CAEPCO
Центрально-Азиатская
Электроэнергетическая Корпорация

Исх. № 202
от 29.07.16 г.

АО «Казахстанская фондовая биржа»

Настоящим, АО «Центрально-Азиатская Электроэнергетическая Корпорация» (далее – АО «ЦАЭК») уведомляет о том, что международное рейтинговое агентство Fitch Ratings (далее – Fitch Ratings) 27 июля 2016 года присвоило рейтинг дефолта эмитента (далее – РДЭ) АО «ЦАЭК» в иностранной валюте «B+», прогноз «Стабильный».

Полный список рейтинговых действий Fitch Ratings от 27 июля 2016 года в отношении АО «ЦАЭК»:

Долгосрочные рейтинги дефолта эмитента в национальной и иностранной валютах «B+», прогноз «Стабильный»;

Национальный долгосрочный рейтинг «BBB(kaz)», прогноз «Стабильный»;

Краткосрочный РДЭ в иностранной валюте «B»;

Национальный приоритетный необеспеченный рейтинг «BB+(kaz)».

А также, в отношении облигаций первого выпуска НИН KZP01Y10E533 (ISIN KZ2C00002426) и второго выпуска НИН KZP02Y10E531 (ISIN KZ2C00003291):

Приоритетный необеспеченный рейтинг в местной валюте «B», рейтинг возвратности активов «RR5».

Приложение: Пресс-релиз Fitch Ratings на 5 листах (на английском языке).

Вице–Президент **Забережный Д. А.**

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FITCH DOWNGRADES CAEPCO TO 'B+'; OUTLOOK STABLE

Fitch Ratings-Moscow-27 July 2016: Fitch Ratings has downgraded Kazakhstan-based Joint Stock Company Central-Asian Electric-Power Corporation's (CAEPCo) Long-Term Foreign Currency Issuer Default Rating to 'B+' from 'BB-'. The Outlook is Stable. A full list of ratings actions is available at the end of this commentary.

The downgrade reflects our expectation that CAEPCo is unlikely to reduce its consolidated funds from operations (FFO) adjusted gross leverage to below 3x (3.8x in 2015) and to increase FFO interest coverage above 4.5x (4.9x in 2015) over 2016-2019. The weakening of CAEPCo's credit profile follows Kazakh tenge's sharp devaluation in 2015, given the company's high exposure to foreign currency risk. Fifty-four per cent of its debt at 1H16 was denominated in US dollar versus all revenue generated in local currency.

The ratings reflect CAEPCo's solid consolidated business profile, strong 1H16 financial results, vertical integration, and stable regional market position (despite overall small size). The ratings also take into account a currently fairly benign regulatory regime in the distribution sector, although the ratings are constrained by an unfavourable regulatory environment in the generation segment with tariffs kept at 2015 levels for 2016-2018. CAEPCo's capex remains significant, which Fitch expects to be partially debt-funded, resulting in further negative free cash flow (FCF) in 2016-2018.

We assess CAEPCo, and 100% subsidiaries - Pavlodarenergo JSC and Sevkazenergo JSC - on a consolidated basis, since there is no ring-fencing, treasury is centrally managed, debt is located at both holdco and opco levels. The debt of CAEPCo is primarily serviced by dividends from its opcos and we rate its notes without opco's guarantees one notch below the IDR.

KEY RATING DRIVERS
High FX Exposure Pressures Credit Metrics
The Kazakhstan tenge devaluation by more than 90% in 2015 weakened CAEPCo's credit profile due to a currency mismatch between the company's debt and revenues and the absence of hedging to reduce the company's foreign exchange exposure. At end-2015, 54% of CAEPCo's outstanding debt was denominated in US dollar, versus all local currency-denominated revenue.

We expect this pressure to continue, even with no further tenge depreciation. However, CAEPCo has some flexibility in dividend payments as well as in capex, as committed capex for 2016-2020 amounts to 61% of forecast total capex.

CAEPCo also maintains a portion of cash in US dollars. At end-2015, CAEPCo had 25% of cash and deposits in US dollars. The company is also exposed to interest rate risk since about half of its outstanding loans are drawn under floating interest rates.

