CAEPCO
Центрально-Азиатская
Электроэнергетическая Корпорация

Исх.№ 206
от 04.06.2015г.

АО «Казахстанская фондовая биржа»

Настоящим АО «Центрально-Азиатская Электроэнергетическая Корпорация» (далее АО «ЦАЭК») уведомляет о том, что международное рейтинговое агентство Fitch Ratings подтвердило АО «ЦАЭК»:
Долгосрочный рейтинг дефолта эмитента («РДЭ») в иностранной валюте на уровне «BB-», прогноз «Стабильный»;
Долгосрочный РДЭ в национальной валюте на уровне «BB-», прогноз «Стабильный»;
Национальный долгосрочный рейтинг на уровне «BBB+(kaz)», прогноз «Стабильный»;
Приоритетный необеспеченный рейтинг в национальной валюте на уровне «BB-».

Вице-президент **Забережный Д.А.**

Қазақстан Республикасы Алматы қ. "Орталық-Азия Электроэнергетикалық Корпорациясы" Акционерлік қоғамы
Республика Казахстан г. Алматы Акционерное общество "Центрально-Азиатская Электроэнергетическая Корпорация"
CAEPCO

«Орталық-Азия Электроэнергетикалық Корпорациясы» Акционерлік қоғамы, 050012, Қазақстан Республикасы, Алматы қ., Қарасай батыр к-сі, 89
АО «Центрально-Азиатская Электроэнергетическая Корпорация», 050012, Республика Казахстан, г. Алматы, ул. Карасай батыра, 89

тел.: +7 727 258 49 41, факс: +7 727 258 49 42, e-mail: info@caepco.kz, www.caepco.kz

FITCH AFFIRMS CAEPCO AT 'BB-'; OUTLOOK STABLE

Fitch Ratings-Moscow/London-01 June 2015: Fitch Ratings has affirmed Kazakhstan-based Joint Stock Company Central-Asian Electric-Power Corporation's (CAEPCo) Long-term foreign currency Issuer Default Rating (IDR) at 'BB-'. The Outlook is Stable. A full list of ratings actions is at the end of this comment.

The affirmation reflects CAEPCO's solid business and financial profile.

KEY RATING DRIVERS

CAEPCo's 'BB-' rating reflects its vertical integration, stable regional market position (despite overall small size) with access to cheap regulated coal supplies and currently benign regulatory regime, offset by uncertainties regarding the regulatory regime post-2015. CAEPCo's ageing assets require significant renewal and. Fitch expects the planned investment programme to result in negative free cash flow (FCF) in 2015-2016, and weaker average funds from operations (FFO) gross adjusted leverage of about 2.9x, based on Fitch's conservative assumptions.

Generation Dominates Despite Integration

CAEPCo is one of the largest privately-owned electricity generators in the highly fragmented Kazakh market, responsible for only 6.4% of electricity generation in 2014. 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 and Sevkazenergo JSC, and electricity transmission and supply in Akmola region through AEDC and AESbyt. Electricity and heat generation services dominate CAEPCo's EBITDA, accounting for about 75% and 94% in 2014, respectively.

Cheap Fuel Supports EBITDA

Kazakh coal prices are significantly below international market rates, reflecting their regulated nature and low transport costs. An unexpected and significant increase in the price of coal above Fitch's current inflationary driven estimates of 7%-9% annually would have a negative impact on EBITDA, although we consider this unlikely. Fuel cost is reflected in power tariff caps to protect energy affordability and the coal price charged to utilities is regulated annually, limiting price exposure.

Solid CFO, Negative FCF Expected

Fitch expects CAEPCo to continue generating solid cash flow from operations (CFO) of around KZT21bn on average over 2015-2018, although FCF is likely to remain negative at around KZT8bn on average over 2015-2016 but may turn positive in 2017. The negative FCF will be mainly driven by the company's ambitious investment plans of about KZT57bn over 2015-2016 as well as dividend payments of about 30% of net profit in the medium term. Fitch expects CAEPCo to rely on new borrowings to finance cash shortfalls.

Higher Leverage Likely

We expect CAEPCo's intensive investment programme to require partial debt funding. We expect FFO gross adjusted leverage to peak at just below 3x on in 2015-2016, declining thereafter in line with our expectation of capex. However, we note that CAEPCO's investment programme has some flexibility until 2016 and afterwards will depend on the approved tariffs. The company expects maintenance capex of around KZT8.5bn on average over 2015-2019. CAEPCo's group committed capex for 2015 is KZT21bn.

The company aims to modernise over 60% of CAEPCo's ageing 1960s and 1970s generation capacity by 2017 and upgrade its distribution network. Capacity expansion will be moderate at around 16% by 2019, but additional benefits are likely to accrue from improved efficiency in production and distribution of heat and electricity.

Loss Making Heat Business

The heat distribution business is loss-making due to high heat losses and regulated end-user tariffs, which Fitch assumes are kept low for social reasons (heat generation is reported within overall generation and cash flow accretive), a situation that we assume will persist but with gradual improvement.

Regulatory Uncertainty

The Kazakh authorities are currently considering draft legislation on the implementation of an electricity capacity market. When fully implemented, the capacity market should ensure an economically sound return on investment and should provide incentives for construction of new generation assets or for expanding current capacity. An effective launch of the capacity market should provide a stable revenue stream to fund utilities' capital investment programmes. A successfully functioning capacity market is likely to support credit profiles of power generators. However, no final decision regarding a capacity market has been made.

Fitch expects that tariffs for generators will continue to reflect fuel and other costs inflation while capacity payments will cover capex needs. State approval of maximum tariff caps for a seven-year period with possible annual revisions are under discussion.

