«ҚАЗАГРО» ҰЛТТЫҚ БАСҚАРУШЫ ХОЛДИНГІ» АКЦИОНЕРЛІК ҚОҒАМЫ

ҰЛТТЫҚ БАСҚАРУШЫ ХОЛДИНГІ
КАЗАГРО
НАЦИОНАЛЬНЫЙ УПРАВЛЯЮЩИЙ ХОЛДИНГ

АКЦИОНЕРНОЕ ОБЩЕСТВО «НАЦИОНАЛЬНЫЙ УПРАВЛЯЮЩИЙ ХОЛДИНГ «КАЗАГРО»

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Национальный Банк Республики Казахстан

АО «Казахстанская фондовая биржа»

АО «Национальный управляющий холдинг «КазАгро» (далее – Холдинг) в соответствии с Листинговыми правилами АО «Казахстанская фондовая биржа» (протокол от 5 ноября 2009 года № 29 (з)) сообщает, что рейтинговое агентство S&P Global Ratings подтвердило долгосрочный и краткосрочный кредитные рейтинги в иностранной и национальной валюте Холдинга на уровне «BB+/B». Прогноз — «Негативный». Также подтвержден рейтинг Холдинга по национальной шкале «kzAA-».

Приложение: пресс-релиз S&P Global Ratings на 8 листах.

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Research Update:

Ratings On KazAgro Holding Affirmed At 'BB+/B'; Outlook Negative

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Overview

- In our view, the KazAgro group continues to play a critical role for, and have an integral link with, the government of Kazakhstan.
- Consequently, we believe that the government is almost certain to provide timely extraordinary support to the group should the need arise and we therefore equalize the KazAgro group credit profile (GCP) with our ratings on Kazakhstan.
- The ratings on KazAgro Holding are one notch lower than the GCP, reflecting the higher credit risks characteristic of a nonoperating holding company compared with operating subsidiaries.
- We are affirming our 'BB+/B' ratings on KazAgro Holding.
- The negative outlook reflects that on the sovereign ratings. It also reflects the potential for the weakening role of the holding company within the group and for the government over the next 12 months.

Rating Action

On June 30, 2016, S&P Global Ratings affirmed its 'BB+/B' long- and short-term foreign and local currency issuer credit ratings on KazAgro National Management Holding. The outlook is negative.

We have also affirmed the Kazakhstan national scale rating on KazAgro Holding at 'kzAA-'.

Rationale

The ratings on KazAgro Holding are primarily supported by its integral link with the government of Kazakhstan and the role it plays in managing government development institutions and implementing several national programs. We rate KazAgro Holding under our criteria, "Group Rating Methodology" and "Rating Government-Related Entities: Methodology And Assumptions," both published on RatingsDirect.

The group and its parent company KazAgro Holding (the holding company) were established in 2007 by presidential decree. The shares of seven 100% government-owned development institutions operating in the agricultural sector were transferred to the holding company shortly after its creation. The subsidiaries broadly focus on implementing several government programs by providing lending and financial support to the socially important agricultural sector (which employs close to half of the population of Kazakhstan).

We currently assess the likelihood of extraordinary government support to the consolidated group as almost certain. This is based on our view of the group's:

- Integral link with the government. The state owns 100% of the holding company, which in turn fully owns its subsidiaries. The government has provided support to the group in the past. For instance, the government made a Kazakhstani tenge (KZT) 20 billion equity injection into the holding company following the tenge devaluation in February 2014. More recently,--following another sharp local currency depreciation in the second half of 2015--the government approved an injection of KZT25 billion into the holding company's capital (most of which will be used by the holding company to capitalize its subsidiary Kazakh Agrarian Credit Corp. [KACC]). The government also decided to prolong the maturity of the loan granted to the holding company from the National Oil Fund to 2041 from 2023. The latter allowed the holding company to recognize KZT60 billion tenge as additional equity. We also believe the government closely monitors the activities of the holding company: the first deputy prime minister heads the holding company's board of directors.

- Critical public policy role as the government's primary vehicle for providing financial support to, and developing the agricultural sector and rural areas. KazAgro's subsidiaries support the agricultural sector through a number of instruments including leasing, providing short- and long-term lending, extending micro-financing, and others. The group participates in implementing several government strategies, including AgroBusiness 2020. According to management estimates, the group's current share in total lending to the agricultural sector is about 40%.

