed regulatory, political and legal framework.

More positively, however, the rating also factors in Eastcomtrans's (1) progress in diversifying its customer base, with TCO's share of the company's revenues decreasing to 57% in the first quarter of 2014 from 64% in 2012; (2) solid share estimated at around 11% of the Kazakhstan freight rail transportation market in terms of railcar fleet; (3) modern railcar fleet, which provides economies in terms of repair costs; (4) long-term current lease contracts with TCO (although there is no penalty for pre-term termination of contracts); (5) high projected EBITA margin of above 50% and solid projected financial metrics, with leverage within 3.0x debt/EBITDA (all metrics are Moody's-adjusted); (6) gradual improvement in corporate governance as a result of IFC acquiring a 6.67% stake in Eastcomtrans in 2013; (7) adequate liquidity and manageable foreign currency risk; and (8) own railcar fleet's fairly high estimated value, at above \$600 million as of year-end 2013.

#### WHAT COULD CHANGE THE RATINGS UP/DOWN

Moody's could consider upgrading Eastcomtrans's ratings if the company (1) continues to improve its customer diversification; (2) extends its contracts with TCO; and (3) maintains adequate liquidity, strong operating performance and solid financial metrics.

Moody's could downgrade the ratings if there is a material deterioration in Eastcomtrans's leverage or interest coverage metrics, or its liquidity or fleet utilisation rates. The ratings could also come under negative pressure if any of Eastcomtrans's contracts with TCO are terminated without Eastcomtrans being able to promptly remarket the released railcars.

#### PRINCIPAL METHODOLOGY

Eastcomtrans LLP's ratings were assigned by evaluating factors that Moody's considers relevant to the credit profile of the issuer, such as the company's (i) business risk and competitive position compared with others within the industry; (ii) capital structure and financial risk; (iii) projected performance over the near to intermediate term; and (iv) management's track record and tolerance for risk. Moody's compared these attributes against other issuers both within and outside Eastcomtrans LLP's core industry and believes Eastcomtrans LLP's ratings are comparable to those of other issuers with similar credit risk. Other methodologies used include Loss Given Default for Speculative-Grade Non-Financial Companies in the U.S., Canada and EMEA published in June 2009. Please see the Credit Policy page on [www.moody.com](http://www.moody.com) for a copy of this methodology.



Moody's National Scale Credit Ratings (NSRs) are intended as relative measures of creditworthiness among debt issues and issuers within a country, enabling market participants to better differentiate relative risks. NSRs differ from Moody's global scale credit ratings in that they are not globally comparable with the full universe of Moody's rated entities, but only with NSRs for other rated debt issues and issuers within the same country. NSRs are designated by a ".nn" country modifier signifying the relevant country, as in ".mx" for Mexico. For further information on Moody's approach to national scale credit ratings, please refer to Moody's Credit rating Methodology published in June 2014 entitled "Mapping Moody's National Scale Ratings to Global Scale Ratings".

Eastcomtrans LLP is the largest private company specialising in operating leasing of freight railcars in Kazakhstan. As of year-end 2013, its fleet comprised 11,184 railcars, which the company estimates at around 11% of the country's total. In 2013, the company derived 79% of its revenues from leasing out its railcars under operating lease agreements, and 21% from providing transportation and other related services. 93.33% of Eastcomtrans's share capital is directly and indirectly controlled by Mr. Marat Sarsenov and 6.67% by International Finance Corporation.

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