Covenants Breach
As a result of the tenge devaluation CAEPCo breached its debt/equity covenant as per its loan agreement with EBRD in 2015, for which the company received a waiver. We expect CAEPCo to breach this covenant again in 2016-2019 even with no further tenge depreciation. Failure to obtain a waiver or revise the covenant may lead to further rating downgrade. EBRD owns 22.6% of CAEPCo.

Significant Capex, Negative FCF Expected

Capex is expected to remain significant despite the completion of the so-called mandatory investment programme agreed with the government in 2009-2015 when tariff caps were in place. Fitch expects CAEPCo to continue generating solid consolidated cash flow from operations (CFO) of KZT19bn on average over 2016-2019, although FCF is likely to remain negative at KZT5bn over same period.

The negative FCF will be mainly driven by the company's significant investment programme of KZT22bn on average annually for 2016-2019 as well as dividend payments of about 15% of net profit over the medium term. We have assumed lower capex, in line with our lower-than-management revenue forecast, reflecting that most of the investment is discretionary in nature. Fitch expects CAEPCo to rely on new borrowings to finance cash shortfalls.

Dividends to Delay Deleveraging
CAEPCo's financial policy to pay dividends could delay de-leveraging in the long term. However, CAEPCo retains the flexibility to lower dividends to preserve cash, as demonstrated in 2011 when it cut dividend to offset higher capex. In 2015 CAEPCo tightened its dividend payout range to 15% from 30%. Our rating case assumed the 15% payout from 2017, following the payment of KZT933m in in January 2016. Nevertheless, we expect FCF to remain negative since FFO will not be sufficient to cover the high capex and dividends.

Sound Business Profile
CAEPCo is one of the largest privately-owned electricity generators in the highly fragmented Kazakh market, responsible for only 7.2% of electricity generation in 2015. Consequently, it is somewhat smaller than its rated CIS peers. It is vertically integrated across electricity generation, supply and distribution, which gives the company access to markets for its energy output and limits customer concentration.

CAEPCo covers electricity and heat generation, distribution and supply in the Pavlodar and Petropavlovsk regions through its 100% subsidiaries Pavlodarenergo JSC (4.1% of Kazakhstan electricity production) and Sevkazenergo JSC (3.1%), and electricity transmission and supply in Akmola Region through Akmola EDC and Astanaenergosbyt LLP. Electricity and heat generation services dominate CAEPCo's EBITDA, accounting for about 96% in 2015.

Strong 1H16 Results
CAEPCo demonstrated strong operational and financial results in 2015 and 1H16. The company commissioned three new turbines ahead of time and increased its modernised capacity to 542MW from 289MW. The share of modernised capacity reached 49%, up from 27% in 2014. Electricity production rose 7.4% during the same period, compared with a 3.3% decline in Kazakhstan and a further 11.6% yoy in 1H16 versus a 0.4% decline in Kazakhstan.

Despite our forecasts of Kazakhstan GDP declining by 1% and inflation increasing 14% in 2016, we expect the company's financial profile to remain strong with an average EBITDA margin of about 23% over 2016-2019, which will support CAEPCO's ratings. This is based on our assumptions of approved tariff growth for the distribution segment, and 0% tariff growth for the generation segment for 2016-2018.

Regulatory Environment
Following the postponement of the capacity market launch in Kazakhstan until 2019, the regulator decided to freeze generation tariffs and set them at 2015 levels for 2016-2018. However, in electricity distribution five-year tariffs were approved using the "cost plus allowable margin" methodology instead of the "benchmarking" that was previously used.

Tariffs at Pavlodar EDC, North-Kazakhstan EDC and Akmola EDC in 2020 compared with 2015 were approved with 8%, 3% and 7% increases, respectively, in CAGR terms. In the heat segment the "cost plus allowable margin" methodology continues to be applied with tariffs also approved for a period of five years but at steeper increases in the heat generation segment of CAGR 5%-21% for 2016-2020, and in the heat distribution segment CAGR 11%-19%. The heat distribution business continues to be loss-making due to large heat losses and regulated end-user tariffs, which Fitch assumes are kept low for social reasons (heat generation is reported within overall generation and is cash flow-accretive).