Consequently, the group credit profile (GCP) is 'bbb-', which aligns with the sovereign credit rating on Kazakhstan and reflects the creditworthiness of the consolidated operations group, taking into account extraordinary government support. Our ratings on KazAgro Holding are one notch lower than the GCP, reflecting the higher credit risks characteristic of a nonoperating holding company compared with its operating subsidiaries. This is because we view the group's importance for the government as primarily stemming from the operating companies that are directly involved in implementing several government programs. In our view, in a hypothetical scenario of the group being under stress, the government may consequently have incentives to support subsidiaries ahead of the holding company.

At present, we continue to believe that the KazAgro Holding maintains an integral link with and plays a very important role for the government of Kazakhstan. The holding company's role involves overseeing the implementation of government programs, managing the subsidiaries, in particular, improving their financial performance and removing any duplication of functions. However, while we view this function as important for the government--as it improves the operational efficiency of dealing with several development institutions--we do not view it as critical. Moreover, we believe that the role played by the KazAgro Holding for the government and within the group could diminish in the near future. At present, we foresee two scenarios that could potentially lead to such outcome.

First, several of the subsidiaries of the KazAgro Holding have been included in the privatization list unveiled by the government at the end of 2015. These are Food Contract Corporation, KazAgroFinance, KazAgroProduct, and KazAgroMarketing. In our view, privatization may diminish the holding company's importance for the government. The companies included in the list constitute close to 40% of the group's consolidated assets. Moreover, if it goes ahead, the privatization could reduce the number of entities managed by KazAgro from seven to just three. We understand that the Food Contract Corporation will likely be excluded from privatization thus leaving four entities within the KazAgro group (with the three entities planned for privatization accounting for about 30% of the group's consolidated assets). Even so, we believe the incentives for the government to maintain and support a legally separate holding company tasked with professionally managing a reduced number of subsidiaries in such a scenario could be fewer than the current status quo.

Secondly, we understand that, largely independent of the privatization agenda, there are plans to change the structure of the KazAgro group, which may involve strengthening the role of the subsidiary KACC, which already received a special status of financial agency and is expected to undertake a considerable share of financial activities of the group. We also understand that some of the companies that are currently directly owned by KazAgro could be transferred under the management of KACC. In our view, this development could also constitute a reducing role of the holding company for the government and for the group. This is because some of the functions currently performed by the holding company may be de facto transferred to its subsidiary KACC, in our view.

We note that the timeline for privatization at present remains very uncertain with no concrete plans announced by the government. Similarly, a potential change in the structure of the KazAgro group remains subject to the government's approval within an unclear timeframe. However, were one of the scenarios above to materialize, it could lead us to conclude that the importance of KazAgro Holding for the government had declined.

We have revised our unsupported group credit profile (unsupported GCP), which reflects the creditworthiness of the consolidated group without taking into account the potential for extraordinary government support, of KazAgro group to 'b' from 'b+' to reflect a notable deterioration in the group's capitalization in 2015, which triggered a downward revision of the capital, leverage, and earnings assessment to adequate from strong. Other factors contributing to the SACP remained unchanged including the anchor of 'b' for finance companies operating in Kazakhstan, as well as a one-notch entity-specific anchor adjustment, adequate business position, adequate risk position, moderate funding, and adequate liquidity.

The devaluation of the tenge in 2015 triggered a repricing of the balance sheet and a significant loss to be posted in 2015 which, alongside the accumulation of foreign currency denominated debt, increased the leverage ratio to 2.9x at Dec. 31, 2015 up from 1.6x one year previous. For the next two years, we expect leverage to be 3x-4x (firmly in our adequate assessment range).

This opinion balances the following assumptions:

- 15%-20% asset growth in 2016, supported by additional funding of KZT160 billion.
- A KZT25 billion capital injection in 2016. We expect the government to remain supportive toward KazAgro in 2017.
- Continued losses, albeit at a lower level, reflecting the continued pressure on the tenge and asset quality issues.

We adjust our 'b' anchor for a financial company operating in Kazakhstan up by one notch to reflect the ongoing benefits of KazAgro group's government funding and the group's dominant position in its agricultural niches. KazAgro group's function and mission of supporting the agricultural sector is important in Kazakhstan as approximately half of the population is working in rural areas. The volumes and capacity of Kazakhstan's agricultural sector is high while KazAgro group's borrowers are currently of a relatively low interest for banks in Kazakhstan, which often lack sufficient experience to work with small agricultural producers.