Electricity transmission tariffs could switch from the 'benchmarking' methodology introduced in 2013 to long-term tariffs (five years) approval based on 'cost plus allowable profit margin' methodology. Long-term (five years) heat generation, distribution and sales tariffs based on 'cost plus allowable profit margin' methodology are also under consideration, to replace the present annual approval practice. Fitch views positively the potential switch to long-term tariff approval, but we note that there are still uncertainties in the regulatory regime post 2015.

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 with two foreign institutional shareholders and as such we do not assume any impact on the ratings based on the credit profile of the controlling parent, Central-Asian Power-Energy Company JSC (CAPEC). The ratings therefore reflect CAEPCo's standalone credit profile.

Dividends to Delay Debt Reduction

CAEPCo's financial policy is to pay dividends and this could delay de-leveraging in the long term. However, we believe that should tariffs and volumes underperform CAEPCo retains the flexibility to lower dividends to preserve cash, as demonstrated in 2011 when the dividend payout ratio decreased to about 15% for CAEPCo to offset higher capex. CAEPCo is currently considering widening its dividend payout policy to 15%-50% of net profit from 30%-50%. The company expects to pay about 25%-30% of net profit in the medium term.

Potential IPO

CAEPCo is considering undertaking an IPO in 2016-2017. It anticipates selling 35%-40% of current shares. The shareholdings of the current shareholders will be proportionally decreased.

RATING SENSITIVITIES

Positive: Future developments that could lead to positive rating action include:

- A stronger financial profile than forecast by Fitch due to, among other things, higher than expected growth in electric and heat tariffs and/or generation electricity supporting FFO gross adjusted

leverage below 2x and FFO interest coverage above 7x on a sustained basis would be positive for the ratings.
- Increased certainty regarding the post-2015 regulatory framework could also be supportive of the ratings.

Negative: Future developments that could lead to negative rating action include:
- A substantially above inflation increase in coal price and/or tariffs materially lower than our forecasts, leading to FFO gross adjusted leverage persistently higher than 3x and FFO interest coverage below 4.5x would be negative for the ratings.
- Committing to capex without sufficient available funding, worsening overall liquidity position may also be rating negative.

LIQUIDITY AND DEBT STRUCTURE
Adequate Liquidity
Fitch views CAEPCo's liquidity as adequate. At end-2014, cash and cash equivalents stood at KZT2.8bn, which together with short-term bank deposits with a maturity up to one year of KZT9.8bn and unused credit facilities of KZT7.6bn are sufficient to cover short-term debt maturities of KZT14.3bn. However, negative FCF over 2015-2016 driven by the expected investment programme of KZT57bn will require additional debt-raising by CAEPCo to finance cash shortfalls. CAEPCo is currently considering placing local bonds (at the CAEPCo and Sevkazenergo level) of up to KZT6.8bn in 2015. Fitch notes that CAEPCo has some flexibility in dividend payments as well as in capex, as committed capex for 2015 amounts to about 62% of total forecast capex.

At end-2014 the majority of CAEPCo's debt was secured bank loans (KZT30bn or about 50%) and three unsecured local bonds maturing in 2017, 2020 and 2023 (KZT16bn in total or 27%). All current debt facilities (both secured and unsecured) are largely at the operating company level.

CAEPCO's Senior Unsecured Notched Down
Fitch rates the KZT2bn notes one notch below CAEPCo's local currency IDR of 'BB-' as the notes are issued at the holding company level (CAEPCo). They do not benefit from upstream guarantees from the operating subsidiaries, have no security over operating assets and no cross defaults with other facilities. At end-2014 pledged assets amounted to KZT92bn.

Foreign Currency Exposure
CAEPCO is subject to foreign currency fluctuation risks as about 41% of its debt at end-2014 were denominated in US-dollars. Fitch notes that the company does not have hedging policies in place, but it maintains a portion of cash in US dollars. At end-2014 CAEPCo had KZT1.4bn (out of KZT2.8bn) of cash and KZT1.1bn (of KZT9.8bn) of deposits with maturity over three months in US dollars. CAEPCO is exposed to interest rate risk since about half of its outstanding loans are drawn under floating interest rates.

KEY ASSUMPTIONS
Fitch's key assumptions within our rating case for the issuer include:
- Electricity volume growth in line with Fitch forecasted GDP of 2.5%-3.5% over 2015-2019.
- Tariffs growth as approved by the government for 2015 and in line with inflation, which Fitch forecasts at about 6%-8% in 2016-2019.
- Capex as expected by the company.
- Inflation-driven cost increase.

FULL LIST OF RATING ACTIONS
Long-term foreign currency IDR affirmed at 'BB-', Outlook Stable
Long-term local currency IDR affirmed at 'BB-', Outlook Stable
National Long-term Rating affirmed at 'BBB+(kaz)', Outlook Stable
Short Term foreign currency IDR affirmed at 'B'

Local currency senior unsecured rating affirmed at 'B+'
National senior unsecured rating affirmed at 'BBB-(kaz)'

Contact:
Principal Analyst
Elina Kulieva
Associate Director
+7 495 956 99 01

Supervisory Analyst
Oxana Zguralskaya
Director
+7 495 956 70 99
Fitch Ratings CIS Ltd
26 Valovaya Street
Moscow 115054

Committee Chairperson
Josef Pospisil
Senior Director
+44 20 35301287

Media Relations: Julia Belskaya von Tell, Moscow, Tel: +7 495 956 9908, Email: julia.belskayavontell@fitchratings.com; Peter Fitzpatrick, London, Tel: +44 20 3530 1103, Email: peter.fitzpatrick@fitchratings.com.

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. 28 May 2014)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=749393