No Parent Uplift or Constraint
Unlike most Fitch-rated utilities in CIS, CAEPCo is privately owned and therefore not affected by sovereign linkage. The company is run as a standalone enterprise and as such we do not assume any credit linkages with the 57.4% controlling parent, Kazakhstan-based Central-Asian Power-Energy Company JSC (CAPEC). The remaining shares are held by three institutional shareholders. The ratings therefore reflect CAEPCo's standalone credit profile.

In 2015 CAPEC sold 7.25% of shares to three private equity funds. We view the sale as credit-neutral; however, enterprise value/EBITDA 2015 multiple of around 14x indicates the attractiveness of the company to investors.

KEY ASSUMPTIONS
Fitch's key assumptions within our rating case for the issuer include:
- Electricity volume growth in line with Fitch GDP forecasts of 2% p.a. over 2017-2019
- Tariff growth as approved by the government for distribution segment at 3%-8% CAGR over 2016-2020 and 0% for the generation segment for 2016-2018
- Capex in line with the company's adjusted on capex/revenue ratio
- Inflation-driven cost increase
- No further tenge depreciation
- Dividend payments of 15% of IFRS net income over 2017-2019 for CAEPCo, 50% for Pavlodarenergo and Sevkazenergo.

RATING SENSITIVITIES
Negative: Future developments that could lead to negative rating action include:
- Sustained slowdown of the Kazakh economy, further tenge devaluation, increase in coal prices that is substantially above inflation or tariffs materially lower than our forecasts, leading to FFO-adjusted gross leverage persistently higher than 4x and FFO interest coverage below 3.5x.
- Committing to capex without sufficient available funding, and worsening overall liquidity.

Positive: Future developments that could lead to an upgrade include:
- A stronger financial profile than forecast by Fitch supporting FFO adjusted gross leverage below 3x and FFO interest coverage above 4.5x on a sustained basis.

LIQUIDITY AND DEBT STRUCTURE
Satisfactory Liquidity
Fitch views CAEPCo's and its subsidiaries' liquidity as satisfactory, assuming uninterrupted access to cash deposits mostly held at local banks as well as available external funding to finance forecast negative FCF over 2016-2019. At end-1H16, CAEPCo's cash and cash equivalents stood at KZT3.6bn, which together with short-term bank deposits with a maturity up to one year of KZT11.4bn and unused credit facilities of KZT9.2bn, are sufficient to cover short-term debt maturities of KZT16.3bn. However, further tenge devaluation and negative FCF over 2016-2019 mean CAEPCo is likely to raise further debt to finance cash shortfalls.

At end-2015, the majority of CAEPCo's debt was bank loans (KZT68bn or about 74%) and unsecured local bonds maturing in 2017- 2023 (KZT23bn in total or 25%). All current debt facilities (both secured and unsecured) are largely at the operating company level. At end-2015 pledged assets amounted to KZT120bn.

Senior Unsecured Notched Down
Fitch rates CAEPCo's local bonds one notch below the company's Long-Term Local Currency IDR of 'B+' as the notes are issued at the holding company level (CAEPCo). They do not benefit from upstream guarantees from operating subsidiaries, have no security over operating assets and no cross defaults with other facilities.

FULL LIST OF RATING ACTIONS

Long-Term Foreign and Local Currency IDRs downgraded to 'B+' from 'BB-'; Outlook Stable
National Long-Term Rating downgraded to 'BBB(kaz)' from 'BBB+(kaz)'; Outlook Stable
Short-Term Foreign Currency IDR affirmed at 'B'
Local currency senior unsecured rating downgraded to 'B' from 'B+'; Recovery Rating 'RR5'
National senior unsecured rating downgraded to 'BB+(kaz)' from 'BBB-(kaz)'

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Additional information is available on www.fitchratings.com. For regulatory purposes in various jurisdictions, the supervisory analyst named above is deemed to be the primary analyst for this issuer; the principal analyst is deemed to be the secondary.

Applicable Criteria
Corporate Rating Methodology - Including Short-Term Ratings and Parent and Subsidiary Linkage (pub. 17 Aug 2015)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=869362