We assess KazAgro group's business position as adequate. The group is the key provider of financial services in the agricultural sector of Kazakhstan and a leading trader of grain and cotton products. Its market share in total lending to the agricultural sector is about 40% as of the year-end 2015, according to management's estimates. Although the group lacks revenue and business diversity, we positively view its operations in different sub-segments of the agricultural sector, which somewhat lowers revenue concentrations.

Our adequate risk position assessment balances a comparable-with-peers asset quality and lower single name concentrations than other financial institutions in Kazakhstan, against inherent industry concentratons in the cyclical agricultural sector.

The KazAgro group's nonperforming loan level (both overdue and restructured loans) was broadly in line with the banking sector average as of end-March 2016. Positively, the share of top 20 borrowers in total lending is significantly lower than banks' for the same date.

We understand that in the long run, the KazAgro group plans to focus more on lending to the agricultural sector via other commercial financial institutions, primarily banks. In general this could help to improve the risk profile if the group lends to the most creditworthy institutions rather than the general agricultural sector.

Although the group's stable funding ratio of 109% as of the year-end 2015 is relatively high, our assessment of the KazAgro group's funding is limited to moderate due to the high portion of liabilities issued in hard currency. As of end 2015, the majority of the group's liabilities were denominated in foreign currency while nearly all of the assets were in tenge. As of March 31, 2016, 66% of the KazAgro group's funding was coming from Eurobonds traded on the open market and 26% from state-related funds. We expect the group will diversify its funding sources through borrowings from the World Bank. KazAgro's subsidiary KACC is negotiating regarding a loan from the World Bank with the first tranche likely to come at the beginning of 2017. We see risks from these funds being denominated in foreign currency, although we understand that the risk will likely be hedged.

In our view, KazAgro group can manage its liquidity requirements on an ongoing basis and in periods of stress in 2016-2017. Our view is based on the liquidity coverage metric of 4.25x as of year-end 2015, ongoing support from the government, and that there are no significant debt repayments until 2019.

Outlook

The negative outlook mirrors that on the sovereign. Other things being equal, a one-notch downgrade of Kazakhstan could lead to a two-notch downgrade of KazAgro Holding. The outlook also reflects the potential for the weakening role of the holding company within the group and for the government over the next 12 months.

We could lower the ratings if we saw the importance of the holding company for the government and within the group reducing over the next 12 months. This may, among other things, happen if the contemplated changes in the structure or composition of the group were to materialize and led us to conclude that the government's incentives to provide extraordinary support had reduced. We could also downgrade KazAgro Holding if we saw signs of continued deterioration of the group's consolidated creditworthiness, potentially signaling lower commitment of the government to the holding company or to the wider group.

We could consider an upgrade if we perceived that the holding company's role for the government and its relative importance within the group had increased.

Related Criteria And Research

Related Criteria

- General Criteria: S&P Global Ratings' National And Regional Scale Mapping Tables - June 01, 2016
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions - March 25, 2015
- Criteria - Financial Institutions - General: Issue Credit Rating Methodology For Nonbank Financial Institutions And Nonbank Financial Services Companies - December 09, 2014
- Criteria - Financial Institutions - General: Nonbank Financial Institutions Rating Methodology - December 09, 2014
- General Criteria: National And Regional Scale Credit Ratings - September 22, 2014
- General Criteria: Group Rating Methodology - November 19, 2013
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions - July 17, 2013
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions - November 09, 2011
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009
- Criteria - Financial Institutions - Banks: Commercial Paper I: Banks - March 23, 2004

Related Research

- Research Update: KazAgro Holding Ratings Lowered To 'BB+/B' Following Kazakhstan Downgrade; Outlook Negative - February 24, 2016
- Research Update: Republic of Kazakhstan 'BBB-/A-3' Ratings Affirmed On Strong Fiscal And Debt Position; Outlook Negative - March 11, 2016
- Credit FAQ: A Closer Look At Recent Rating Actions On Kazakhstan Government-Related Entities - July 22, 2015

Ratings List

	Rating	
	To	From
KazAgro National Management Holding JSC		
Issuer Credit Rating		
Foreign and Local Currency	BB+/Negative/B	BB+/Negative/B
Kazakhstan National Scale	kzAA-/--/--	kzAA-/--/--
Senior Unsecured		
Foreign Currency	BB+	BB+

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at spcapitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.